

Bank of Queensland

Full year results

31 August 2013

Agenda

▶ Result overview

Stuart Grimshaw
Managing Director and CEO

▶ Financial detail

Anthony Rose
Chief Financial Officer

▶ Summary

Stuart Grimshaw
Managing Director and CEO

The year's highlights

1

Cash earnings result of \$250.9m with full year dividend up 6c (12%) to 58c per share

2

Disciplined approach to growth, focusing on credit quality and margin

3

Strength of balance sheet and progress made in risk management recognised in two credit rating upgrades in 15 months (now A-)

4

Expenses tightly managed with savings reinvested in productivity initiatives

5

Strong execution has delivered a lower risk, lower volatility platform and sustainable returns for shareholders

Back in the black

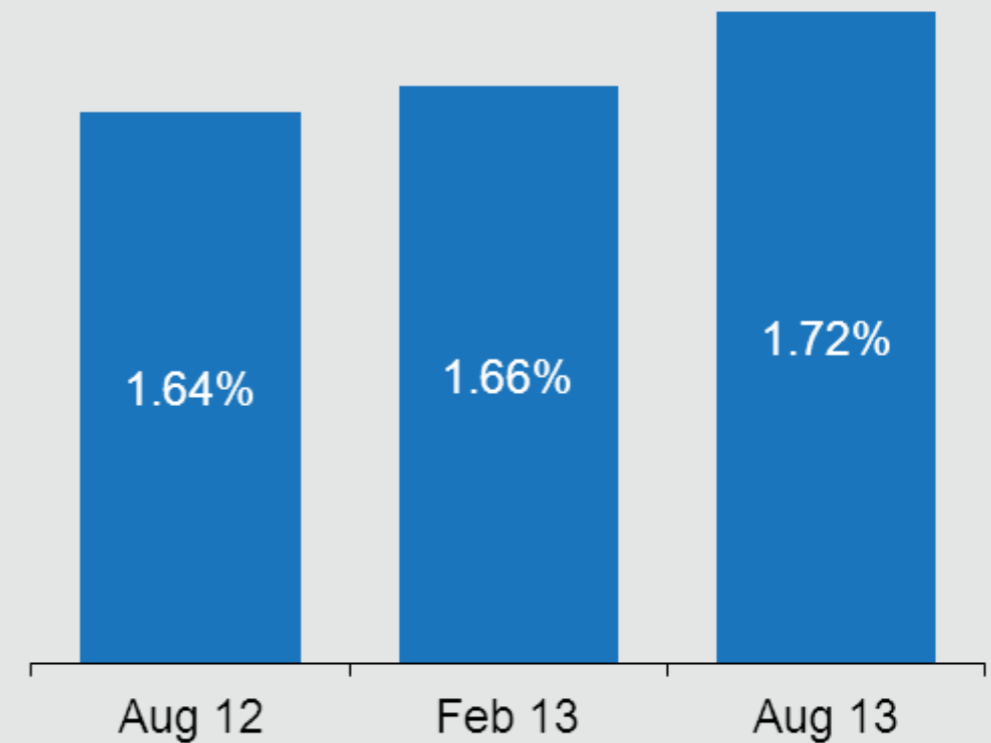
| | FY13 | FY12 | Change FY13 v FY12 |
|--|----------|-----------|-----------------------|
| Underlying profit before tax (Cash) ⁽¹⁾ | \$477.4m | \$443.5m | ▲ 8% |
| Cash earnings (loss) after tax | \$250.9m | \$30.6m | ▲ Large |
| Statutory net profit (loss) after tax | \$185.8m | (\$17.1m) | ▲ N/A |
| Ordinary dividend | 58¢ | 52¢ | ▲ 12% |
| Net interest margin (Cash) | 1.69% | 1.67% | ▲ 2bps |
| Cost-to-income ratio (Cash) | 44.3% | 45.7% | ▼ 3% |

(1) Profit before loan impairment expense

Strong margin management






- ▶ Margin improved despite run-off of higher margin Line of Credit portfolio
- ▶ Mortgage market remains highly competitive in a low-growth environment
- ▶ Focus on attracting profitable customers – particularly through Business Banking expansion
- ▶ Opportunities taken to improve funding mix with lower asset growth

Net Interest Margin - HOH



Tight cost control

- ▶ Cost to income down to 44.3%
- ▶ \$20m in savings identified since efficiency and effectiveness program commenced in FY12
- ▶ Realisation of low hanging fruit provides headroom for reinvestment
- ▶ Reinvestment includes:
 - ▶ Digitisation and CRM to enhance productivity
 - ▶ Front line staffing and capability uplift

| Savings | Ongoing savings | Progress |
|-----------------------------|-----------------|---|
| Management spans and layers | \$9m |  |
| Shared services model | \$2m |  |
| Back office operations | \$2.5m |  |
| Non-FTE savings | \$4m |  |
| Property & Procurement | \$3.2m |  |
| Total | \$20.7m | |

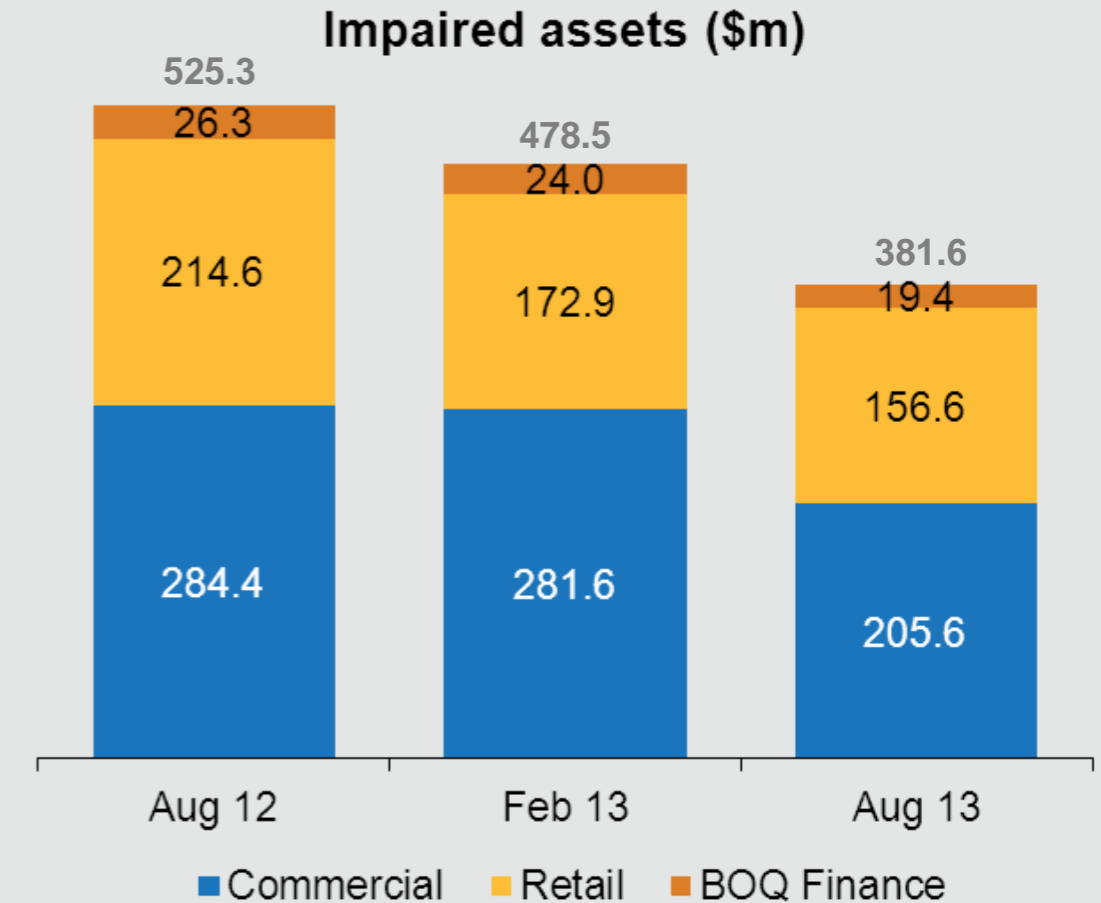
Disciplined risk management

Actions taken

- ▶ Asset quality review exposures managed down
- ▶ Increased capability in risk functions delivering improved metrics
- ▶ Lowering future volatility
 - ▶ Retail credit policy and scorecard changes implemented
 - ▶ Tiered approach to commercial originations from OM network
- ▶ Product, process & system review completed

Results delivered

- ▶ Bad debt charge on the path to normalisation
- ▶ Significant reduction in impaired assets
- ▶ Arrears trends showing improvement
- ▶ Two S&P credit rating upgrades (now up to A-) reflect progress made and strength of balance sheet



Track record of execution

- ▶ Foundations established for a new operating model
- ▶ Targeting areas of opportunity to achieve growth
- ▶ Relentless focus on margin and costs



6 out of 7 key management targets met

| Metrics ⁽¹⁾ | | FY13 Actual | FY13 Target | FY15+ Target ⁽⁴⁾ |
|--|---|-------------|--------------|-----------------------------|
| BOQ asset growth | | | | |
| -Retail | ✘ | 0.6x system | 1.0x system | 1.2x system |
| -Business ⁽²⁾ | ✔ | 3.6x system | 1.0x system | 1.5x system |
| Net Interest Margin | ✔ | 169bps | Low-Mid 160s | Low-Mid 160s |
| Expense growth | ✔ | 2% | < Inflation | < Inflation |
| Cost to Income | ✔ | 44.3% | 45% | Low 40s |
| Bad & Doubtful Debts to GLA | ✔ | 32bps | 28-34bps | ~20bps |
| Return on Tangible Equity⁽³⁾ | ✔ | 11.9% | ~10% | 13%+ |

These are internal management targets and are not forecasts or projections

(1) Cash earnings basis

(2) Excluding the impact of impaired asset run-off; includes Commercial and BOQ Finance

(3) Excluding goodwill and other intangibles

(4) Excludes Virgin Money Australia

Financial detail

Anthony Rose

Chief Financial Officer

Financial performance summary

- ▶ Record cash earnings of \$250.9m
- ▶ Net interest income growth of 6%
- ▶ Expenses managed through efficiency and effectiveness program while investing in front line capabilities
- ▶ Reduction in impairment expense, reflecting continued focus on asset quality

| | FY13 | FY12 | Change FY13 v FY12 |
|---|----------|-----------|-----------------------|
| Net Interest Income | \$694.4m | \$656.4m | ▲ 6% |
| Non interest income | \$162.4m | \$160.5m | ▲ 1% |
| Total income | \$856.8m | \$816.9m | ▲ 5% |
| Expenses | \$379.4m | \$373.4m | ▲ 2% |
| Cash underlying profit before tax | \$477.4m | \$443.5m | ▲ 8% |
| Impairment expense | \$114.6m | \$401.0m | ▼ 71% |
| Cash operating profit before tax | \$362.8m | \$42.5m | ▲ N/A |
| Income tax expense | \$111.9m | \$11.9m | ▲ N/A |
| Cash earnings after tax | \$250.9m | \$30.6m | ▲ N/A |
| PEPS distribution | (\$2.7m) | (\$9.7m) | ▼ (72%) |
| Cash earnings after tax attributable to ordinary shareholders | \$248.2m | \$20.9m | ▲ N/A |
| Statutory profit after tax | \$185.8m | (\$17.1m) | ▲ N/A |

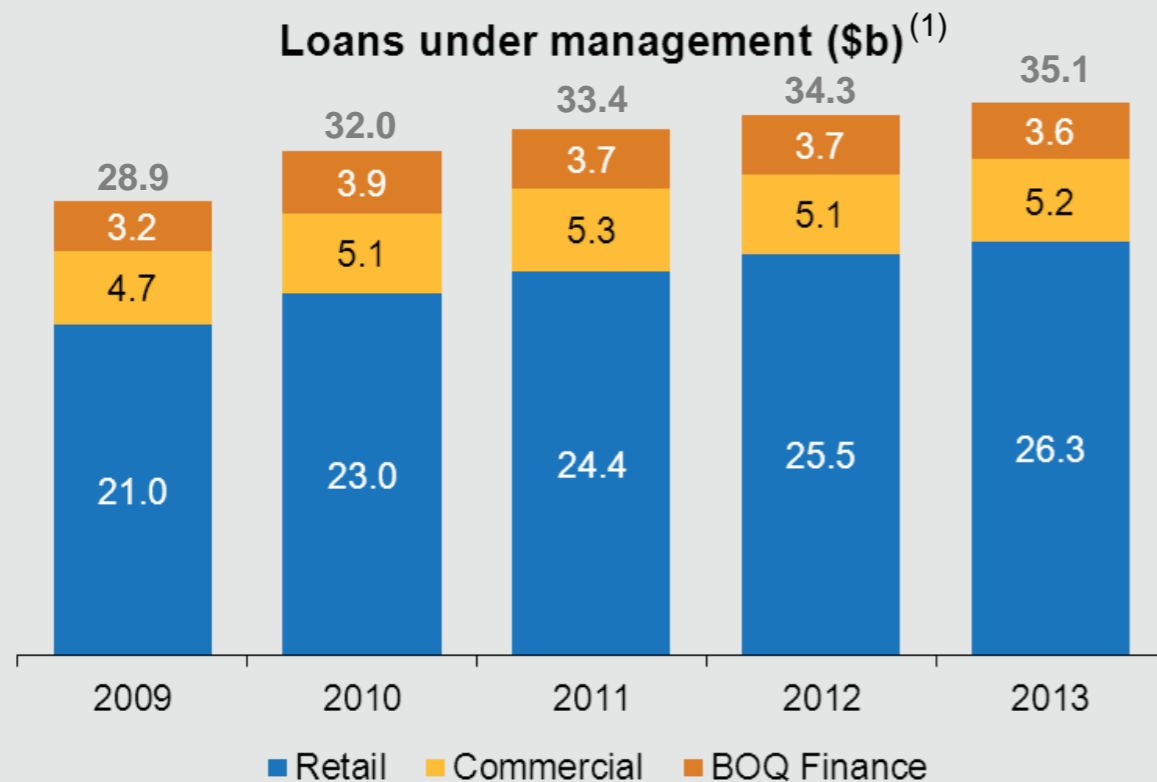
Significant items

- ▶ Legacy issues provided for adequately
- ▶ Restructuring costs of ~\$3m taken above the line in 2H13

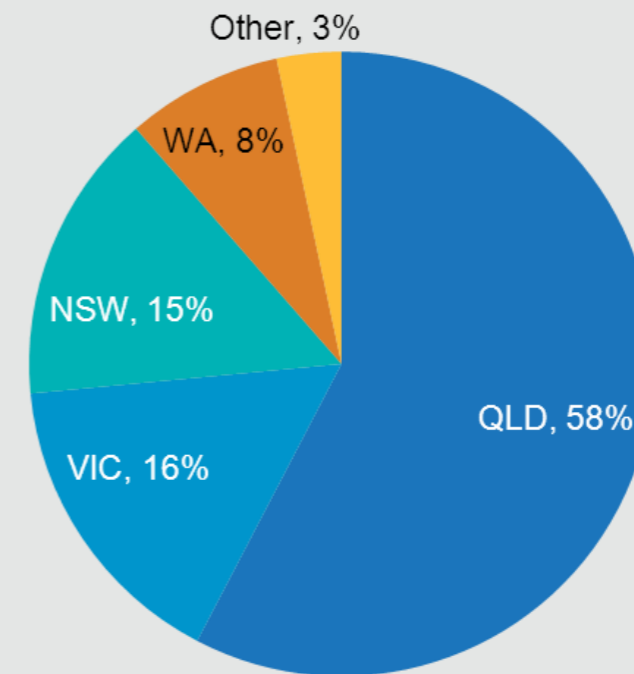
| | 2H13 | 1H13 | Total FY13 |
|--|-----------|-----------|------------|
| Cash earnings / (loss) after tax | \$131.0m | \$119.0m | \$250.9m |
| Amortisation of customer contracts | (\$4.2m) | (\$4.9m) | (\$9.1m) |
| Amortisation of fair value adjustments | - | (\$1.0m) | (\$1.0m) |
| Hedge ineffectiveness | \$3.1m | (\$0.7m) | \$2.4m |
| Government guarantee break fee | (\$5.2m) | - | (\$5.2m) |
| Integration / due diligence costs | (\$3.4m) | (\$0.3m) | (\$3.7m) |
| Asset impairment | - | - | - |
| Legacy items | (\$36.0m) | (\$1.5m) | (\$37.5m) |
| Restructuring costs | - | (\$11.0m) | (\$11.0m) |
| Statutory profit (loss) after tax | \$85.3m | \$100.5m | \$185.8m |

Growing and diversifying loan portfolio

- ▶ Growth of 2% in loans under management and 8% in retail deposits
- ▶ Growth in lending in target segments whilst managing exit of weak and impaired assets
- ▶ Geographic diversification continuing – QLD down to 58% from 60%



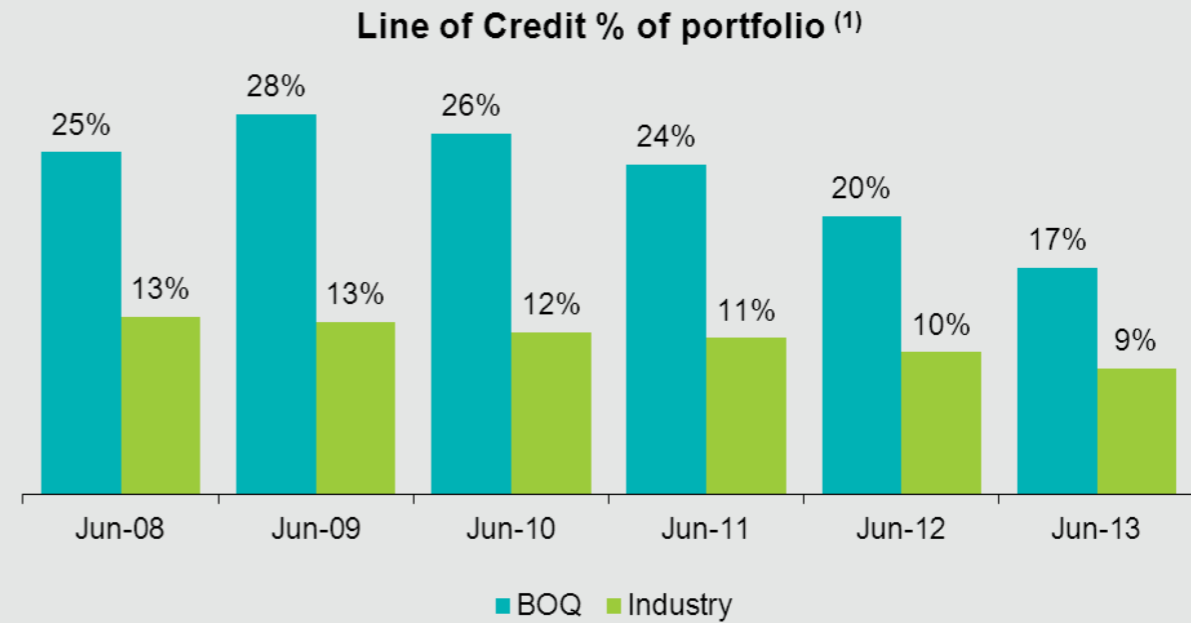
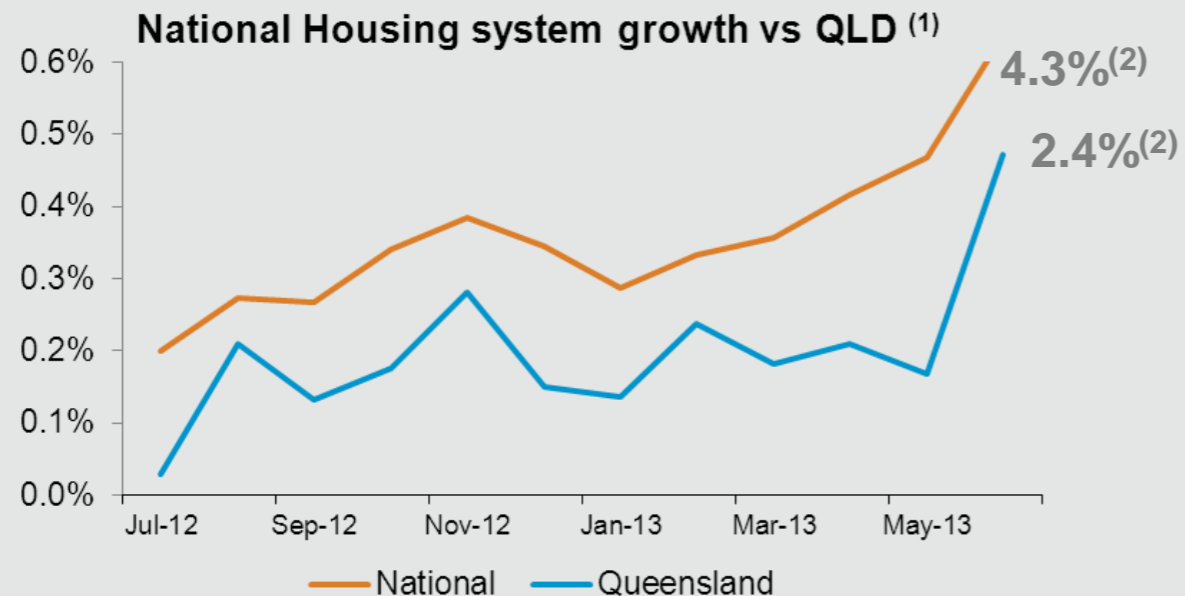
Total loans under management - 2013



(1) Loans under management net of specific provisions.

Retail asset growth: focus on quality

- ▶ New risk framework and appetite implemented; disciplined approach to growth, prioritising credit quality and margin
- ▶ Accelerated run-off of Line of Credit portfolio with adjusted pricing for risk
- ▶ Mortgage broker re-entry commenced April and will take time to reach natural share – roll-out into NSW and VIC in FY14
- ▶ QLD has underperformed national system growth but showing signs of improvement



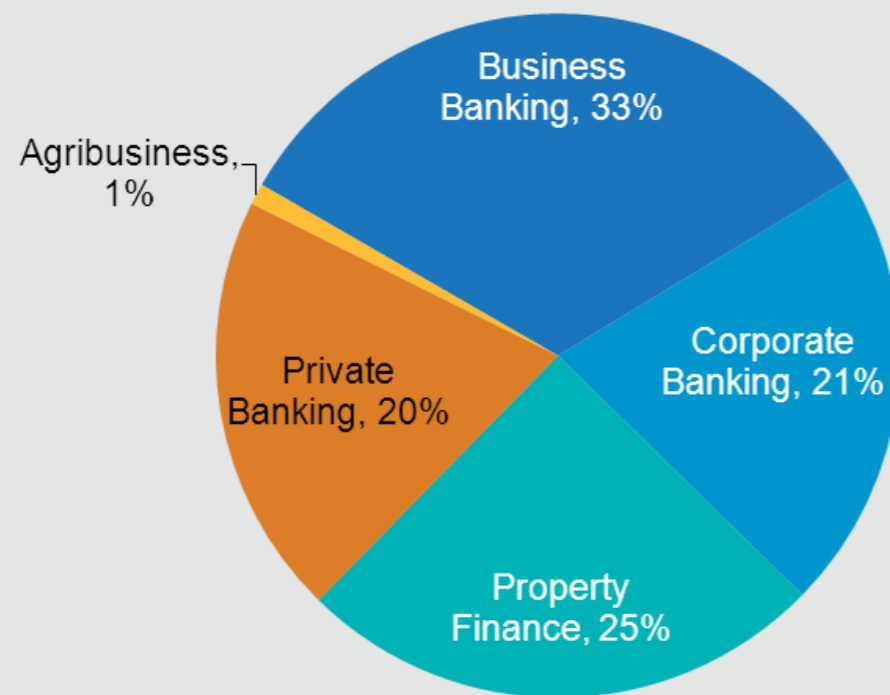
(1) Industry source: Canstar Market Share report
 (2) Average annualised growth

Business & Agri: higher margin, higher return

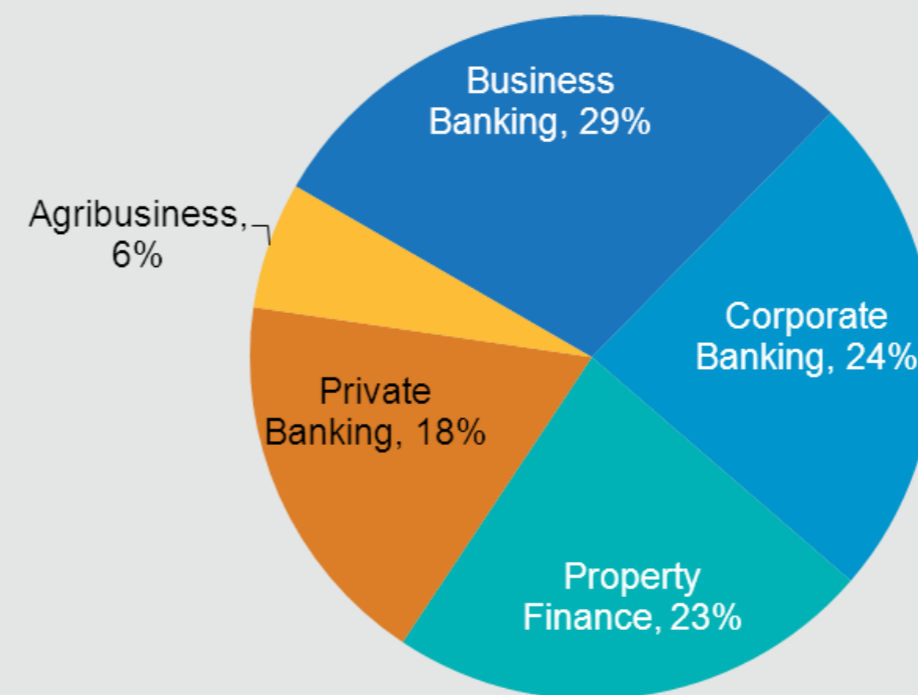
- ▶ Business loans growing well above system after impaired asset run-off – 7.5% or 3.6x system
- ▶ Diversifying by industry sector, asset class and geography – QLD exposure reduced from 97% to 85% since FY12

Business Loan portfolio

August 2012

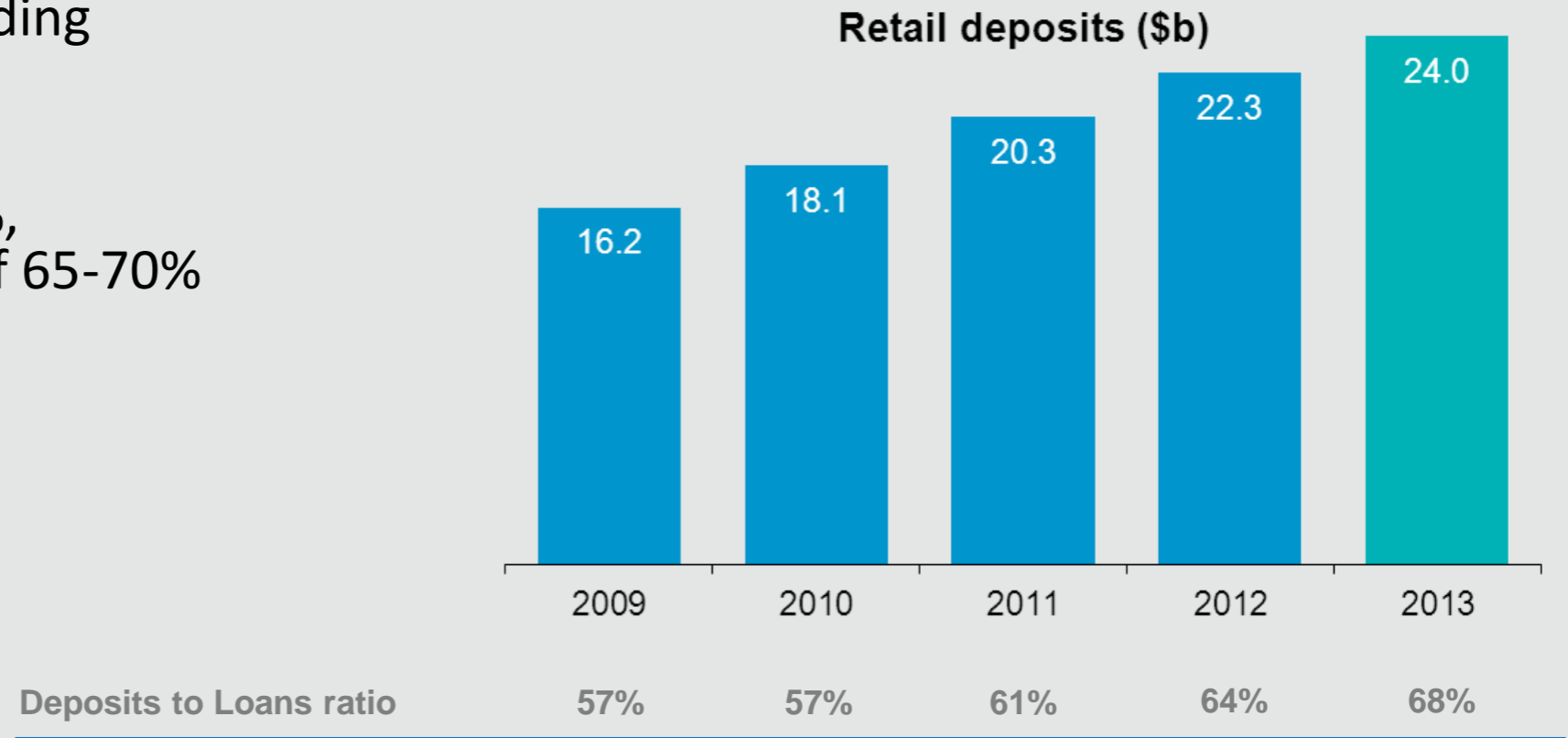


August 2013



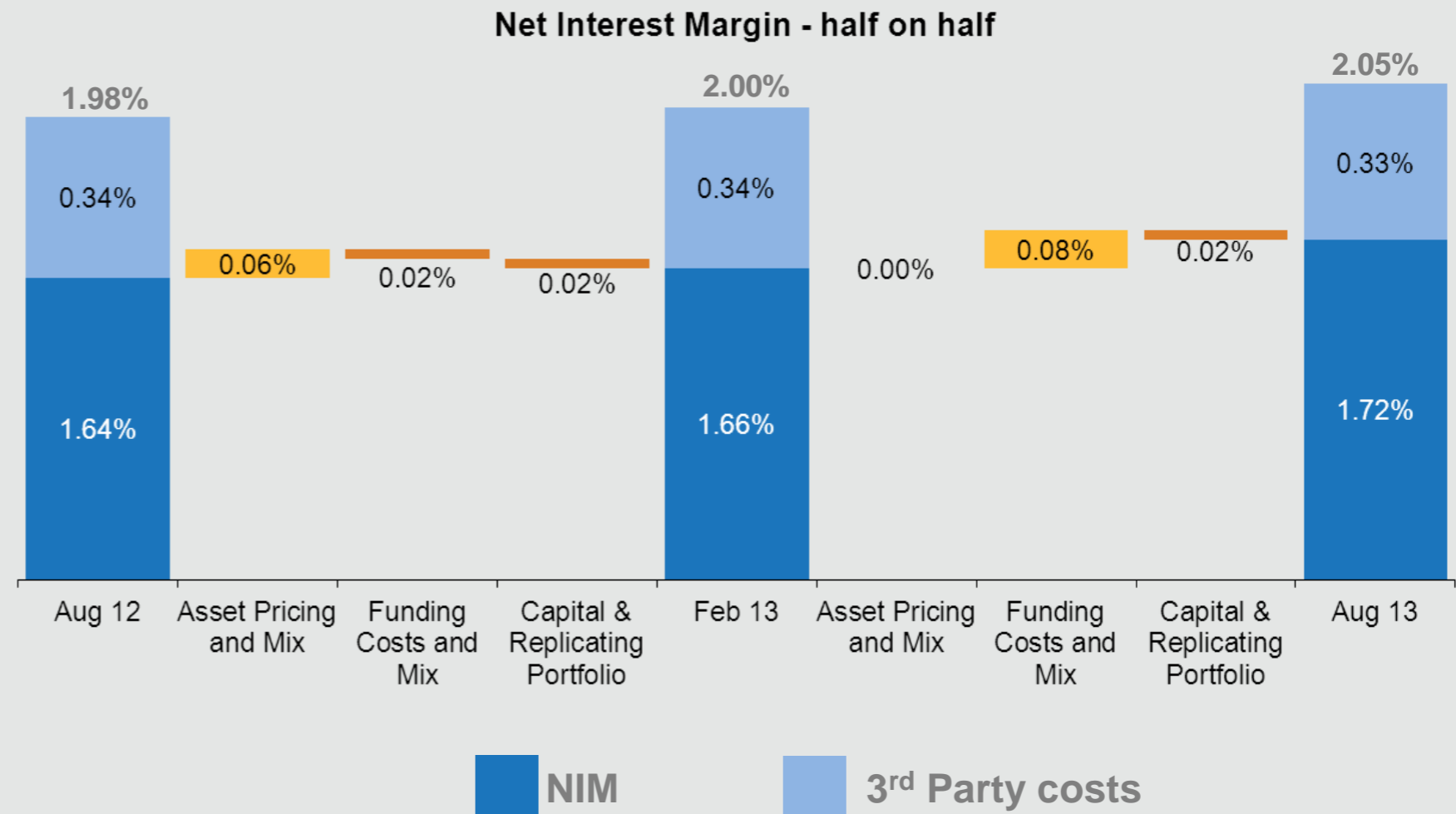
Deposit growth hits target range

- ▶ Growth in retail deposits fully funding growth in lending
- ▶ Deposits to Loan ratio now at 68%, comfortably within target range of 65-70%
- ▶ Well placed for Basel III liquidity requirements



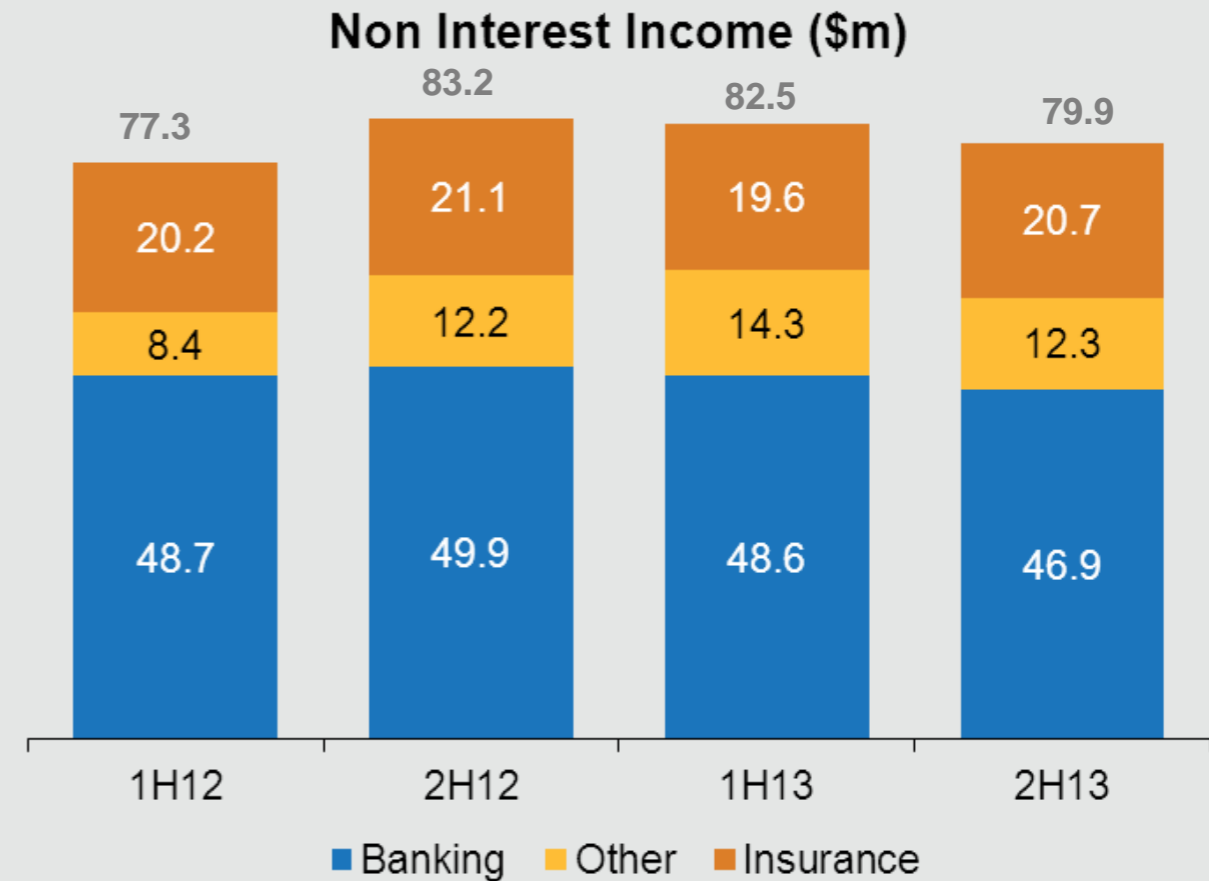
Active margin management

- ▶ Improvement of 6bps on 1H13, benefiting from improved funding costs and mix
- ▶ Deposit pricing managed to reflect lower lending growth
- ▶ CPS impact of 2bps reduction in FY13, ~3% annualised



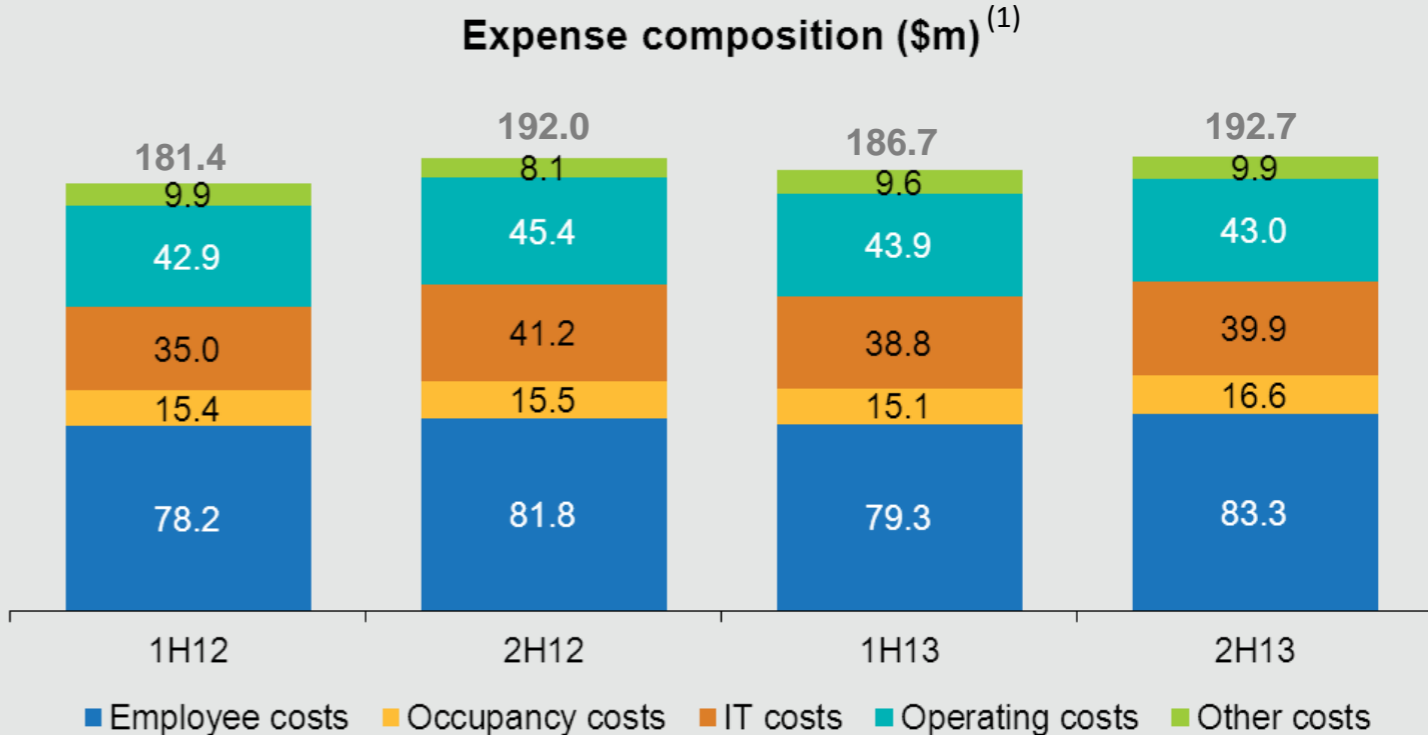
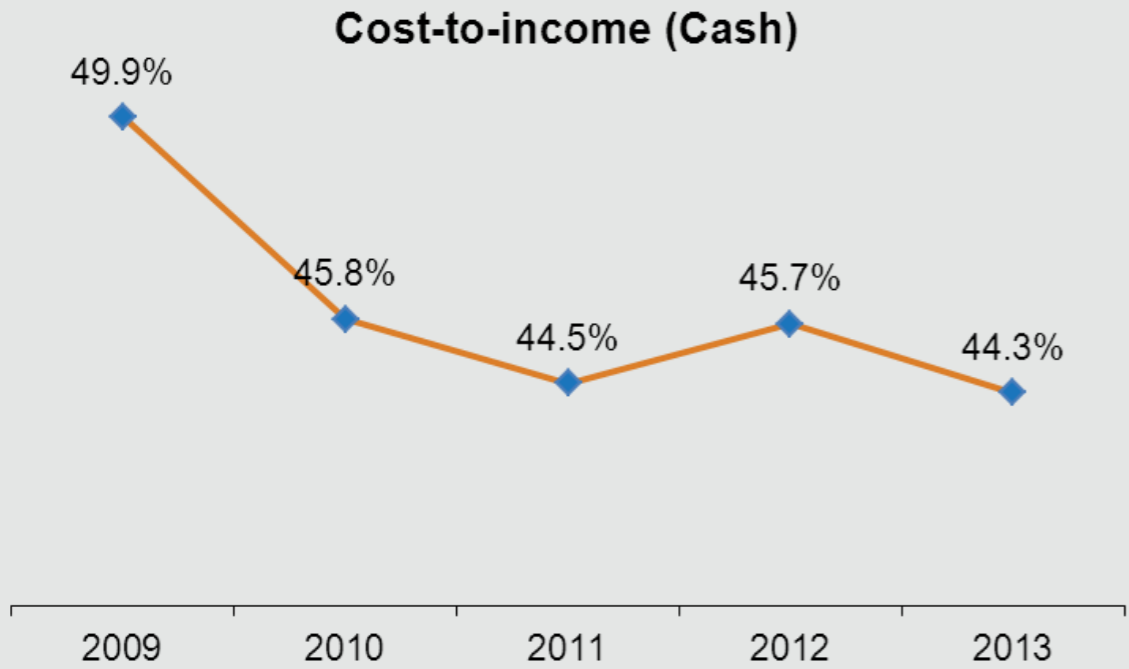
Other income headwinds

- ▶ Continued reduction in banking fee income since 2012
- ▶ Insurance impacted by slower housing credit growth
- ▶ First year of financial markets contribution
- ▶ Virgin Money Australia ahead of expectations



Cost-to-income tightly managed

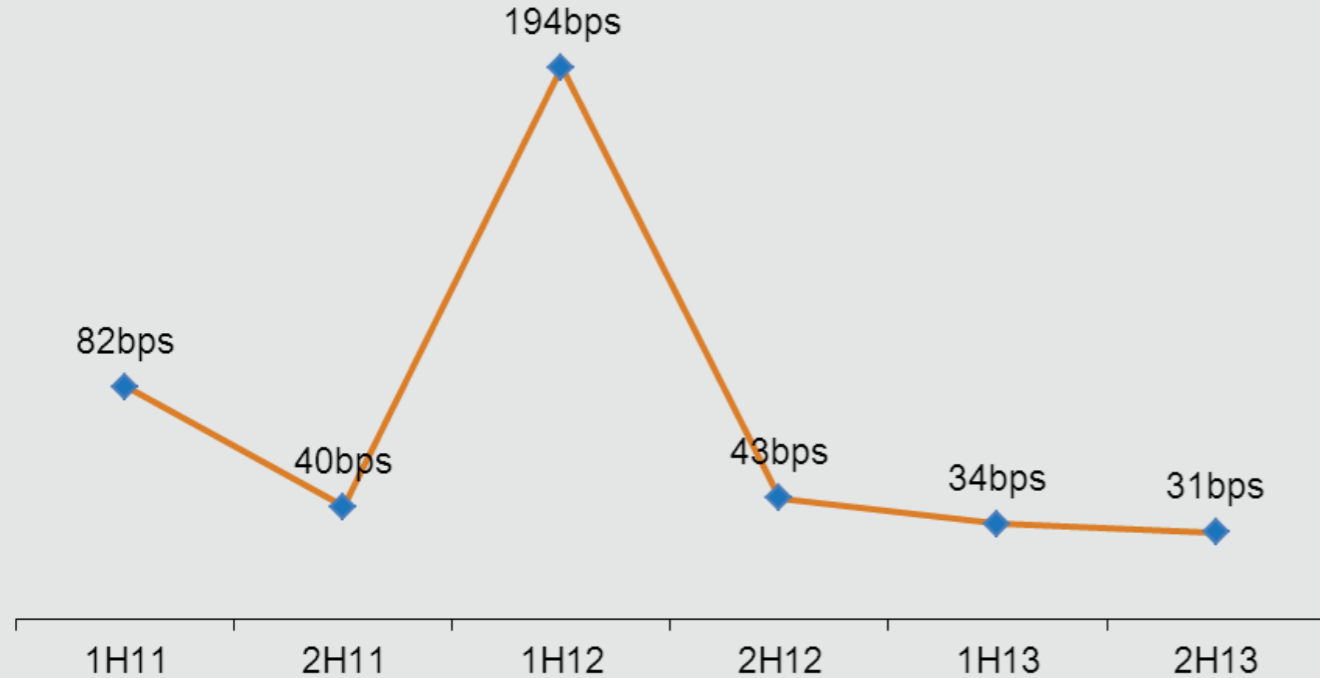
- ▶ Successful implementation of efficiency and effectiveness programs
- ▶ Investment in front line sales capabilities (eg CRM system, Agri) absorbed
- ▶ Marketing costs deferred from 1H to 2H13



(1) Cash earnings basis

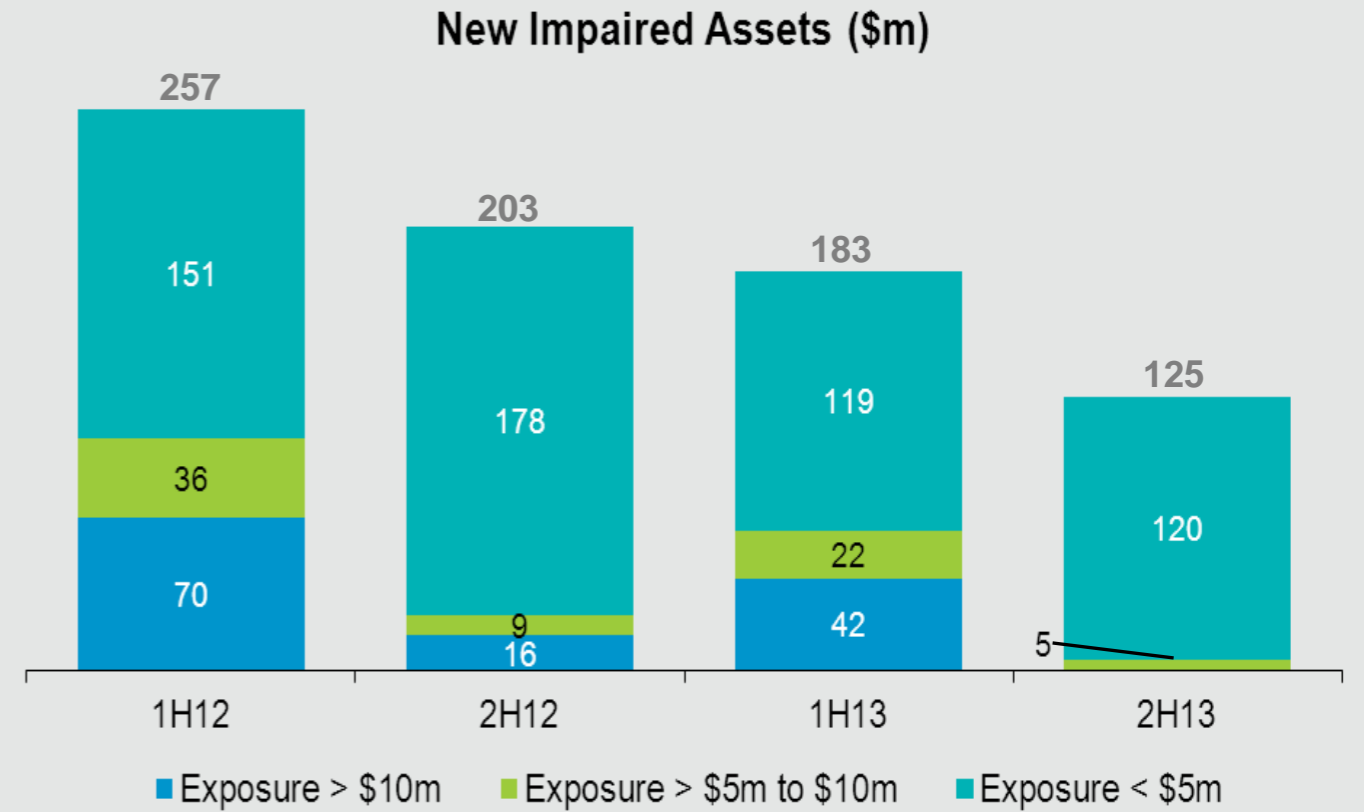
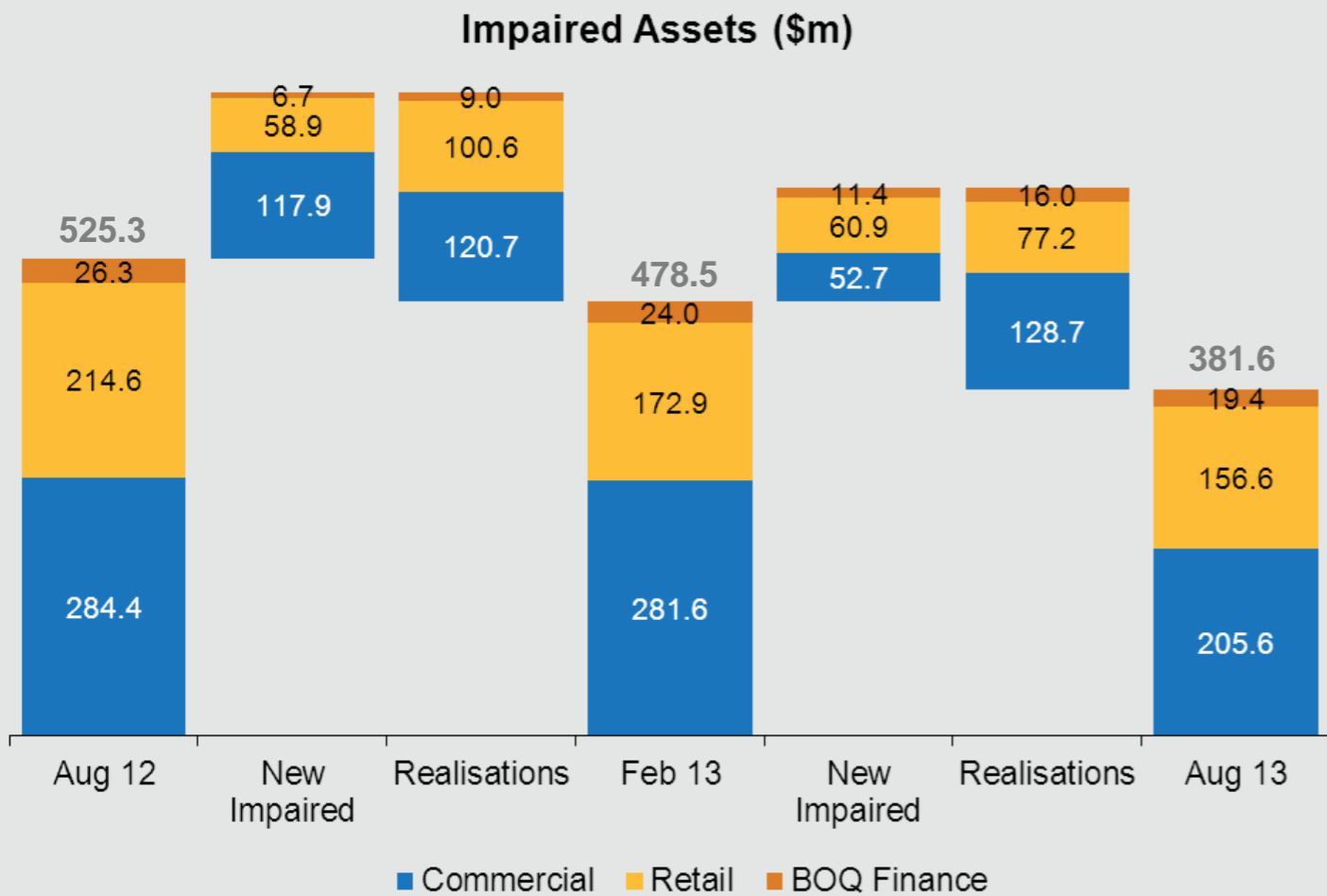
Impairment expense reducing

Annualised impairment charge to gross loans (bps)



- ▶ Impairment charges continue to stabilise following the 1H12 Asset Quality Review
- ▶ New risk appetite, credit policies and management processes continuing to improve the profile
- ▶ On track to achieve FY15 management target of 20bps

Impaired assets continuing to decline



Progress on impaired assets

Top 10 Impaired Assets – Feb-Aug 2013

| Feb-13 Exposure (\$m) | Aug-13 Exposure (\$m) | Comment |
|--------------------------|--------------------------|--|
| 18.1 | - | Property QLD - Assets realised |
| 17.0 | 14.8 | Property Qld - Subject to unconditional contract (settlement Oct-13) |
| 14.9 | - | Property QLD - Assets realised |
| 13.6 | - | Property VIC - Assets realised |
| 11.5 | 8.7 | Leisure Qld – Subject to contract (settlement Nov-13) |
| 8.5 | 3.1 | Property WA |
| 6.4 | 5.1 | Property QLD - Assets realised Sep 13 |
| 5.9 | 4.8 | Property QLD - Subject to marketing campaign |
| 5.8 | 5.2 | Property WA - Under contract (settlement Oct-13) |
| 5.8 | 4.6 | Property QLD - Subject to marketing campaign |
| 107.5 | 46.3 | |

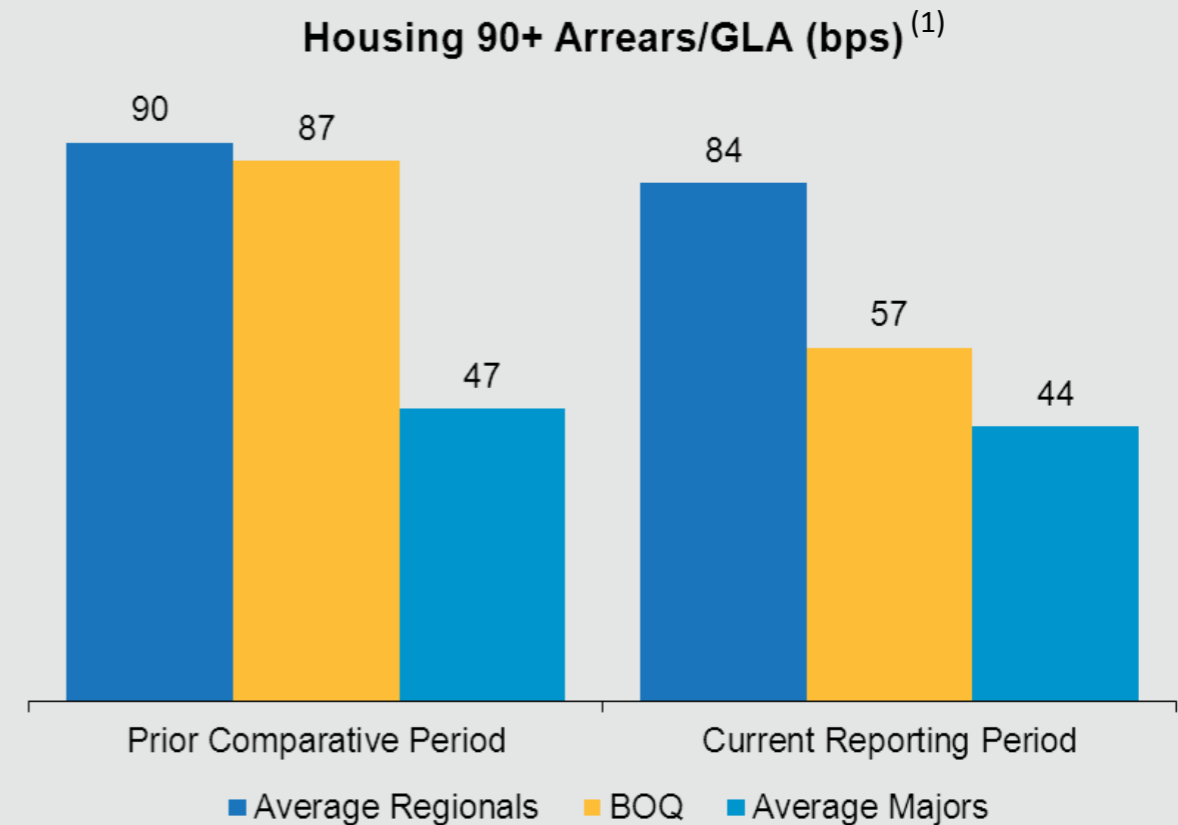
Arrears improving

Retail

- ▶ Housing arrears reduced significantly due to improvement in collections practices and resourcing
- ▶ Improving property markets and lower interest rates assisting

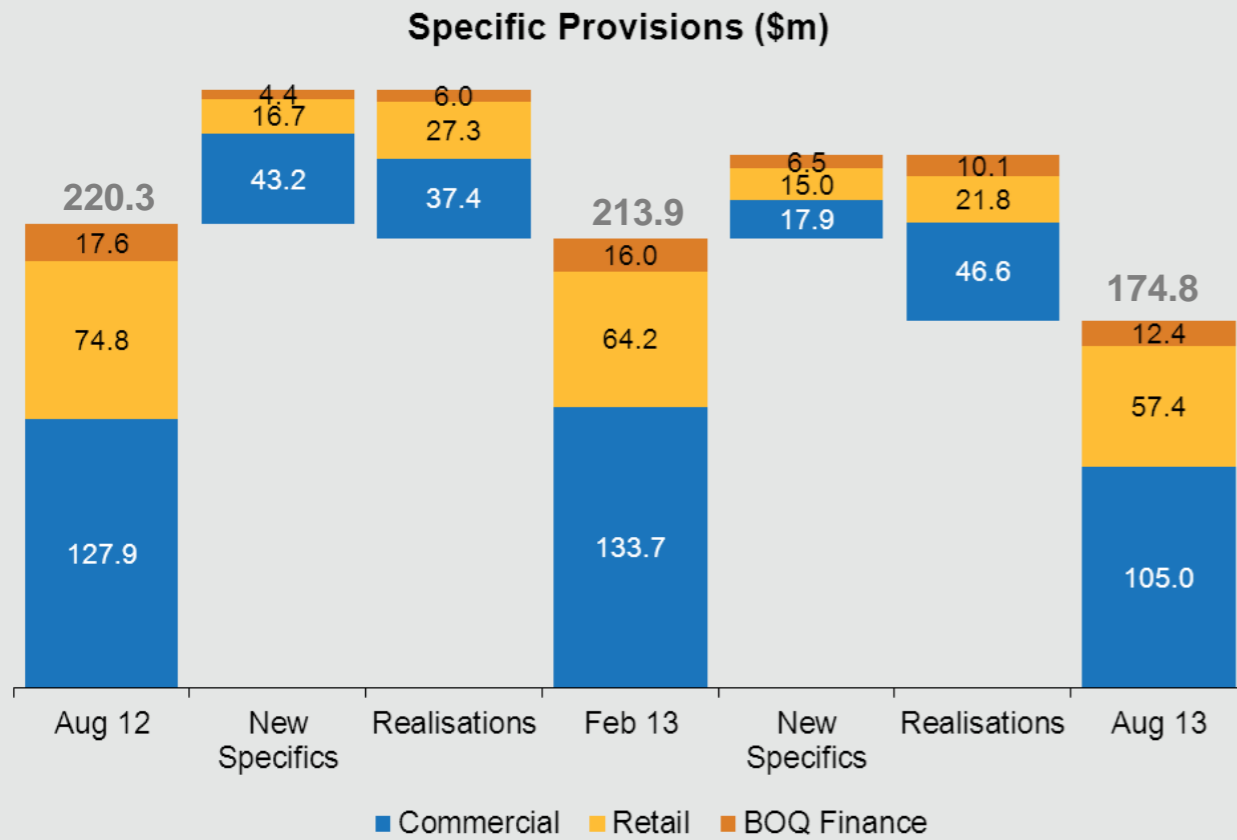
Commercial

- ▶ Commercial arrears improving but remain high
- ▶ Performance continues to be in line with industry trends
- ▶ Early identification and active management of problem accounts

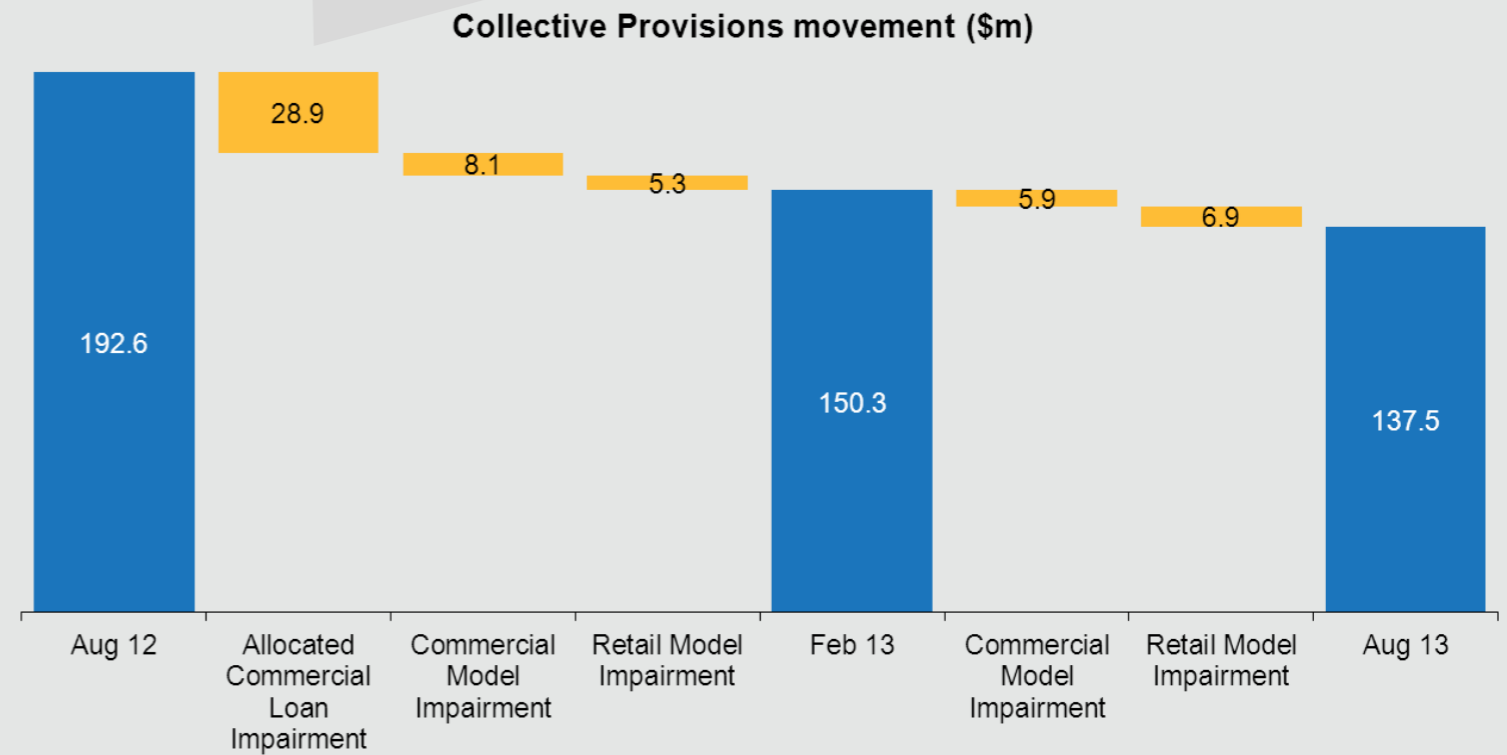


(1) Source: Latest company reports

Provisioning remains strong

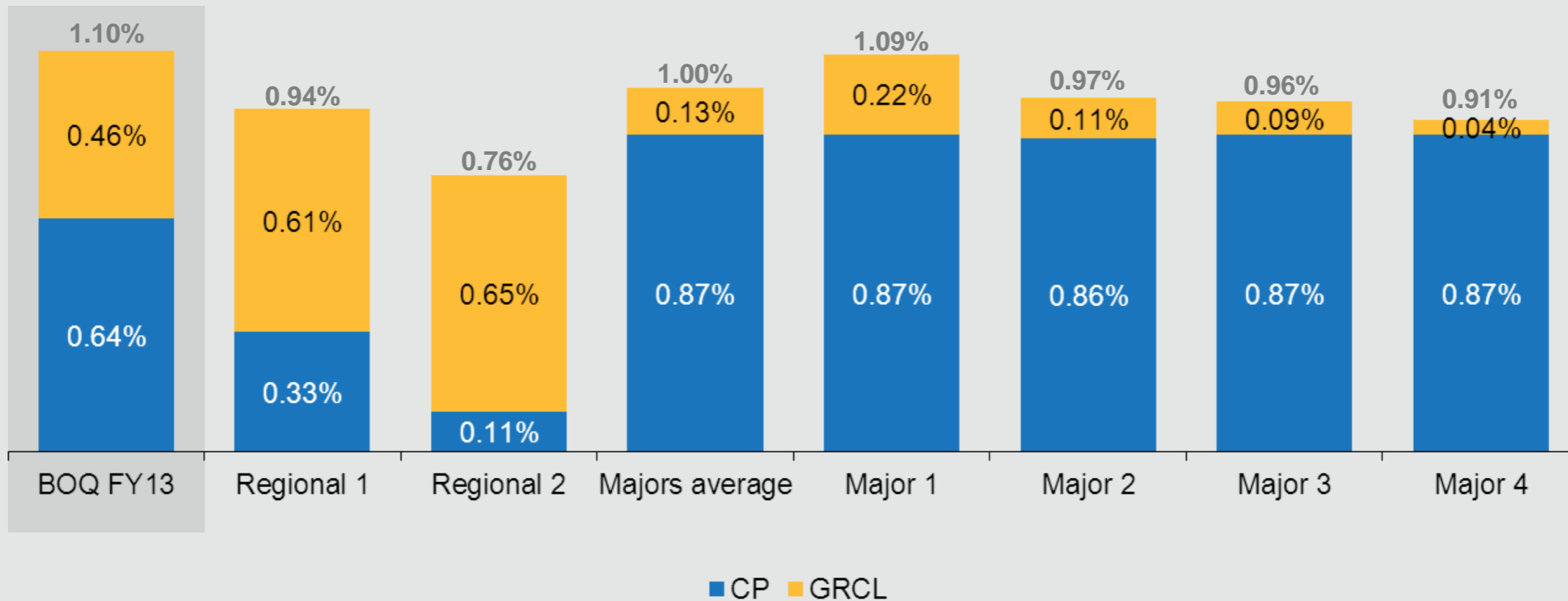


52% of the reduction in the collective provision has been driven by the release of the allocated collective held on accounts identified in the Asset Quality Review that have now been either realised, moved to impaired status or rectified.



Strong provisioning coverage

Collective Provision & General Reserve for Credit Losses⁽¹⁾ / RWA vs Peers

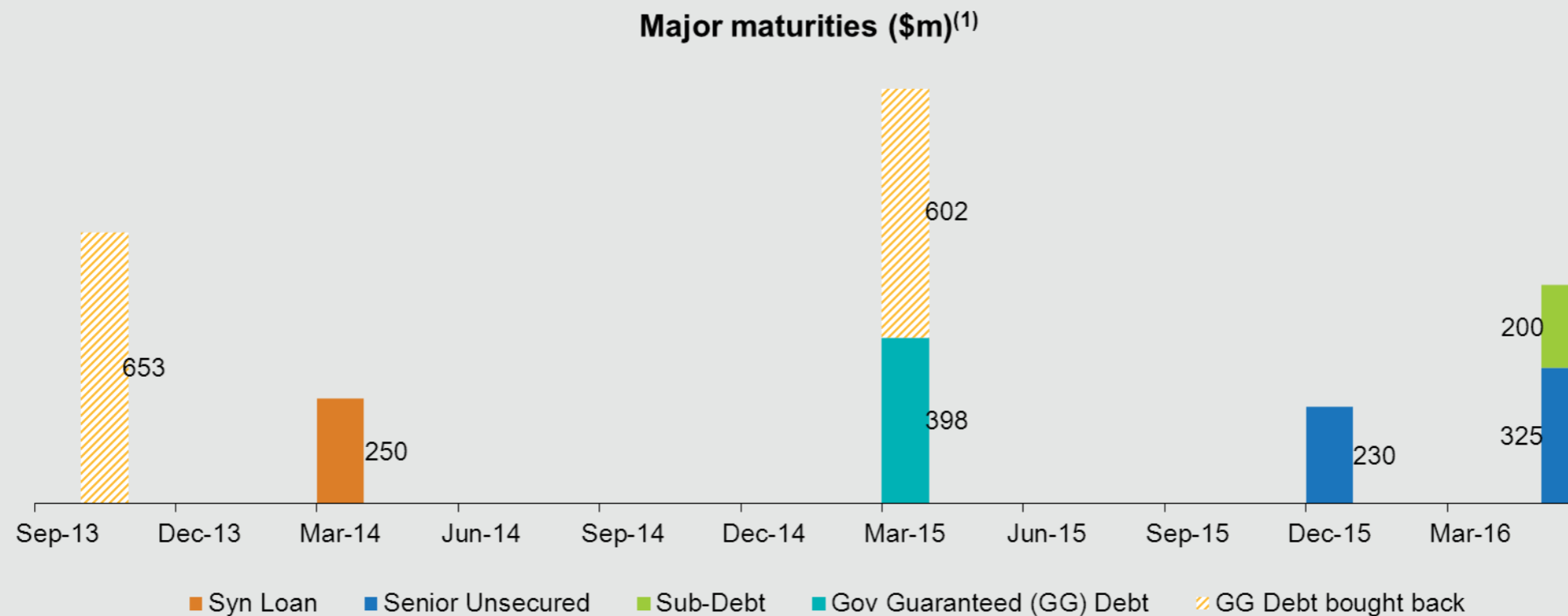


(1) Grossed up for tax effect

Note: Major banks are accredited to run advanced risk weighting models. Comparison between the major and the standardised regional banks is not like for like.

Significant wholesale debt towers eliminated

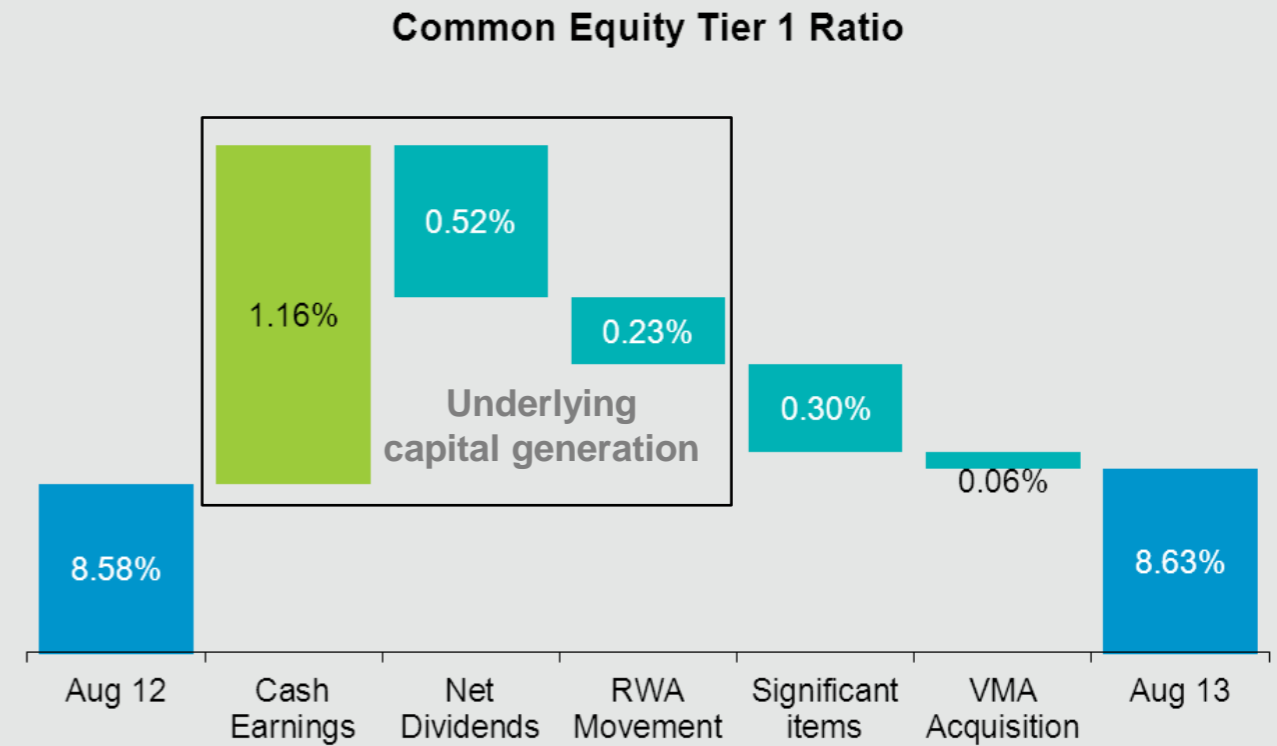
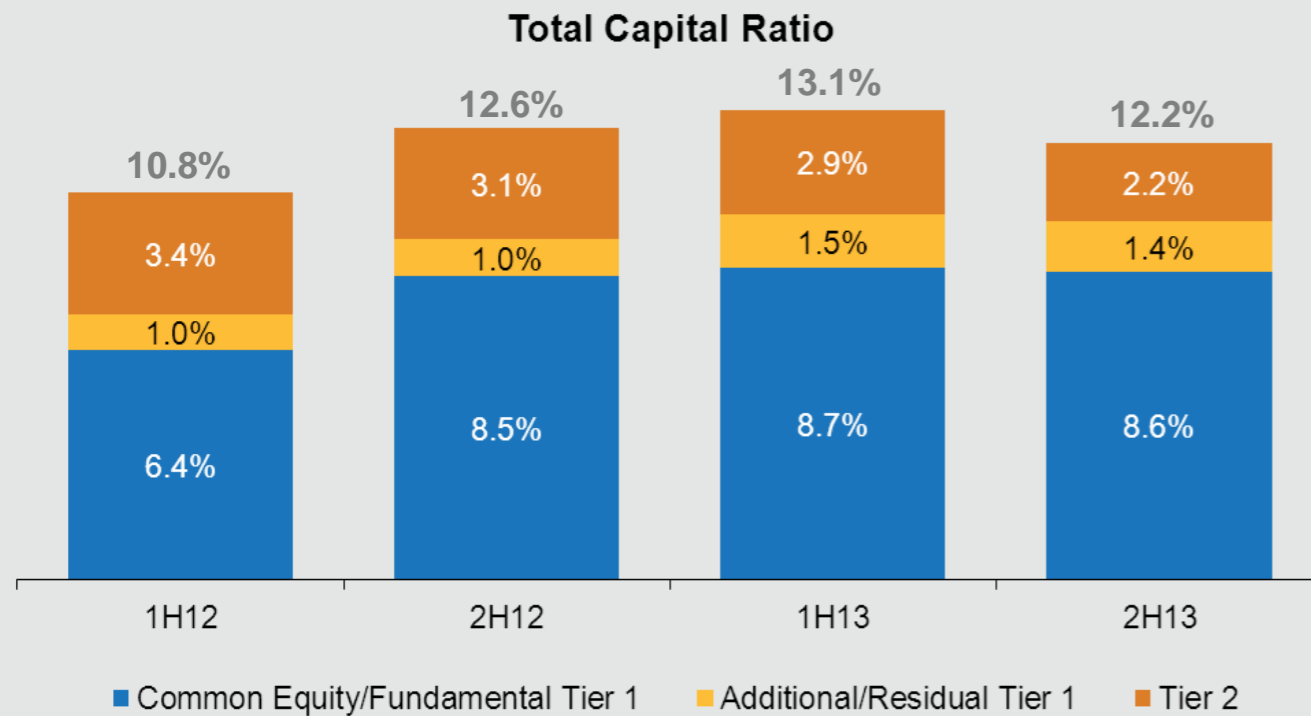
- ▶ Actively managing liability profile with ~\$0.6bn of original \$1bn March 2015 Government Guaranteed deal bought back in 2H13
- ▶ All significant maturity towers established post the GFC now addressed
- ▶ S&P upgrade to A- announced in September 2013 will enable the Bank to further lengthen and develop credit curve



(1) Maturities ≥50m shown

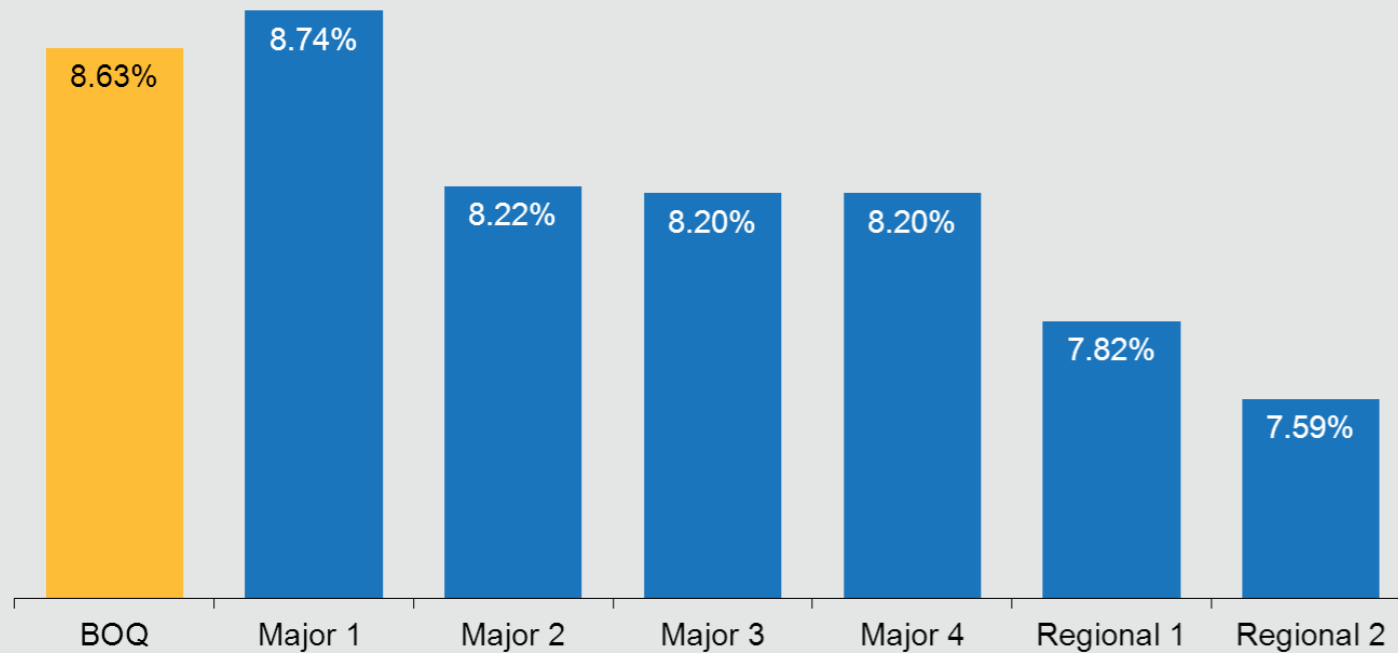
Capital generation momentum

- ▶ Continued capital strength with Total Capital at 12.2% and Common Equity Tier 1 at 8.6%
- ▶ Internal capital generation supporting dividend growth

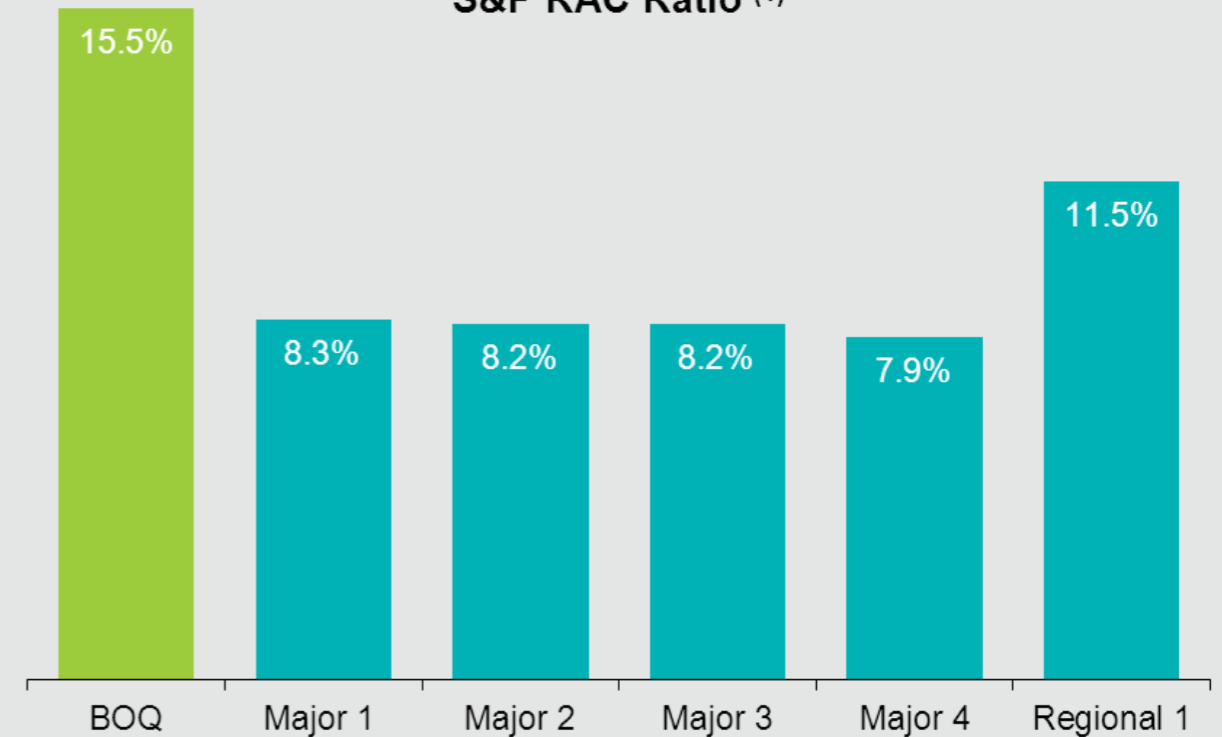


Remain well capitalised vs peers

Common Equity Tier 1 Ratio



S&P RAC Ratio ⁽¹⁾



(1) Source: latest published S&P reports and company reports

Journey to S&P upgrade

- ▶ Foundations established for a new operating model
- ▶ Targeting areas of opportunity to achieve growth
- ▶ Relentless focus on margin and costs



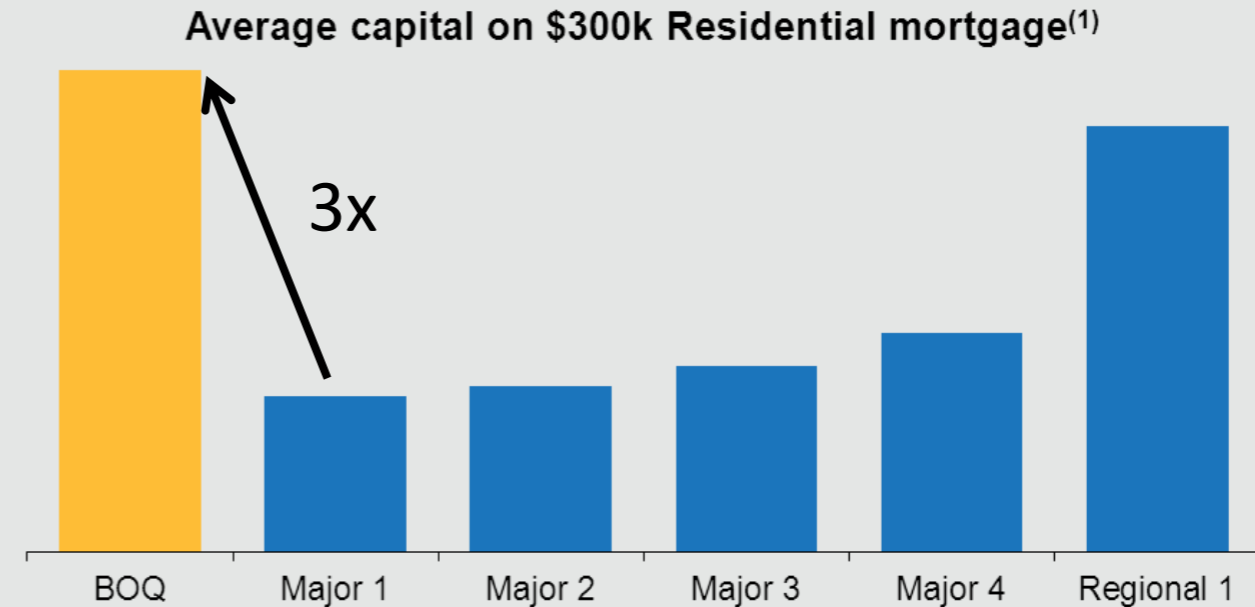
Summary

Stuart Grimshaw

Managing Director and CEO

Levelling the playing field

- ▶ Regulatory system favours Big 4 banks, reducing competition for consumers:
 - ▶ Imbalance exists in residential mortgage risk-weightings, resulting in major banks achieving significantly higher returns than smaller banks
- ▶ Proposed Federal Govt financial system inquiry should seek to address system inequities

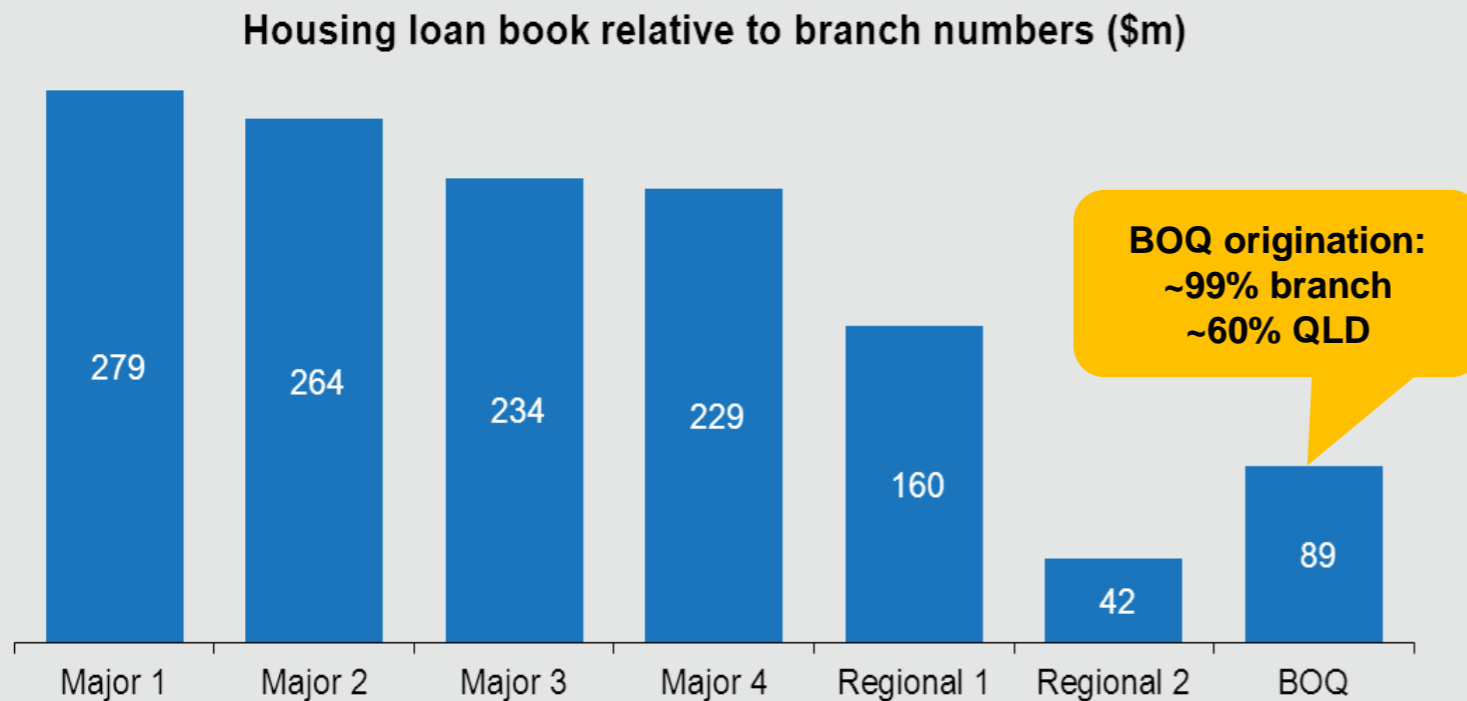


(1) Assumes 8% capital. Based on average risk weights published in Pillar 3 reports

Major banks can earn up to 3x the ROE of BOQ for the same customer

Growth opportunities in Retail

- ▶ Diversifying BOQ's heavy emphasis on a single distribution channel (branch) creates significant opportunity

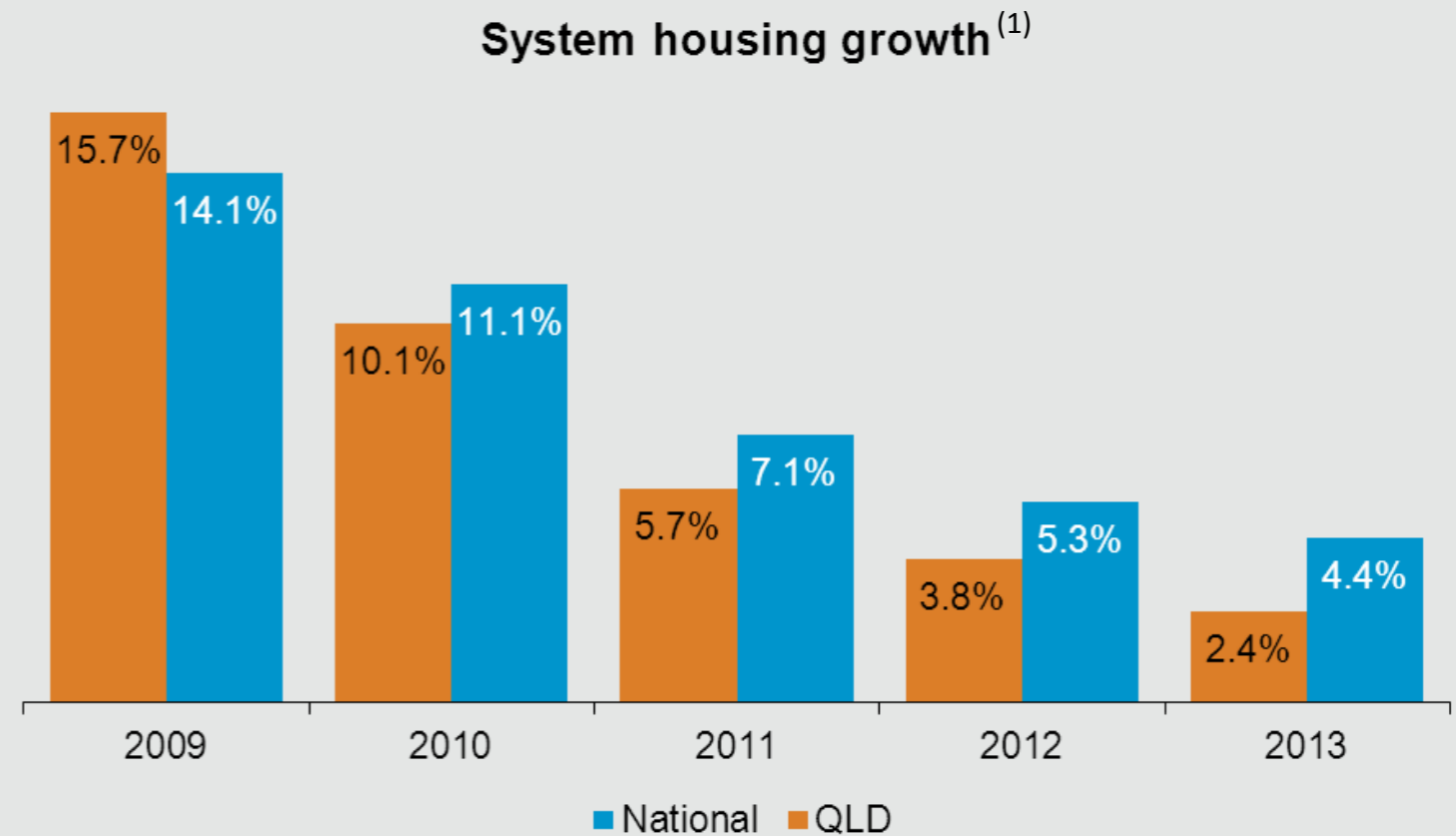


KEY MULTI-CHANNEL DISTRIBUTION OPPORTUNITIES

- OMBs**
 - ▶ Balanced scorecard increases focus on quality and share of wallet
 - ▶ Tighter operating model and improved franchise capability
- Corporate**
 - ▶ Increased sales productivity and effectiveness
 - ▶ More strategic branch placement & format
 - ▶ New focused management structure
 - ▶ Strategy for mobile banking pilot formulated
- Broker**
 - ▶ WA pilot has been expanded to NSW with over 200 brokers in total now accredited
 - ▶ Lower fixed cost, geographic diversification
- Digital**
 - ▶ Refreshed digital assets launched in 2H
 - ▶ Improved online sales capability & focus driving new origination
 - ▶ Virgin Money acquisition provides online brand and platform to grow

Other upside opportunities

- ▶ Business Banking – plans for 2 regional commercial centres in VIC and one in WA as well as further investment in 7 existing hubs in QLD & NSW
- ▶ Product simplification such as recent launch of Clear Path home loan
- ▶ Further cost and productivity initiatives including digitisation, property & procurement
- ▶ QLD housing market showing signs of recovery



(1) Industry source: Canstar Market Share report

Summary and outlook

1

Record cash earnings of \$250.9m

2

Strong year of execution with disciplined approach to growth, margin, risk management and costs

3

Improved returns to shareholders with an increase in full year dividend from 52 to 58 cents and a lower risk, lower volatility platform established

4

Still unrealised growth potential in Retail distribution, Business Banking expansion and internal productivity and efficiency gains

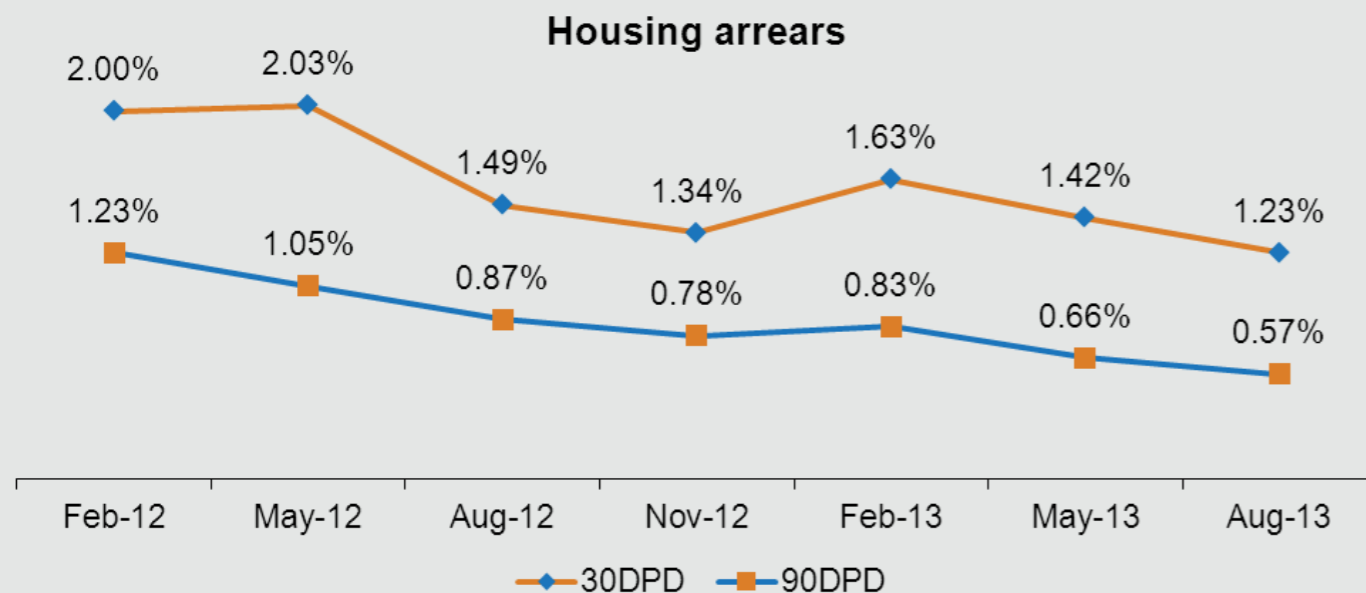
5

On track to meet key management targets for FY15

Appendices

Additional information

Housing arrears



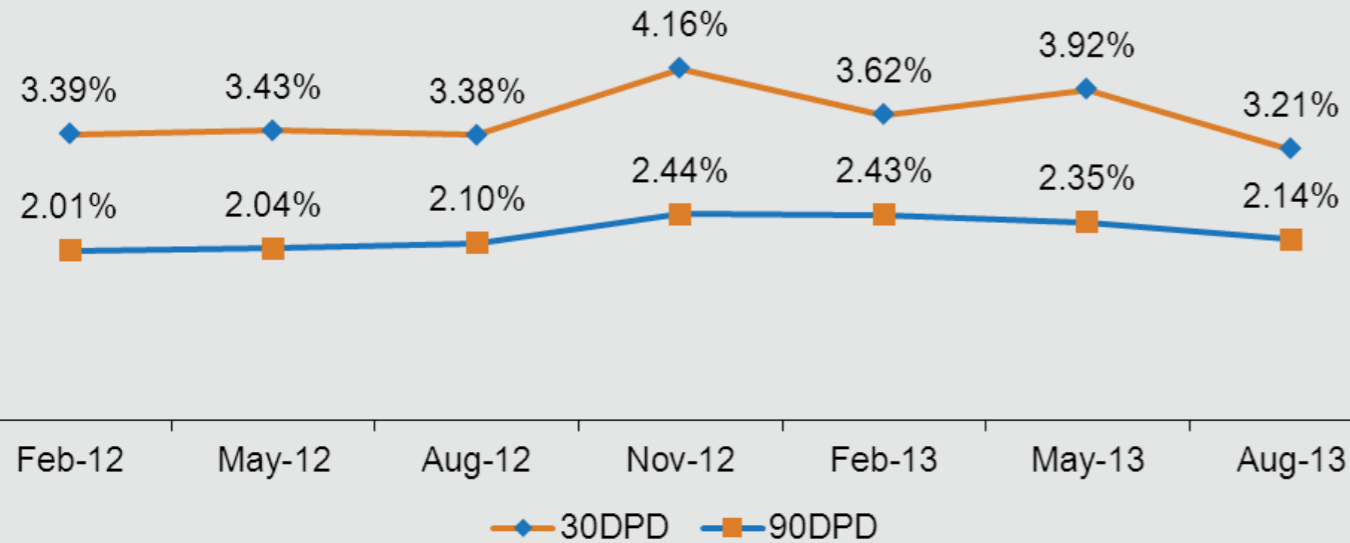
Portfolio metrics

| | FY13 | FY12 |
|-----------------------------|-------|-------|
| Portfolio size (\$b) | 26.1 | 25.4 |
| Impaired (\$m) | 155.6 | 213.6 |
| Impaired % | 0.60% | 0.84% |
| BDD expense (\$m) | 31.6 | 125.1 |
| BDD / GLA (bps) | 12 | 49 |
| Specific provisions (\$m) | 56.7 | 73.9 |
| Collective provisions (\$m) | 29.9 | 40.1 |
| Total Provision (\$m) | 86.6 | 114.0 |
| Total provision coverage | 56% | 53% |

Note: There has been a change in the treatment of hardship accounts that was introduced in January this year as APRA sought to standardise industry practises on arrears reporting. Hardship accounts are now reported in arrears balances.

Commercial arrears

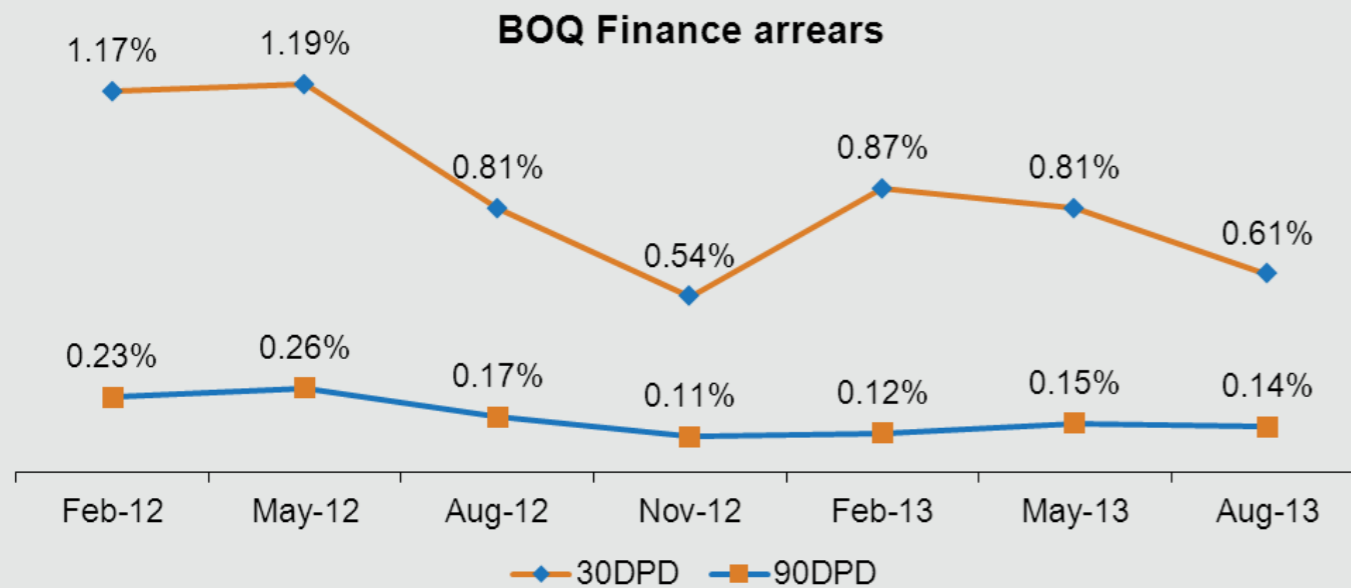
Commercial arrears



Portfolio metrics

| | FY13 | FY12 |
|-----------------------------|-------|-------|
| Portfolio size (\$b) | 5.3 | 5.2 |
| Impaired (\$m) | 205.6 | 284.4 |
| Impaired % | 3.88% | 5.47% |
| BDD expense (\$m) | 52.0 | 236.9 |
| BDD / GLA (bps) | 98 | 456 |
| Specific provisions (\$m) | 105.0 | 127.9 |
| Collective provisions (\$m) | 79.9 | 121.2 |
| Total provision (\$m) | 184.9 | 249.1 |
| Total provision coverage | 90% | 88% |

BOQ Finance arrears



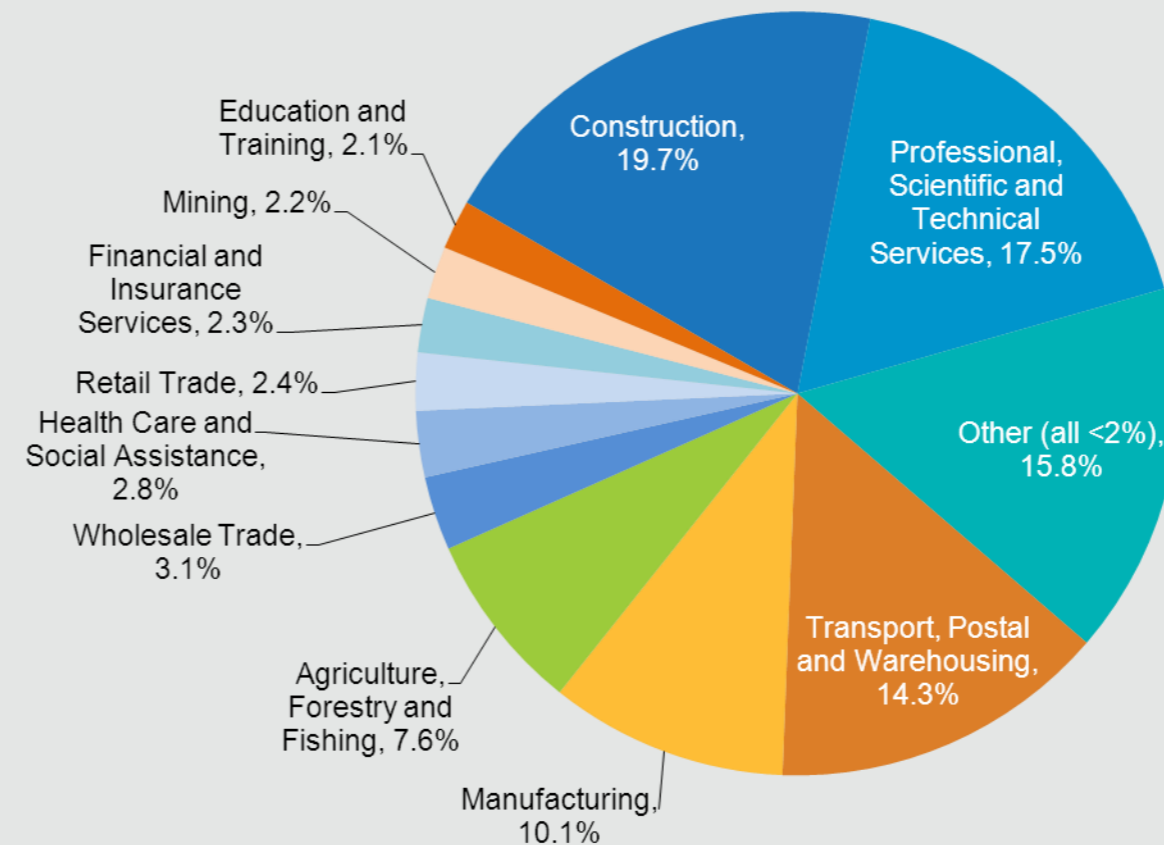
Portfolio metrics

| | FY13 | FY12 |
|-----------------------------|-------|-------|
| Portfolio size (\$b) | 3.7 | 3.7 |
| Impaired (\$m) | 19.4 | 26.3 |
| Impaired % | 0.52% | 0.71% |
| BDD expense (\$m) | 26.5 | 35.2 |
| BDD / GLA (bps) | 72 | 95 |
| Specific provisions (\$m) | 12.4 | 17.6 |
| Collective provisions (\$m) | 25.3 | 26.9 |
| Total provision (\$m) | 37.7 | 44.5 |
| Total provision coverage | 194% | 169% |

BOQ Finance security & risk profile

- ▶ Minimal direct exposure to mining
- ▶ Security primarily cars, construction equipment, trucks and other transport

BOQ Finance Customers by Industry



Important notices

Financial amounts

All dollar values are in Australian dollars (A\$) and financial data is presented as at the date stated. Pro-forma financial information and past information provided in this Presentation is for illustrative purposes only and is not represented as being indicative of BOQ's views on its future financial condition and/or performance. Past performance, including past trading or share price performance, of BOQ cannot be relied upon as an indicator of (and provides no guidance as to) future BOQ performance including future trading or share price performance.

Future performance

This Presentation contains certain "forward looking statements". Forward looking statements can generally be identified by the use of forward looking words such as "anticipate", "believe", "expect", "project", "forecast", "estimate", "likely", "intend", "should", "will", "could", "may", "target", "plan" and other similar expressions within the meaning of securities laws of applicable jurisdictions. The forward looking statements contained in this Presentation involve known and unknown risks and uncertainties and other factors, many of which are beyond the control of BOQ, and may involve significant elements of subjective judgement as to future events which may or may not be correct.

There can be no assurance that actual outcomes will not differ materially from these forward-looking statements.

Financial performance

In assessing financial performance, BOQ discloses the net profit (loss) after tax on both a 'Statutory basis' and a 'Cash Earnings basis'. The Statutory basis is prepared in accordance with the Corporations Act 2001 and the Australian Accounting Standards, which comply with International Financial Reporting Standards (IFRS). The Cash Earnings basis is used by Management to present a clear view of BOQ's underlying operating results. This excludes a number of items that introduce volatility and/or one off distortions of BOQ's current period performance, and allows for a more effective comparison of BOQ's performance across reporting periods and against peers. These items, such as amortisation of intangibles from acquisitions, and accounting for economic hedges, are calculated consistently year on year and do not discriminate between positive and negative adjustments. BOQ also uses the measure of 'Underlying Profit', which represents the profit before loan impairment expense and tax, to provide users with a view on the underlying growth rate of the business. Further details of items excluded from statutory profit are provided in the reconciliation of the net profit after tax ("Cash Earnings basis") in this Presentation.

Non statutory financial disclosures are not audited.



IT'S POSSIBLE to
LOVE A BANK



BOQ