

# #LOVE BOQ



SHAREHOLDER REVIEW  
2014

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YOU'RE WHY WE DO  
WHAT WE DO

*We've laid the foundations for building a truly loveable bank and our hard work is starting to make a difference.*

At the Asia-Pacific Banking & Finance Awards we were recognised as the 2014 Financial Institution of the Year (non big four banks). Independent Roy Morgan research shows our customer satisfaction and advocacy scores are significantly above the average of the major banks, placing us third overall compared to our 11 most direct competitors.

This is a great result but we know we can do more – we want to be Australia's most loved bank. Ambitious? Sure. But by making it even easier for our customers to deal with us, growing our business in the right way, finding better ways to do things and making sure our culture is built around customer service, we believe we can give people an even better experience.

Our competitive advantage has always been the close relationships we have with our customers. But now we're taking it to the next level and we'll get there by putting the customer at the heart of everything we do.



# PERFORMANCE SNAPSHOT

STATUTORY NET PROFIT  
after tax

up ↑  
**40%**  
to **\$260.5m**

EARNINGS PER SHARE  
cash basic

up ↑  
**15%**  
to **89.5c**

CASH EARNINGS  
after tax

up ↑  
**20%**  
to **\$301.2m**

DIVIDEND PER SHARE  
full year ordinary

up ↑  
**14%**  
to **66c**

# CHAIRMAN'S LETTER

Roger Davis



*Around the world, financial services is evolving quicker than ever before with technology forcing a rethink of commercial and regulatory fundamentals and new entrants from outside of the industry challenging the status quo.*

While no one can yet accurately predict how the financial services industry will look in ten years' time, we do know that strong customer relationships will continue to be crucial to success.

This provides BOQ with a real opportunity to compete by building on our biggest advantage: the strength and longevity of our customer relationships.

Every decision we make – whether it's improving our products and service; our systems and procedures; or our brand and internal culture – is driven by the dream to create Australia's most loved bank. And, to achieve our dream, we must always put customers at the heart of everything we do.



## Vision and strategy

Over the course of the year we continued to deliver against our customer-first strategy. In order to focus the entire organisation on the importance of this, we have renamed the four strategic pillars which drive our activity.

They are *Customer in charge*, making it easier for our customers to deal with us in the way they prefer; *Grow the right way*, getting the right balance between risk and return; *There's always a better way*, having efficient systems and processes; and *Loved like no other*, improving our talent, capability and culture to help deliver desired business outcomes.

## Customer in charge

While branches remain an essential channel for complex transactions and help the Bank differentiate its customer service, BOQ no longer relies solely on them to deliver new business.

With 83% of the Bank's transactions now conducted online or on mobile phones, we are investing in our digital channels to meet customer expectations for banking anytime, anywhere and on any device. It is critical we continue to invest in these channels as the opportunities and challenges afforded by digitalisation present themselves.

Over the last 18 months we've also progressively built our presence in the mortgage broker market. In August 2014 the broker channel provided 14% of our housing applications and with our recent move into Queensland, we expect strong growth through this channel in the year ahead.

In terms of traditional bank distribution, our new Icon branches, unveiled in the Macquarie Centre in Sydney and Toowong in Brisbane, reflect the service experience in-branch customers now expect and other branches will transition to the new design as we refresh our branch network.

Finally, in order to better respond to our customer needs, we've increased the range of products and services we offer to our business banking customers. The acquisition of BOQ Specialist and Virgin Money Australia has given us access to customers who wouldn't normally bank with BOQ and allows those businesses to expand the banking products they offer.

## Grow the right way

Having embedded robust risk management strategies and frameworks across the Group, we have clear guidelines around growing our business in a way that benefits our customers as well as shareholders.

Portfolio diversification is key to derisking the business, achieving the right kind of growth and allowing us to reach new customers. Traditionally reliant on Queensland residential property, we have now diversified our customer base by industry sector and geography.

Business Banking, Agribusiness and Financial Markets' strengthened presence in Sydney, Melbourne and Perth helped it achieve 6% lending growth over the year, securing new customers in the corporate property and small business sectors.

Both the Business Bank and BOQ Finance will benefit from the acquisition of Investec Bank Australia's former finance (renamed BOQ Specialist) and leasing businesses, which provide further portfolio diversification in geography, industry, skills and culture.

The acquisition was underpinned by a \$400 million capital raising that was strongly supported by retail and institutional shareholders. We thank shareholders for their support.





### *There's always a better way*

Service quality drives customer satisfaction so improvements in our systems and procedures are helping us provide better service to our customers.

Our award-winning Clear Path home loan is one such initiative designed to deliver better customer service outcomes and is a more transparent, straight-forward offering accessible to all customers, regardless of how much they're borrowing. Clear Path, launched in October 2013, has already exceeded \$2.3 billion in balances while reducing our operational risk.

We are also making good progress on overhauling our lending system and processes to remove the paperwork and speed up application approval times. The new retail lending system will be available in the 2015 financial year and will provide significant benefits to customers and improve our ability to compete.

Finally, a new IT services contract with Hewlett-Packard will better support business transformation across the Group, as well as strengthen IT solutions that reduce operational risk.

### *Loved like no other*

At BOQ we are building a culture and equipping our employees with the skills they need to put customers at the heart of everything they do.

We've created a new franchise capability team which is delivering business coaching programs to Owner Managers. We're also rolling out specialist training for frontline employees and have introduced a new leadership competency framework and training program. All of this is continuing to drive the importance of premium customer service.

Results are impressive to date and we continue to differentiate ourselves from the major banks with higher levels of customer satisfaction. Roy Morgan research found over 40% of our customers score us a 9 or 10 out of 10 for service, which is a leading result.

The Business Bank spent a sixth straight year at the top of East & Partners' small business customer satisfaction survey while our Customer Contact Centre was the only Australian financial institution to make the top five of the Contact Centre World Annual Awards.

We are closing in on our interim target of having women in 25% of leadership roles by the end of 2015 and have removed all identifiers from external applications for senior leadership positions to ensure the appropriate focus on candidates' skills.

The Financial System Inquiry provides a real opportunity for government and regulators to promote competition and benefit consumers by reducing the unfair advantages the major banks enjoy over the rest of the market and BOQ has taken a leadership position in lobbying for change.





## Improved financial results

Our four strategic pillars are driving improved financial results.

Our after tax cash earnings for the full year to 31 August 2014 were \$301.2 million, up 20% from \$250.9 million in FY13 and the after tax statutory net profit was \$260.5 million, an increase of 40% from last year.

Driving this was an increase in cash net interest margin by 13 basis points to 1.82% and a reduction in loan impairment expense to gross loans and advances to 22 basis points compared to 32 basis points in FY13. There was also improvement in our cost-to-income ratio which reduced 40 basis points to 43.9%.

The Bank's capital position also remained strong with common equity tier 1 and total capital adequacy ratio remaining at market-leading levels of 8.63% and 12.02% respectively.

Our strong financial performance and ongoing confidence in the Bank's future allowed us to reward shareholders and increase the final dividend to 34 cents per share, taking full year dividends to 66 cents per share fully franked. This is up 14% from 58 cents per share last year.

Finally, the Bank's strategic progress and improved financial performance continues to be noted by rating agencies, with Moody's upgrading the Bank's long-term rating to 'A3' in March 2014 following the Standard & Poor's upgrade at the beginning of the financial year.

## People and governance

To ensure we have an appropriate mix of skills and experience to manage the significant responsibilities of an APRA-supervised financial institution, Bruce Carter and Margie Seale joined our Board during the year increasing the number of Directors from eight to 10.



Regrettably, our Managing Director and CEO Stuart Grimshaw left to pursue career opportunities overseas at the conclusion of the financial year. Stuart made a significant contribution to the Bank and its shareholders in his time here.

He helped transform the business, re-established its business fundamentals, developed a new strategy, established an extremely strong management team who are delivering it, and more than doubled market capitalisation.

One of Stuart's legacies is the strength of the people he had around him. Reflecting this strength, Chief Operating Officer Jon Sutton has been appointed Acting CEO while we conduct an internal and external search before deciding on Stuart's replacement.

In conclusion, none of this year's achievements would have been possible were it not for the dedication of our Executive team and employees – we are grateful for your efforts. We also appreciate the ongoing support of our loyal shareholders.

**Roger Davis**  
Chairman



# CUSTOMER IN CHARGE

*We want to create an experience our customers will love by being available when and how they want. We're broadening, strengthening and integrating our channels so customers enjoy a seamless experience however, whenever and wherever they choose to interact with us.*

## *Growing our digital capability*

With customers increasingly using the internet and mobile phones for their day-to-day banking, we've significantly enhanced our digital capabilities. We upgraded our website to make it more accessible and user-friendly. Following this, independent research by Keynote rated BOQ's website the number one in banking for overall site performance. We have also improved our internet and mobile banking functionality to be more responsive to customer needs.

In November 2013 we partnered with leading property analytics company RP Data to launch an app that helps people with property research. By simply typing in the property address, home buyers receive a seven page report with an estimated property value in less than two minutes.

Over the past year Virgin Money Australia (VMA) has laid the groundwork to offer the first of its new banking products in order to better deliver premium product offerings to customer segments new to the Bank. Using VMA's unique skill set and brand gives us opportunities for growth in our digital channels.

## *Expanding our mortgage broker program*

Since re-entering the broker market last year in partnership with AFG, we've significantly expanded our presence.

We signed partner agreements with more mortgage aggregators and now have more than 1,200 BOQ-accredited brokers servicing customers across Australia. Today, around 14% of our new home loan applications are now generated through brokers.

Expanding our broker offering is a key part of our distribution strategy but we haven't tried to bite off more than we can chew. We've closely consulted brokers to ensure we get our product offerings and back-office support right.

To support our growing presence in the market, we appointed a team of dedicated Business Development Managers to provide on-the-ground support to brokers. We also established a centralised broker processing unit to ensure a seamless process for customers.



### *Creating an iconic branch experience*

In July 2014 we opened the first of our new Icon branches featuring an open-plan design. By using secure Teller Cash Recycler technology, staff can now sit alongside customers and have more meaningful conversations. These branches give customers the choice of how they want to interact with us whether that's self-service, assisted self-service or full customer service.

New Icon branches have been opened at the Macquarie Centre in Sydney and Toowong in Brisbane. Other branches will transition to the new design as we refresh our branch network over time.

### *Meeting our customers' diverse banking needs*

We're growing our skill set and presence so whether customers are buying a home, leasing a crane, renovating a shop front or growing their export business we've got the people in place to help with banking services and client solutions.

For instance over the last year we've broadened our business banking services by growing our foreign exchange, interest rate risk management and trade finance capability so we can service our corporate and SME customers on all fronts.

In the last 18 months we've acquired Virgin Money Australia and Investec Bank Australia's finance (renamed BOQ Specialist) and leasing businesses, increasing our customer base by almost 220,000. It's a win-win. We're able to reach new customers that wouldn't otherwise bank with BOQ, while VMA and BOQ Specialist can offer their customers a broader array of banking products and services.

# GROW THE RIGHT WAY

*We're building a strong and profitable business by diversifying our customer base and ensuring we make the right decisions about where and how to grow.*

## *Diversifying our business across industry and geography*

Consequent to our strategic decision to broaden our business banking footprint, we completed our acquisition of Investec Bank Australia's finance and leasing businesses on 31 July 2014. The professional finance business has now been rebranded BOQ Specialist and operates as a separate division of the Business Bank while the asset finance and leasing business has been incorporated into BOQ Finance.

The acquisition gives us access to new customers in the medical, dental and accounting sectors, substantially increases our business banking footprint and adds \$2.4 billion to our loan portfolio.

During last year we also expanded our specialist business banking presence by appointing dedicated corporate and property executives in New South Wales, Victoria and Western Australia. This provides us with on-the-ground expertise, enabling us to be more flexible and responsive to customers.

Throughout 2014 BOQ Finance strengthened its ties with our retail and business banking network. We've used our asset financing capability to broaden our SME customer proposition and diversify our revenue sources whilst in the year ahead BOQ Finance will continue to expand its new business sources through partnerships with third party distributors.

The success of our relationship model has been endorsed by customers and industry. In 2014, for the sixth straight year we maintained our top spot on the East & Partners' Business Banking Index which measures small business customer satisfaction. Our Business Banking team was also named Best Relationship Management Bank at the 2014 Asia-Pacific Banking & Finance Corporate and Business Banking Awards. BOQ Finance held leading positions across a range of customer satisfaction measures in the 2014 East & Partners' Asset Finance Survey.



### *Aligning performance and culture*

We've started rolling out a new franchise agreement with a balanced scorecard commission structure across our Owner Manager network which rewards good performance against a range of measures including lending-to-deposit ratios, customer engagement through cross sell and compliance. The scorecard better aligns risk and returns to the Bank and Owner Managers.

The implementation of the new franchise agreement follows extensive internal consultation and refinement of the balanced scorecard structure. This approach better aligns branch operations with business and risk objectives.



### *Embedding a strong risk culture*

Over the last two years we've undergone a rigorous process to strengthen our risk frameworks, redefine our risk appetite and improve our risk culture and portfolio. Through this process we've seen impaired assets fall from \$298.4 million to \$287.6 million (excluding BOQ Specialist) in the 2014 financial year.

Our risk strategy and the significant turnaround in performance has been recognised with our Group Risk team, led by our Chief Risk Officer Peter Deans, winning domestic and international industry awards.

With our risk framework aligned with our new direction at a Group level, we are now focused on building and further embedding industrial strength operating, market and credit risk systems and policies throughout all levels of the organisation. This year each business unit developed an improved set of risk metrics and reporting procedures to ensure each portfolio within the Bank is managed within its unique risk parameters.



# THERE'S ALWAYS A BETTER WAY

*One of the areas where we made significant progress during the financial year was finding ways to improve our performance and provide better service to our customers by doing things simpler, faster and smarter.*

## *Simpler products*

In October 2013, we launched our Clear Path home loan which was recognised as Asia-Pacific Banking & Finance's Innovative Retail Mortgage Product of the Year and achieved a 5 star Canstar rating.

Clear Path is a response to the market's need for a straight forward and transparent mortgage product that offers a competitive rate to all customers, regardless of how much they want to borrow.

It is selling well, particularly through our branch and broker channels, with over \$2.3 billion in balances. It also reduces our operational risk because the simplicity of the product makes it easier to support from a systems perspective than more complex, packaged products.

## *Faster lending decisions*

A key initiative across the Bank this year has been the overhaul and digitisation of our lending system and processes to remove paperwork and speed up application times. This will enable us to more effectively compete for new business whilst increasing customer satisfaction.

A critical first step in our digitisation process was the successful deployment of Records Manager in August 2014, allowing us to better manage customer information.

The new program's full implementation in 2015 will provide the tools and systems necessary to grow retail lending where speed of decisions and processing times are key requirements to winning business.

Other parts of our business, such as St Andrew's will also benefit from improved work practices and greater use of digital technology.

## *Smarter technology partnerships*

Much of our transformation program is dependent on technology and in this regard we agreed to a new IT services contract with Hewlett-Packard in October 2014 that will underpin this. The new agreement provides the Bank with far greater flexibility, increasing our ability to respond to technology opportunities and challenges in the future.

IT will retire legacy systems and create savings which can be reinvested into the business. We will continue to support credit, payments and the financial crimes areas by developing and implementing solutions that reduce operational risk.

We will continue to use external organisations to access expertise and skills outside of our strategic focus and are committed to reducing the number of external supplier relationships to achieve scale and efficiency savings.



### *Better work practices*

As part of our transformation program, we delivered 15 major projects during the financial year, the highest number yet at BOQ. These projects helped us work smarter, improved IT stability and performance, streamlined back office processes and started the rollout of 21st century hardware and software.

During the year we also focused on generating savings through an internal waste reduction program. As part of this program our Procurement and Property teams delivered \$5.6 million in savings by better managing our supplier relationships.

We are working towards creating a 'paper-light' head office. We've signed a new managed print services agreement which includes printers that only print stored jobs when a staff member swipes their staff card to record their cost centre at the printer. This approach coupled with our new portable laptops for staff is expected to save paper, print and power usage.



# LOVED LIKE NO OTHER

*By having great people with the right capabilities backed by a supportive culture our customers will reap the benefits and enjoy an unforgettable experience.  
When we love what we do, our customers will too!*

## *A diverse and representative leadership team*

During 2014 we introduced a range of measures to ensure we have a robust, diverse and representative senior leadership team. In June 2014 we asked external recruitment agencies to remove all identifiers – including name, age, gender and address – from applications for our senior management roles to ensure stronger, more diverse candidate pools.

We're making good progress in our journey towards broader diversity. In November 2012, 12% of our senior management roles were filled by women. Today that number is 22% and we expect it to reach 25% in 2015. Our longer-term goal is a more even gender balance across the organisation.

## *Strengthening our capability*

We've introduced a range of training programs to lift our frontline staff capability and performance. We've set up a new franchise capability team that has already started rolling out a free franchise business coaching program to drive a culture of benchmarking, best practice and strategic planning.

This program will transition our franchise network from good bankers running businesses to high-quality business owners who excel at banking. This program will be extended to all franchise branches over the course of 2015. We'll also be introducing an accelerated coaching program for high performers.

We've extended the capability of our frontline employees through a new job pathways training program which provides specialist coaching. Finally in 2014 we introduced a new leadership competency framework and training program to strengthen our leadership capabilities. In the year ahead we'll introduce formalised 360 degree leadership performance feedback so we can offer personalised development programs.

## *Creating a loveable work environment*

Our growth, organically and through acquisitions, meant we had employees working in various legacy locations. Today we are increasingly organised and structured on a national basis. We have consolidated teams in Sydney and Perth and, in December, will move to a new head office in Newstead, Brisbane.

These moves are allowing us to roll out new portable technology with video chat software to head office employees, branch managers and mobile lenders. This technology enables greater communication, collaboration and flexibility in servicing internal and external customers. It also supports the introduction of our new policy to improve employee accessibility to flexible working conditions.

In 2014 we introduced an employee equity plan where corporate employees can share in our future through a salary sacrifice arrangement.







## Supporting our community

We're strongly aware of our responsibility to the community and the importance of being a good corporate partner.

This year we celebrated the ten-year anniversary of our Banking on our Kids partnership with Children's Hospital Foundations Australia (CHFA) which represents five of Australia's major children's hospital foundations in Sydney, Melbourne, Brisbane, Perth and Adelaide.

Over the past decade we've raised \$1,582,000 for CHFA to fund research and equipment. BOQ shareholders also donated more than \$37,000 to this charity this financial year through Sharing with our Kids – a voluntary dividend donation program.

We're passionate about contributing to the financial literacy of Australia's youth and for the last three years have sponsored the Financial Basics Foundation's online simulation game ESSI Money which teaches high school students about earning, saving, spending and investing. 382 classes participated in the latest BOQ ESSI Money Challenge, up from 190 when the Challenge started in 2010.

We also help our employees support their charities of choice through our dollar matching program which donated more than \$44,000 during the year.

# SUSTAINABILITY

## FRAMEWORK

We're committed to engaging positively with all our stakeholders in a fair and transparent way to create value for our customers, staff, investors and the communities we operate in.

This year for the first time we've created a framework to articulate our sustainability approach. Our approach focuses on the areas that give us the best opportunities to deliver our business strategy and contribute to the wellbeing of our stakeholders.

### CUSTOMERS

Putting customers at the heart of everything we do

- > Customer satisfaction
- > Transparent, accessible and affordable products
- > Being available for customers when and how they want
- > Customer complaint resolution
- > Financial hardship support
- > Information security and privacy protection

### GOVERNANCE

Doing the right thing

- > Transparent disclosure
- > Business ethics
- > Financial and business management
- > Compliance
- > Executive remuneration
- > Sustainable shareholder returns
- > Risk management

### ENVIRONMENT

Responsibly managing our environmental impacts

- > Efficient use of resources
- > Environmentally-friendly property and assets
- > Reducing environmental impact of operations



### COMMUNITY

Sharing the love with the communities we operate in

- > Stakeholder engagement
- > Public policy contribution
- > National community partnerships supporting youth
- > Regional community programs through retail and business network
- > Employee dollar-matching and workplace giving program
- > Investor dividend donation program
- > Disaster relief support through retail branch footprint
- > Economic contribution

### PEOPLE & CULTURE

Creating a place where people love to work

- > Employee engagement
- > Diversity and flexibility
- > Workplace health and safety
- > Investing in developing our people
- > Franchisee support
- > Reward and recognition
- > Cando behaviours (collaboration, accountability, do as you say, no problem, openness)
- > Turnover

# SCORECARD

We've also developed a scorecard that details our 2014 financial year achievements and our three-year sustainability targets – a more detailed scorecard is available on our website.

Sustainable business practice is a continuous progression – one where we'll grow and change as technology, the economy and consumer interests change. It's all just part of our journey to becoming Australia's most loved bank.

## 2014 ACHIEVEMENTS



### CUSTOMERS

- > Roy Morgan Net Promoter score of 16.1 – 3rd highest score of 11 most direct competitors
- > Launched transparent mortgage product Clear Path – awarded AB&F Innovative Mortgage Product of the Year 2014
- > Began roll out of new technology to head office staff, branch managers and mobile lenders to ensure we can service customers anywhere, anytime
- > Upgraded website, internet and mobile sites with better design and accessibility to be more user-friendly

### GOVERNANCE

- > Strengthened operational risk and compliance framework
- > Improved financial reporting disclosure through a detailed investor information report
- > Improved risk parameters, metrics and reporting of each business unit

### ENVIRONMENT

- > Introduced new managed print services agreement with single provider, including swipe release and cost-centre charging to reduce paper consumption

### COMMUNITY

- > Submissions to Financial System Inquiry (with other regional banks) and Competition Policy Review recommending reforms for an efficient, multi-tiered banking system
- > Raised \$230,000 for BOQ's Banking on our Kids appeal up from \$210,000 in 2013
- > 382 school classes participated in the BOQ ESSI Money Challenge up from 190 when the Challenge started in 2010

### PEOPLE & CULTURE

- > Delivering training programs across the Bank by introducing a new business coaching program for Owner Managers, specialist coaching for frontline staff and a leadership framework and training program
- > Launched internal reward and recognition program to celebrate exemplary CANDO behaviours
- > 55 women participated in My Mentor program to build up internal pipeline of women ready for senior management roles

# BOARD OF DIRECTORS



## **STEVE CRANE**

**Independent  
Director**

B.Com, SF Fin, FAICD  
Age: 62

Chair of the Risk  
Committee and member  
of the Nomination &  
Governance Committee.

## **BRUCE CARTER**

**Independent  
Director**

B Econ, MBA, FAICD, FICA  
Age: 56

Member of the Audit  
Committee and Risk  
Committee.

## **ROGER DAVIS**

**Chairman of the Board  
and Independent  
Director**

B.Econ (Hons),  
Master of Philosophy  
Age: 62

Chair of the Nomination &  
Governance Committee  
and a member of both  
the Audit and Risk  
Committees. He attends  
all other Board Committee  
meetings.

## **MARGARET SEALE**

**Independent  
Director**

BA, FAICD  
Age: 54

Member of the Information  
Technology Committee and  
the Human Resources &  
Remuneration Committee.





**DAVID  
WILLIS**

**Independent  
Director**

B.Com, ACA,  
ICA Director  
Age: 58  
Chair of the  
Human Resources  
& Remuneration  
Committee and a  
member of the Risk  
Committee.

**CARMEL  
GRAY**

**Independent  
Director**

B.Bus  
Age: 65  
Member of each  
of the Audit,  
Information  
Technology and  
Nomination &  
Governance  
Committees.

**RICHARD  
HAIRE**

**Independent  
Director**

B.Ec, FAICD, FAIM  
Age: 55  
Chair of the Audit  
Committee and a  
member of both the  
Risk and Information  
Technology  
Committees.

**MICHELLE  
TREDENICK**

**Independent  
Director**

B.Sc, FAICD, F Fin  
Age: 53  
Chair of the  
Information  
Technology  
Committee and  
a member of  
both the Risk and  
Human Resources  
& Remuneration  
Committees.

**NEIL  
BERKETT**

**Independent  
Director**

B.Com and Admin  
Age: 58  
Member of the  
Information  
Technology  
Committee and the  
Human Resources  
& Remuneration  
Committee.

# EXECUTIVE TEAM



**JON  
SUTTON**

**Acting Chief Executive  
Officer**



**JULIE  
BALE**

**Chief Information  
Officer**



**MATT  
BAXBY**

**Group Executive,  
Retail and Online  
Banking**



**BRIAN  
BISSAKER**

**CEO Virgin Money  
Australia**

Jon was appointed Acting CEO on 1 September 2014. In his previous role as Chief Operating Officer, Jon and his team played a big part in helping to deliver many of the projects comprising BOQ's transformation program. The highlight of Jon's year was leading the team working on the successful acquisition of Investec Bank Australia's finance (renamed BOQ Specialist) and leasing businesses.

Julie's team are integral to the success of BOQ's transformation program with technology underpinning the major change agenda underway at the Bank, which will fundamentally change the way we work and put our customers firmly in charge. For Julie, the highlight of FY14 was working in an organisation that sees the value of leveraging technology to create business value and successfully establishing all key strategic partnerships that will help BOQ deliver its change agenda.

Matt and his team are working hard to put BOQ's retail customers first and to make it easier for them to do business with us when and how it suits them. The highlight of Matt's year was seeing our Customer in Charge strategy starting to gain real traction, with our traditional branch channels evolving alongside new growth areas such as mortgage brokers. The Bank continued to deliver exceptional customer service throughout as demonstrated by our strong customer satisfaction scores.

With more and more customers choosing to interact with financial institutions online, Brian and the Virgin Money Australia team are making an important contribution to improving the Group's digital capabilities and attracting new customers. For Brian and the VMA team, the FY14 highlight was seeing revenues and customer numbers grow. In its main product line of credit cards, VMA was one of only two providers to grow total assets organically over the year.

*Our experienced Executive Team is delivering our clear strategy and driving the strategic and cultural change to make us Australia's most loved bank.*



**PETER  
DEANS**

**Chief Risk Officer**

The work of Peter and his team to strengthen the Bank's risk culture and frameworks this year has attracted Australian and international industry recognition. Peter was recognised as Asia-Pacific Banking & Finance's Chief Risk Officer of the Year and BOQ was given Asian Banker magazine's Enterprise Risk Management award for 2014. Peter's FY14 highlight was seeing the Bank's focus being able to move from improving portfolio quality to growing and entering new markets.



**KARYN  
MUNSIE**

**Group Executive,  
Corporate Affairs,  
Investor Relations and  
Government Relations**

Karyn and her team are responsible for communicating BOQ's strategy and progress to shareholders, customers, employees and other stakeholders. Karyn's highlight was the integral role the Corporate Affairs team played in developing BOQ's approach to the Federal Government's Financial System Inquiry and strongly advocating for a more level playing field for regional banks.



**ANTHONY  
ROSE**

**Chief Financial Officer**

BOQ's strong balance sheet and funding position are largely due to the work Anthony and his team have done to re-establish BOQ's business and finance fundamentals. The highlight of Anthony's year was seeing the work of his team and other areas of the business help BOQ achieve its highest ever credit rating, which materially improved the cost and range of funding sources the Bank can now access and delivered significant interest margin expansion.



**BRENDAN  
WHITE**

**Group Executive,  
Business Banking,  
Agribusiness and  
Financial Markets**

Brendan and his team have helped significantly diversify BOQ's customer base by geography and industry. For Brendan, this year's highlight was the national increase in awareness of BOQ's brand and Business Bank offerings. The Business Bank was shortlisted in four Asia-Pacific Banking & Finance Award categories, winning the award for Australia's leading Relationship Management Bank. They also topped customer satisfaction ratings in East & Partners' Business Banking Index for the sixth consecutive year, an outstanding compliment for BOQ's operating model and people.

# 5 YEAR FINANCIAL SUMMARY

\$ millions (unless otherwise stated)	2014 \$m	2013 \$m	2012 \$m	2011 \$m	2010 \$m
<b>Financial performance</b>					
Net interest income	761.2	694.4	656.4	628.4	561.5
Non interest income	168.4	162.4	160.5	177.7	138.3
Total income	929.6	856.8	816.9	806.1	699.8
Operating expenses	(407.9)	(379.4)	(373.4)	(358.7)	(320.8)
Underlying profit before tax <sup>1</sup>	521.7	477.4	443.5	447.4	379.0
Loan impairment expense	(86.2)	(114.6)	(401.0)	(200.5)	(104.2)
Cash earnings before tax	435.5	362.8	42.5	246.9	274.8
Cash earnings after tax attributable to ordinary shareholders <sup>2</sup>	301.2	248.2	20.9	166.9	189.1
Statutory net profit (loss) after tax	260.5	185.8	(17.1)	158.7	181.9
<b>Financial position <sup>3</sup></b>					
Gross loans and advances <sup>4</sup>	38,425.5	35,301.6	34,560.1	33,529.9	31,850.1
Total assets	46,904.6	42,528.3	41,758.0	39,900.8	38,597.8
Retail deposits	26,614.7	23,968.0	22,270.0	20,317.9	18,083.3
Total liabilities	43,564.1	39,710.5	38,858.8	37,327.2	36,193.0
Total equity	3,340.5	2,817.8	2,899.2	2,573.6	2,404.8
<b>Shareholder performance</b>					
Market capitalisation at balance date	4,560.3	3,070.2	2,331.4	1,686.0	2,120.3
Share price at balance date (\$)	12.58	9.60	7.55	7.48	9.83
Basic cash earnings per share <sup>5</sup>	89.5c	78.1c	7.9c	71.3c	88.8c
Diluted cash earnings per share <sup>5</sup>	87c	75.1c	7.9c	66.7c	83.4c
Fully franked ordinary dividend per share	66c	58c	52c	54c	52c
Dividend payout ratio to ordinary shareholders	87%	99%	n/a	77%	62%
<b>Cash earnings ratios <sup>6</sup></b>					
Net interest margin <sup>7</sup>	1.82%	1.69%	1.67%	1.65%	1.60%
Cost-to-income ratio	43.9%	44.3%	45.7%	44.5%	45.8%
Return on average ordinary equity	10.4%	9.4%	1.3%	8.0%	9.6%
<b>Capital adequacy</b>					
Common equity tier 1 ratio <sup>8</sup>	8.63%	8.63%	8.58%	8.37%	8.72%
Total capital adequacy ratio	12.02%	12.24%	12.56%	11.40%	11.70%

1 Underlying profit before tax is profit before impairment on loans and advances, significant items and tax.

2 Cash earnings after tax exclude significant items (tax effected).

3 Includes BOQ Specialist Bank Limited.

4 Before specific and collective provisions.

5 Basic and diluted earnings per share for FY12 and FY13 have been adjusted for the effect of the rights issue that occurred during the current financial year.

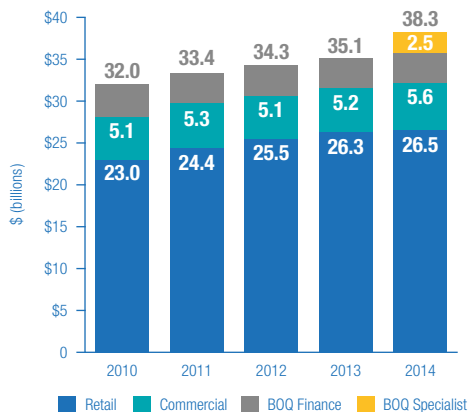
6 Excludes impact of significant items.

7 Excluding amortisation of fair value adjustments (acquisitions).

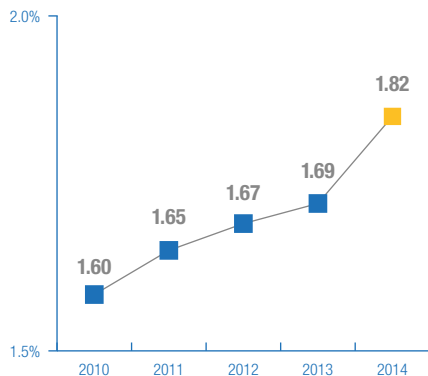
8 This was the tier 1 capital ratio pre-2012.



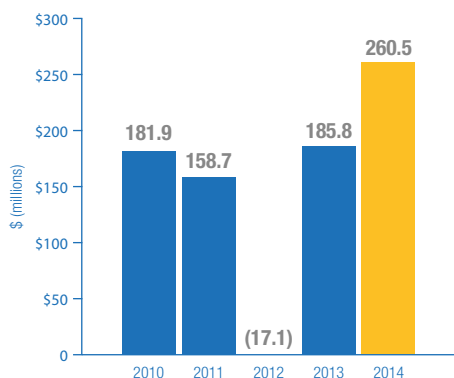
## Total loans under management



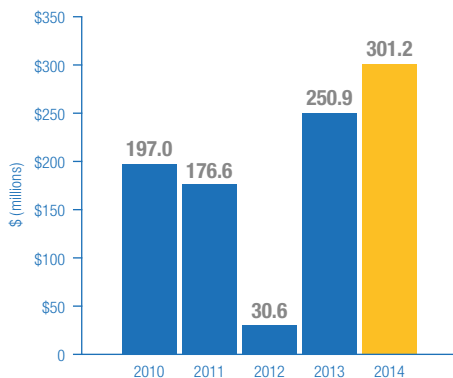
## Net interest margin



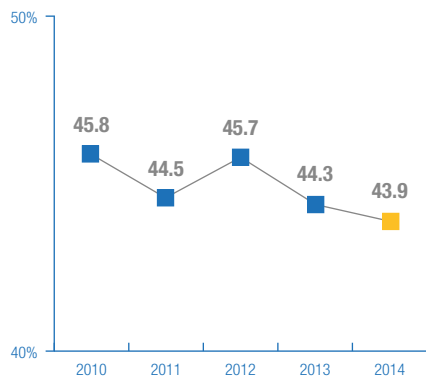
## Statutory net profit



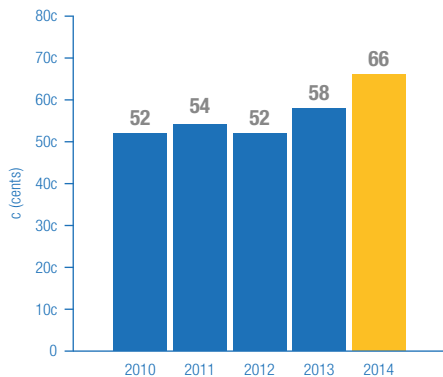
## Cash earnings after tax



## Cost-to-income ratio



## Dividends



# FY2014 CASH REMUNERATION

	Base plus superannuation \$ <sup>1</sup>	2014 STI Performance \$ <sup>2</sup>	Total Cash Payments for the 2014 year \$	Previous years' Awards that vested during 2014 <sup>3</sup> Deferred Equity Awards \$	Awards rights forfeited / lapsed during 2014 <sup>4</sup> LTI Awards \$
<b>Non-Executive Directors</b>					
Steve Crane	227,693	-	227,693	-	-
Roger Davis	380,217	-	380,217	-	-
Carmel Gray	210,443	-	210,443	-	-
Michelle Tredenick	207,213	-	207,213	-	-
David Willis	231,276	-	231,276	-	-
Richard Haire	237,526	-	237,526	-	-
Neil Berkett	190,656	-	190,656	-	-
Margaret Seale	108,620	-	108,620	-	-
Bruce Carter	103,959	-	103,959	-	-
<b>Former Executive Director</b>					
Stuart Grimshaw	1,378,645	-	1,378,645	379,643	-
<b>Executives</b>					
Jon Sutton	709,417	400,000	1,109,417	774,596	-
Anthony Rose	598,151	257,500	855,651	197,132	-
Peter Deans	638,661	250,000	888,661	14,500	-
Brendan White	596,979	340,000	936,979	473,811	-
Matthew Baxby	526,130	275,000	801,130	237,015	-
Karyn Munsie	442,821	165,000	607,821	-	-
Julie Bale	394,347	100,000	494,347	18,824	-
Brian Bissaker	583,871	180,000	763,871	-	-

1 Base Remuneration and Superannuation make up an Executive's fixed remuneration.

2 This is 50% of the 2014 STI for performance during the 12 months to 31 August 2014 (payable October 2014). The remaining 50% is deferred into restricted shares, 50% released at 12 months and 50% released at 24 months subject to approval of the Board.

3 The value of all deferred cash (to be paid in October 2014) and / or equity awards (closing share price on vesting date) that vested during 2014 financial year. This includes the value of the award that vested, plus any interest and / or dividends accrued during the vesting period. This excludes deferred equity awards granted in previous years which have not vested in FY14.

4 The value of any deferred cash and / or equity awards (closing share price on forfeited / lapsed date) that were forfeited / lapsed during the 2014 financial year.

# SHAREHOLDER INFORMATION

## SHARE REGISTRY

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[linkmarketservices.com.au](http://linkmarketservices.com.au)

## COMPANY DETAILS

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[boq.com.au](http://boq.com.au)  
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[facebook.com/BOQOnline](https://facebook.com/BOQOnline)

## CUSTOMER SERVICE

1300 55 72 72 (within Australia)  
+61 7 3336 2420 (overseas)

ABN 32 009 656 740  
CAN 009 656 740

## KEY SHAREHOLDER DATES

### 2014

Final ex-dividend date	3 November 2014
Final dividend record date	6 November 2014
Final dividend payment date	27 November 2014
Annual General Meeting	27 November 2014

### 2015

Financial half year end	28 February 2015
Interim results and dividend announcement	26 March 2015
Interim ex-dividend date	16 April 2015
Interim dividend record date	20 April 2015
Interim dividend payment date	12 May 2015
Financial full year end	31 August 2015
Full year results and dividend announcement	8 October 2015
Final ex-dividend date	29 October 2015
Final dividend record date	2 November 2015
Final dividend payment date	24 November 2015
Annual General Meeting	26 November 2015

\*dividend dates for ordinary shares only



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