ASX RELEASE

BOQ GROUP
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MANAGING DIRECTOR AND CEO'S 2019 AGM ADDRESS

Tuesday, 10 December 2019, Brisbane: Thank you Patrick and good morning everyone. I'm delighted to be here with you today as Managing Director and CEO of Bank of Queensland.

Before we begin, my thoughts are with everyone affected by the catastrophic bushfires across Queensland and New South Wales, with over 140 bushfires raging in these two states alone. I want to thank the brave emergency services men and women battling these blazes.

I would also like to acknowledge the incredibly tough conditions being faced by the many communities, farmers and families, in what has been described as the worst drought in living memory.

We encourage any customers affected by either bushfire or drought to get in touch with us.

I was attracted to BOQ because I believe it is fundamentally a good business. One with a mix of businesses that provide the opportunity to differentiate and grow during a time of change and evolution in the banking industry. Importantly, our bankers who care for our customers and care deeply for the Bank will be critical to realising these opportunities.

I'm happy to say that while only three months into the CEO role, I'm excited by the potential across the company, confirming my earlier observations. The growth we have achieved in recent years, for example in Virgin Money Australia and niche business segments demonstrate that we can differentiate and compete well when the customer proposition is right.

The financial results for 2019 are clearly disappointing. It underscores the need to bring about change in our culture; the way we do things; and how we prioritise our investments that will shape our future. We are very aware that we need to move quickly to return the company to sustainable and profitable growth.

In this regard, I'll be working closely with the Board and the senior executive leadership team to develop an overarching strategy to deliver those key objectives. As I said at the outset, BOQ is fundamentally a good business, and whilst there are a number of foundational investments already underway, building an organisation that is innovative, nimble and one that makes banking easy for our customers, will take time.

I have deep experience in retail and business banking and as you would expect I am conducting a detailed review across all elements of our business. We will present the go-forward strategy to the market in February.

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Bank of Queensland Limited ABN 32 009 656 740 (BOQ).

Given some of the developments at other banks in recent times, I wanted to provide you with some detail on BOQ's current position with regard to meeting our financial crime obligations.

As reported in BOQ's 2019 Annual Report, in 2018 AUSTRAC conducted a thematic review of BOQ. A compliance assessment report was received from AUSTRAC which identified potential compliance contraventions of the AML/CTF legislation. BOQ has a comprehensive program, which is on track, to strengthen our controls and make improvements in areas as identified in the report. BOQ has continued to consult and update AUSTRAC about the progress that has been made.

I want to be clear though, that BOQ is not aware of any instances of non-reporting to AUSTRAC. All of our international payments are processed through the SWIFT payment network and therefore have the appropriate monitoring and reporting attached to them. We continue to work with all regulators to improve our risk controls, monitoring and reporting.

Turning now to the results themselves - statutory net profit after tax decreased 11% from FY18 to 298 million dollars, and cash earnings after tax decreased 14% to 320 million dollars. Cash return on equity reduced to 8.3%, with common equity tier one also lower at 9.04%.

Cash earnings per share decreased 16% to 79.6 cents per share. The Board took the prudent approach to maintain the dividend payout ratio, with a second half dividend of 31 cents resulting in a full year dividend per share at 65 cents, a reduction of 14%.

The performance in the second half represents a deterioration across all of these metrics relative to the first half. This, together with the decision to reduce the dividend, reflects the challenging environment particularly in the past six months.

In terms of the drivers of the results, total lending grew by 937 million dollars, or 2% during the year, with the first half slightly stronger. This was primarily driven by the Business Bank, with mortgages underperforming.

Net interest margin reduced by five basis points from FY18, with most of the reduction evident in the first half. As total income reduced by 2% and operating expenses increased by 4%, the cost to income ratio increased to 50.5% for the year and was higher in the second half.

Loan impairment expense increased by 33 million dollars to 74 million dollars, or 16 basis points of gross loans. This included a number of one-off impacts. Underlying asset quality remains sound with arrears at low levels.

These results are disappointing and the management team recognises this. As CEO, I have a clear mandate to take decisive action and improve our performance for customers and shareholders.

There are some areas requiring attention. Turning around the retail bank's performance. Fixing our onerous lending processes. Addressing our rising costs, given the revenue challenges in the current environment. Closing the digital gap between BOQ and our peers. This extends to also improving our data platforms as well as building on our people's skills and capability, particularly when it comes to execution.

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There are five strategic priorities which will be my focus.

Firstly, we will return to profitable and sustainable growth, but there will be a transition period required to achieve this. We need to optimise revenue and margin and also fix our lending processes. This will lift our distribution performance and assist to profitably grow our customer base in a very targeted way.

Secondly, our ability to build our purpose-led customer culture will take strong leadership that is inclusive and also investment in our peoples' capability. This will lead to better customer outcomes and better business outcomes.

Thirdly, in order to simplify our business, improve productivity and address costs, we are conducting a structural productivity and operating model review. Our aim is to improve our cost-to-income ratio. This will include simplifying and reducing the number of products we offer and simplifying our IT platforms as part of our infrastructure migration to a common cloud environment. A simpler business will also make it somewhat easier for us to navigate the rising investment and regulatory costs we face. We have put in place initiatives to control and address cost growth.

Fourthly, closing the digital and data gap that has emerged with our peers is absolutely critical to our success. We will also ensure that our Virgin Money Australia digital bank milestones are met, which will form the cloud based digital platform that the bank is likely to migrate to.

Finally, while doing all of this, we are committed to continue strengthening the bank, through robust risk and compliance standards and maintaining a strong balance sheet. That is why we have sought to bolster our position through a $275m capital raising, which will support our strategic transformation, aimed at simplifying the business, delivering productivity gains and cost efficiencies, and achieving sustainable profitable growth. The additional capital will take our CET1 ratio to a pro-forma position of 9.85%, which positions us very well for APRA's 'unquestionably strong' requirements and provides the strategic flexibility to implement our transformation.

We will come back to the market in February 2020 with a detailed strategy update, providing more detail on our five strategic priorities. We will be transparent about our transformation and provide clear milestones that can be used to monitor our progress.

An important development is the decision we have made to continue building on the strong momentum of Virgin Money Australia. Following successful completion of the stage 1 digital bank proof of concept, we are now planning the full build and implementation.

There will be a phased delivery, with transaction and savings accounts within 12 months, followed by migration of VMA's home loan portfolio and other products in subsequent phases. This is an investment in long-term value creation, as we move towards a common cloud based platform for the Group.

Completion of the phase 1 build will require approximately 30 million dollars of capital expenditure throughout FY20, ahead of the targeted launch in late 2020. It will also require higher operating expenses on launch with additional resources and marketing to support the customer offering and growth.

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Over time though, this investment in VMA is expected to deliver compelling value to the Group. It will also broadly form the Group's digital platform.

To summarise, the FY19 results are clearly disappointing. We are already taking decisive actions to improve financial performance on both revenue, costs and capital.

As Patrick has said, FY20 will also be a difficult year. We expect lower year-on-year cash earnings in FY20, with revenue and impairment outcomes in line with FY19, subject to market conditions. We also expect higher post-Hayne regulatory and compliance costs and increased operating expenses related to our investment in technology.

BOQ fundamentally is a good business with a sound platform for differentiation. Investments are underway. I am undertaking a detailed review of all of our businesses. The path forward will require strong leadership, a purpose-driven culture and a team focused on our customers. I will present back to the market in February. I want to finish by saying how excited I am to be here leading BOQ.

Thank you for your support.

George Frazis
Managing Director and CEO

Authorised for release by: George Frazis, Managing Director and CEO

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