Bank of Queensland Limited
ABN 32 009 656 740
Level 6, 100 Skyring Terrace, Newstead QLD 4006
GPO Box 898, Brisbane QLD 4001
Telephone (07) 3212 3333
www.boq.com.au

ASX RELEASE

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Managing Director and CEO Address
2017 Annual General Meeting

Thank you Roger and good morning ladies and gentlemen.

I am pleased to be here today to update you on what has been a good year for BOQ in 2017. Our momentum in the second half of the year was particularly pleasing. This was achieved against a backdrop of industry challenges, including an ever changing regulatory and political landscape.

Our niche segment strategy delivered solid results with BOQ Specialist, BOQ Finance and our commercial lending target segments all performing well. Virgin Money has also made a strong contribution with growth in its new home loan product ahead of expectations.

Our asset quality remains sound, with further improvement across a range of metrics. This is the outcome of a deliberate approach to improve risk management over the past five years.

We have delivered on our expense targets and found savings throughout the organisation which has allowed us to reinvest in the business.

Our capital position is very strong. This provides us with a number of options for the future.

Overview of 2017

Summarising our key financial results for 2017:
- Cash earnings increased by 5 per cent over the year to $378m. This included a 16 million dollar profit on the disposal of a vendor finance entity. Excluding this one-off item, cash earnings increased by 1 per cent to $362m;
- Earnings per share increased 2 per cent to 97.6 cents per ordinary share, also including the one-off;
- Return on equity increased 10 basis points to 10.4 per cent; and
- A dividend of 46 cents, including a special dividend of 8 cents per ordinary share, brought the full year dividend to 84 cents per ordinary share. The special dividend was made possible by our very strong capital position.

The key drivers of this result included the following:
- Lending growth of $665m for the full year;
- A net interest margin of 1.87 per cent, which was down 7 basis points from last year;
- A cost to income ratio of 46.6 per cent; and
- Loan impairment expense of just $48m.

The second half improvement was a highlight of the result. Lending growth returned in both the housing and commercial loan portfolios. Net Interest Margin rebounded in the second half to 1.9 per cent. This was driven by a recovery in term deposit spreads, which we flagged at the first half result. We also saw a further reduction in our loan impairment expense.

Our niche businesses grew further during the year. BOQ Specialist delivered strong loan growth across both its housing and commercial loan books. BOQ Finance also made another strong contribution. Our Business Banking target segments have continued to grow, albeit from a small base. Loan balances in the niche business banking segments of Agribusiness, Corporate Healthcare & Retirement Living and Hospitality & Tourism increased by $309m dollars to $1.5b.

Asset quality resilience we have built into the Bank is becoming increasingly evident. Impaired assets as a percentage of total loans was down to 44 basis points. Loan impairment expense was just 10 basis points of total loans in the second half. All portfolios continue to perform well across a range of credit quality metrics. Overall, we remain comfortable with the health of the portfolio. There are no signs of systemic stress emerging.

Our disciplined approach to cost management is another highlight of this result. We delivered on our 1 per cent underlying expense growth target. Underlying expenses were $510m. We have not been cutting our way to greatness though. We are continuing to invest in digitising our processes, which will have the dual benefit of improving customer experience as well as improving efficiency.

Our customer deposit growth has also been pleasing. We have grown our at-call transaction account balances at a compound annual rate of 9 per cent since 2015. We have achieved even stronger growth in mortgage offset accounts, at a compound growth rate of 32 per cent. This growth in main bank relationships is important for the long term.

Following APRA's clarity on 'unquestionably strong', we believe we are in a very strong capital position at 9.39 per cent Common Equity Tier 1 as at 31 August 2017. There are some tailwinds in 2018 which would further strengthen this position by 20 to 25 basis points. This provides us with flexibility to consider capital management options in the future.

I am pleased to report that we have delivered on our strategic objectives. We have expanded the number of channels customers can engage with us, including increasing the number of mortgage brokers as well as enhancing our digital capability. We have continued to grow the right way, pricing for risk appropriately and targeting segments that value our relationship proposition.

We have found better ways to do things to keep our cost under control while also investing for the future. And we continue to strive to be loved like no other, through ethics, diversity, leadership and our people.

External environment

Turning to the outlook and the environment we are operating in, there is a lot going on across the banking sector and broader economy to consider. Regulatory, legislative and political pressures require banks to be more focused and nimble than ever before. Customers also expect more from their banks, particularly in terms of trust.

On this last point of trust, we take culture and conduct very seriously at BOQ. We recognise that the culture of an organisation is critical to its long term success. This is a race that never ends, but I do believe we are on the right track. We established an Ethics Committee back in 2015 and have completed the roll out of ethics training to senior staff and owner managers so our people have a clear framework to help them make the right decisions when it matters most.

In terms of regulation and competition, we believe the playing field is still tilted in favour of the major banks and that more needs to be done to address this. We have been advocating together with other regional banks that that before any new regulations are introduced, greater consideration should be given to the impacts on smaller banks.

Meanwhile, technology development continues to move at pace, and with it customer expectations. For a bank to remain relevant in this environment, ongoing investment is required.

Strategic focus

Moving to our strategic focus ahead, we remain committed to our strategy of targeting niche customer segments that value a more intimate relationship. The four pillars of our strategy remain relevant and unchanged.

Under the customer in charge pillar, we are seeking to improve our digital capability and deliver a seamless experience to our customers across channels. Our success in this pillar will be measured by the delivery of enhanced digital customer platforms.

We will focus on growing the right way by improving our deposit gathering capability and increasing our main bank relationships. We will price for risk while considering the broader relationship with our customers. Our main bank customer growth will be a key indicator of success for this pillar.

We continue to look for improvement in all our processes, removing friction points, with the aim of ensuring quicker time to yes to all of our customers. In the current environment, we are targeting sub-inflation operating expense growth, while still investing in our growth businesses.

We remain committed to proving it's possible to love a bank. We will demonstrate this by our continued focus on our customers and the value we can create for them. We are rolling out a Customer Heartbeat program across the group to ensure we consistently meet our customers' expectations, through a unified service mission.

A key driver of our future success will be the delivery of our digital transformation. Initiatives we have in the pipeline include our new web experience platform for BOQ, as well as a new internet banking platform and mobile app.

Success on these initiatives will bring the bank closer to its customers. Additional services will be provided that we have not had in the past, such as direct online foreign exchange. We also see good growth opportunities in our business bank.

Summary & outlook

In summary, our niche strategy is delivering and positions us well for the current operating environment. Our distribution channels of Virgin Money, brokers, BOQ Specialist and the branch network give us greater reach than we have had before.

With system growth likely to slow, we remain cautious about the housing loan market. But, we are rolling out a range of initiatives that will improve the way we do business and serve our customers. Our business bank has had an excellent second half. This has continued into the new financial year with a strong pipeline and settlements.

We have delivered a sound result at the same time as making significant progress on transforming the business. While there is more for us to do, we are laying the right foundations for sustainable outperformance in the future.

Our strong capital position provides the Bank with a high degree of optionality. It gives us the capacity to grow faster; however, we are mindful of the trade-off between price and risk adjusted return in a market with slowing system growth. It also allows us to consider using some of the excess capital to accelerate investment in the business and to bring forward execution of some elements of the strategy. This is something we are exploring and if any decision is to be made we would update the market accordingly. If we can't find appropriate opportunities to deploy excess capital, it will be returned to shareholders.

Finally, I would like to take this opportunity to thank the Board, my executive team and all the Group's employees whose collective efforts have delivered the results we have discussed today.

I would also like to thank all of our shareholders for your ongoing support.

Thank you.

Jon Sutton
Managing Director & CEO