SALES SLUMP: Retail chief Gerry Harvey.

Profits at Harvey fall 20pc

HARVEY Norman's profit for the first quarter has dived by 20 per cent as low consumer confidence and price deflation continues to hit the retailer's technology and entertainment sales.

The company said its unaudited profit before tax and minority interests for the three months to September 30 was $50.1 million, down 20.3 per cent from $62.8 million on the previous corresponding period.

"Technology and entertainment sales continue to be affected by the cautious consumer and continued price deflation," the retailer said.

But Harvey Norman continued to drive its No.1 market share position in television and hoped to do well from new electronic devices.

"The launch of Windows 8 globally on October 27 saw more than 35 new devices released to the market," the company said.

"White goods, cooking, small appliances, furniture and bedding remain solid."

During the first quarter the company's global sales fell 10 per cent to $1.33 billion, compared to the same period last financial year.

Like-for-like sales in the first three months dropped 7.8 per cent on last year.

The largest fall in any of the retailer's markets was in Australia, where total sales for the first quarter plunged 11.5 per cent on the previous corresponding period.

Like-for-like sales in Australia for the three months to September 30 were down 8.7 per cent on last year.

But when excluding the impact from the closure of Clive Peters and Rick Hart stores, total sales in Australia were down 5.4 per cent.

Harvey Norman's total sales compared to the previous corresponding period were mixed across its markets.

In New Zealand the retailer's total sales fell 1.3 per cent but in Slovenia and Croatia they gained 26.3 per cent.

Rollover option for BoQ special shares

NEW OFFER: BoQ CEO Stuart Grimshaw (left) and chief financial officer Anthony Rose. Picture: Steve Pohlner

Liam Walsh

BANK of Queensland has decided against redeeming some special shares, instead suggesting investors switch into a new $200 million offer from the 268-branch regional lender.

In December 2007, BoQ raised the amount in a special offering called perpetual equity preference shares.

The first date for potential redemption was to be next month.

But BoQ yesterday confirmed market speculation by deciding against paying out those shares.

Investors instead can sell their preference shares to BoQ, with proceeds used to buy new hybrid securities.

The BoQ hybrid – mixing characteristics of bonds and stocks – is similar to offers recently from other banks, such as Suncorp, which raised $560 million.

The Australian Securities and Investments Commission says hybrids are complex and risks should be understood.

The raising will support BoQ's capital position amid new financial regulations.

BoQ aims to raise at least $200 million – possibly more depending on demand from new investors.

The lender is offering dividends calculated using swap rates and a margin likely to be between 5.1 per cent and 5.3 per cent. That margin is more costly for BoQ than a recent Bendigo & Adelaide Bank deal, reflecting that latter institution's higher credit rating.

"We're extremely well capitalised, we've got very high levels of collective provisioning coverage (and) strong profitability in the second half, which means for the pricing that we're offering, it should be an attractive proposition," BoQ chief financial officer Anthony Rose said.

He rebuffed suggestions investors might be angered by BoQ not redeeming its current preference shares.

"There are many other issues over time where instruments haven't been called at their first call date," he said. "We're being equitable and treating (investors) fairly in the circumstances."

> 'We're being equitable and treating (investors) fairly in the circumstances'
> **BoQ chief financial officer Anthony Rose**

Hugh Dive of investment advisory firm Philo Capital Advisers said the rollover option seemed overall a "pretty good outcome" for those with current preference shares.

But Mr Dive said the margin on offer "fails to appeal" for new investors.

He also cited specific concerns, such as BoQ's $17 million loss last year.

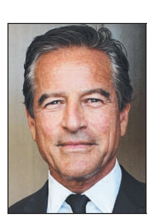
Macquarie Bank follows the Yellow Brick Road

THE financial institution run by Mark Bouris (right) has launched a mortgage and banking business with the backing of Macquarie Bank.

Yellow Brick Road Holdings Limited yesterday signed an agreement with Macquarie Bank, a subsidiary of Macquarie Group, to develop banking and wealth management products and services.

The agreement includes a new mortgage funding and distribution arrangement.

Yellow Brick Road's shares shot up 6¢, or 25 per cent, to 30¢ on the news after coming out of a trading halt yesterday.



Yellow Brick Road, a wealth management business established in 2007, had been in talks with Macquarie about gaining access to the investment group's balance sheet to fund home and business loans.

Yellow Brick Road Holdings chief executive Matt Lawler said the group would initially offer aggressively priced mortgage products and more banking and wealth management products next year.

"Yellow Brick Road is taking its brand and branch distribution footprint to drive market share and establish much-needed competition in financial services," Mr Lawler said in a statement.

Macquarie Group shares closed 52¢ higher at $31.74.

The big four and a brave new world of banking

» From P26

Home loans and the broader relationships you can build with the borrower into other bank products – and most critically, superannuation and investment planning and management – are the foundation of the big four's franchise.

In the 1990s, that franchise was challenged by John Symonds and his Aussie Home Loans group. He was able to raise his money through investment banks, securitising the mortgages and selling them into the capital market both here and in the United States.

The GFC destroyed the securitisation model that underwrote the non-bank home loan competition to the banks, and had been the single biggest driver of the near-halving in bank interest rate margins from their lush mid-1990s levels.

The big four face a different future. Their "new normal" has two key characteristics.

The first is much more subdued, mid-single-digit growth.

The second characteristic is that those 20 per cent ROEs are gone. The CBA's September-balancing peers were spread around 15 per cent.

Westpac should be able to earn a sustainable 15 per cent on its corporate year. After all, the CBA, which has shown itself the exception to this new rule, earned an 18.7 per cent ROE last financial year.

And the comments suggest it would have been held.