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18 May 2018

CONFIDENTIAL

BY EMAIL

Mr Simon Daley
Solicitor Assisting the Royal Commission
Level 34
600 Bourke Street
MELBOURNE VIC 3000

Dear Mr Daley

Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (Royal Commission)

1. On behalf of the Bank of Queensland Limited (**BOQ**), we refer to:
 - (a) the letter dated 15 December 2017 from the Commissioner (**First Letter**), and the questions it provided;
 - (b) BOQ's response to the First Letter dated 29 January 2018 (**First Response**); and
 - (c) a further letter dated 11 May 2018 from the Solicitor Assisting the Royal Commission (**Agribusiness Request**).
2. The Agribusiness Request explains that future hearings of the Royal Commission will include consideration of lending for agribusiness purposes (**agribusiness lending**), and asks BOQ if it wishes to:
 - (a) identify features of the First Response which relate to agribusiness lending; and/or
 - (b) add to its First Response specifically in relation to agribusiness lending.

Scope of this response

3. BOQ reiterates its desire to support the Royal Commission in its work, and wishes to continue a co-operative and productive relationship for that purpose. BOQ intends by this response to address both of the questions asked in the Agribusiness Request in a manner that is useful to the Royal Commission, having regard to their scope, the time available to prepare this response, and the legal constraints and considerations that are relevant to its content. BOQ notes that a number of the constraints outlined in paragraphs 6-12 of its First Response still apply.
4. We also note that since the provision of its First Response, BOQ has:

- (a) responded to Notices to Produce from the Royal Commission dated 16 February 2018, 20 March 2018, 10 April 2018, 3 May 2018, 7 May 2018, 7 May 2018 and 16 May 2018;
 - (b) responded by letter dated 17 April 2018 (**SME Lending Response**) to the letter dated 5 April 2018 from the Solicitor Assisting the Royal Commission requesting information in relation to SME Lending (as defined in that letter);
 - (c) provided to the Royal Commission on 13 April 2018 a draft witness outline from Mr Douglas Snell, the General Manager, Performance, Product and Governance for the BOQ Business division, which addresses a number of topics in relation to business lending with respect to Rubric 3-6 (**Snell 3-6 Outline**) and on 8 May 2018 a statement of Mr Snell which addresses section A of Rubric 3-6;
 - (d) provided to the Royal Commission on 9 May 2018 a statement of Mr Snell which addresses Rubric 3-8 and on 15 May 2018 a statement of Mr Snell updated in respect of confidentiality; and
 - (e) provided to the Royal Commission on 16 May 2018 a statement of Mr Brian Zacharias, the General Manager, Portfolio and Customer Analytics within the Finance Support division of BOQ, which addresses section C of Rubric 3-6.
5. With the aim of assisting the Royal Commission, this response:
- (a) provides an overview of BOQ's agribusiness lending;
 - (b) addresses the first question asked in the Agribusiness Request (see paragraph 2(a) above) by reference to the grouping of issues employed by BOQ in its First Response; and
 - (c) addresses the second question asked in the Agribusiness Request (see paragraph 2(b) above) by reference to the specific matters raised with respect to agribusiness lending in that letter.

Confidentiality

- 6. As with the First Response, this document contains confidential and commercially sensitive information. We provide the document on the basis that it will be kept confidential.
- 7. Similarly, no waiver of legal privilege is intended by the provision of the information in this document. If the Royal Commission intends to publish this document to third parties we request the opportunity to be heard on that matter prior to it doing so on reasonable notice.

BOQ's agribusiness lending

- 8. Agribusiness lending comprises approximately 2% of BOQ's lending activities.¹
- 9. BOQ undertakes agribusiness lending through three channels:
 - (a) *BOQ Agribusiness*: BOQ undertakes agribusiness lending to its customers primarily through BOQ Agribusiness, a part of the BOQ Business division of BOQ. BOQ Agribusiness generally originates loans of \$3 million and greater to customers who have experience and expertise in agribusiness. As at 30 April 2018, BOQ Agribusiness had a total of 75 agribusiness customer groups with an aggregate exposure of \$593 million (average exposure per customer group of approximately \$8 million).
 - (b) *Branch network*: Prior to 2012 when BOQ Agribusiness was established, BOQ had no specialisation in agribusiness lending but did provide loans to agribusiness customers

¹ This is calculated by reference to BOQ's agribusiness lending through the three channels referred to in paragraph 9 compared to all lending by BOQ.

through its branch network and through BOQ Business.² BOQ has continued to provide relatively small loans (the vast majority less than \$1 million) to customers involved in agribusiness through its branch network. As at 30 April 2018, BOQ had through its branch network a total of 133 agribusiness customer groups with aggregate exposure of \$31 million (average exposure per customer group of approximately \$233,000).³

- (c) *BOQ Equipment Finance*: BOQ Equipment Finance is a division of BOQ and provides vehicle and equipment finance facilities, including to agribusiness customers. The agribusiness customers to which BOQ Equipment Finance provides facilities are primarily customers sourced through broker and dealer origination channels and with whom BOQ has no on-going or other relationship (approximately 90%) and the balance customers with which BOQ has a relationship through BOQ Agribusiness (approximately 10%). As at 30 April 2018, BOQ Equipment Finance has a total of 3,765 agribusiness customers with aggregate exposure of \$480 million in respect of 7,370 equipment finance contracts (average contract size of approximately \$65,000 and average exposure per customer of approximately \$127,000).⁴

Features of the First Response which relate to agribusiness lending

Product-related issues

10. Paragraphs 56-76 of the First Response relate to conduct within the terms of reference of the Royal Commission regarding products offered by BOQ that may have been used by agribusiness customers. Relevantly:
- (a) paragraph 59(c) referred to an incorrect interest rate on business lending being charged due to errors in the account set up process;
 - (b) paragraph 59(g) referred to incorrectly charged switching fees on automatic loan product switches, including from one business loan product to another, which may have affected agribusiness lending customers; and
 - (c) paragraph 59(h) referred to the Agreed Credit Advance fee on business overdraft facilities not being correctly discounted on certain Business First Lending Packages (which may have been used by agribusiness lending customers).
11. The product-related issues identified in the First Response were fully remediated as part of the Product Review Program as referred to at paragraphs 70-71 of the First Response.

Conduct in the branch network

12. Paragraphs 106-126 of the First Response outline conduct within the terms of reference of the Royal Commission including breach of BOQ policies by persons within its branch network. As referred to at paragraph 9(b) above, a small proportion of BOQ's agribusiness lending originates from its branch network.

Financial Ombudsman Service Complaints

13. Paragraphs 154-159 of the First Response outline FOS complaints made against BOQ, which included complaints by agribusiness lending customers which were resolved in favour of the borrower.

² As at 31 December 2011, the total exposure to agribusiness customers through the branch network and BOQ Business was \$37 million.

³ This amount has been calculated by identifying all BOQ customers not within the BOQ Agribusiness portfolio with an 'Agriculture, Forestry and Fishing' ANZSIC code (ANZSIC means "Australian and New Zealand Standard Industrial Classification" and is a list of the categories into which customers are segmented based on their predominant source of revenue).

⁴ This amount has been calculated by identifying all contracts and customers within the BOQ Equipment Finance portfolio with an 'Agriculture, Forestry and Fishing' ANZSIC code.

Additional information relating to agribusiness lending

Conduct of BOQ

14. As a part of the BOQ Business division of BOQ, BOQ Agribusiness is generally subject to the same policies and procedures as BOQ Business described in the Snell 3-6 Outline. This includes in respect of the matters the subject of paragraphs (b) to (h) of the Agribusiness Request. BOQ's policies specific to agribusiness lending apply in addition to BOQ's general policies that apply to BOQ Business (BOQ will produce such agribusiness policies in response to the Royal Commission's Notice to Produce dated 16 May 2018).
15. BOQ understands that agriculture is a cyclical industry and subject to forces that can be outside the control of customers at times. BOQ works with agribusiness customers to make arrangements to deal with adverse conditions facing their business.
16. Since its establishment in 2012, only five customers of BOQ Agribusiness have been referred to BOQ's Asset Management Group (which includes customers of BOQ Agribusiness who have facilities with BOQ Equipment Finance). For the purpose of this response, BOQ has considered each of those files and has not identified any BOQ misconduct or conduct that it considers has fallen below community standards and expectations.
17. As noted above, BOQ also provides agribusiness lending through channels other than BOQ Agribusiness.
18. The agribusiness lending undertaken through BOQ's branch network is generally SME Lending. BOQ refers to the matters stated in the SME Response, particularly paragraphs 13-38.
19. The agribusiness lending undertaken by BOQ Equipment Finance falls into two categories. First, lending to existing customers of BOQ Agribusiness which are commented upon in paragraph 16 above. Secondly, lending originated by brokers and dealers for customers with whom BOQ has no on-going or other relationship. BOQ is not aware of any BOQ misconduct or conduct that it considers has fallen below community standards and expectations in respect of such lending.

Other matters

20. The Agribusiness Request refers at paragraph (a) to the appropriateness of the current agribusiness lending regulatory regime and at paragraph (i) to the reach and efficacy of external dispute resolution schemes available to agribusiness customers.
21. On 6 December 2017 the Select Committee on Lending to Primary Production Customers (established by the Senate) reported on the regulation and practices of financial institutions in relation to primary production industries, including agriculture, fisheries and forestry (**Select Committee Report**).
22. BOQ is engaged with the Australian Banking Association in relation to the recommendations in the Select Committee Report and notes that a number of those recommendations have been addressed in the new Code of Banking Practice which has been submitted to ASIC for approval.
23. BOQ also notes that BOQ supports a mandatory National Farm Debt Mediation scheme to help ensure all farmers are treated fairly across Australia.

If it would assist the Royal Commission, we would welcome the opportunity meet to discuss in more detail any of the matters the subject of this response and the First Response.

Yours faithfully



Jon Sutton
Managing Director and Chief Executive Officer



Michelle Thomsen
General Counsel