

2015 RESULTS PRESENTATION

FOR THE FULL YEAR ENDED 31 AUGUST 2015

8 OCTOBER 2015



RESULT OVERVIEW

JON SUTTON
Managing Director & CEO

FINANCIAL OVERVIEW

ANTHONY ROSE
Chief Financial Officer

OUTLOOK & SUMMARY

JON SUTTON
Managing Director & CEO

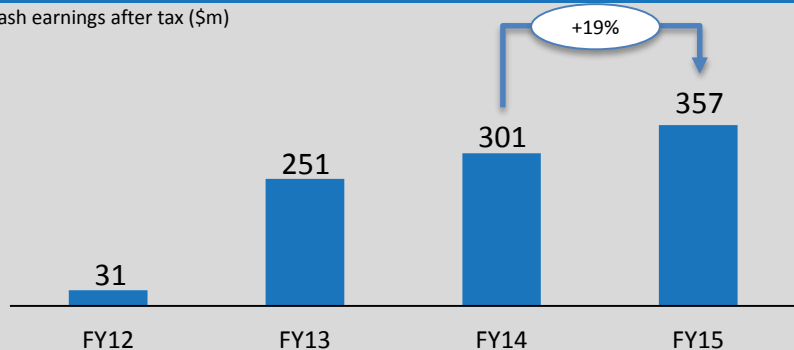
- 1 Record result in challenging market
- 2 Strong performance relative to peers
- 3 Returning to growth with further upside potential
- 4 BOQ Specialist delivering above expectations
- 5 Positioning for sustainable growth

RECORD RESULT DELIVERED IN FY15



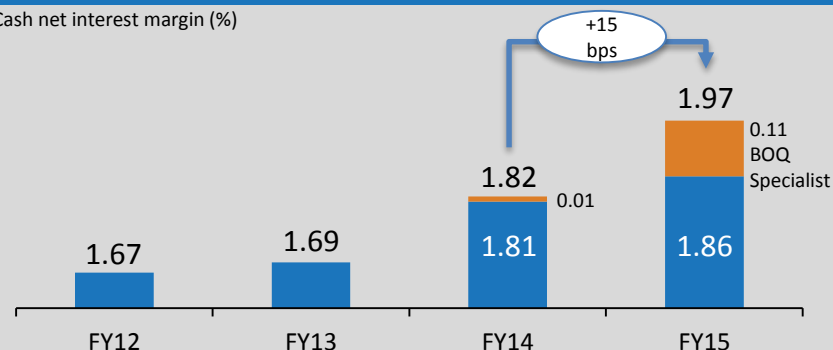
Record cash earnings

Cash earnings after tax (\$m)



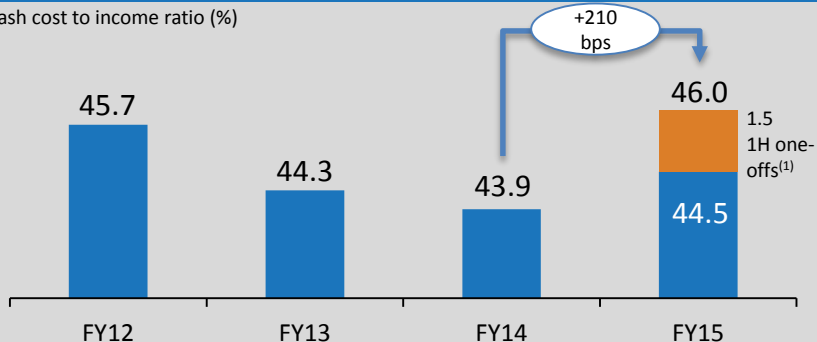
Underpinned by strong margin management ...

Cash net interest margin (%)



... focus on cost management ...

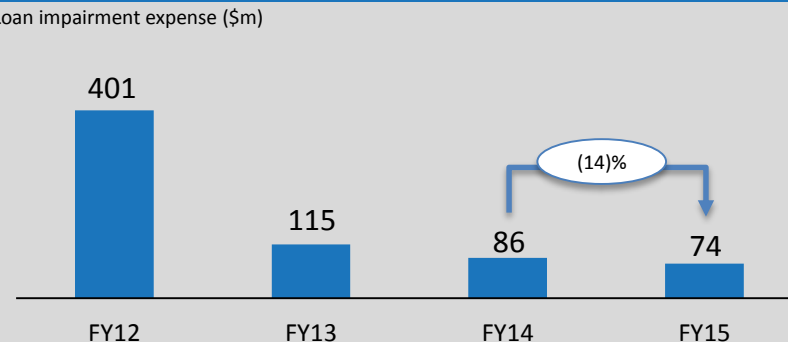
Cash cost to income ratio (%)



(1) Includes \$10m CRM impairment and \$6m property expenses

... and improved asset quality

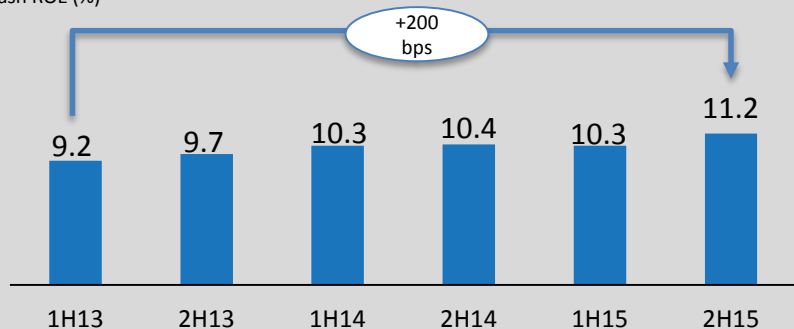
Loan impairment expense (\$m)



CONTINUED MOMENTUM IN KEY METRICS

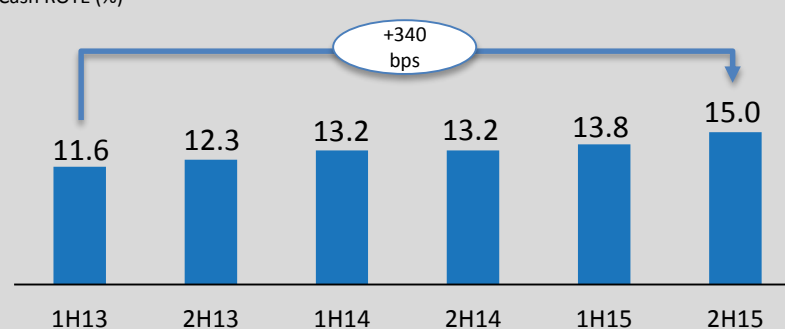
Cash ROE over 11% in H2

Cash ROE (%)



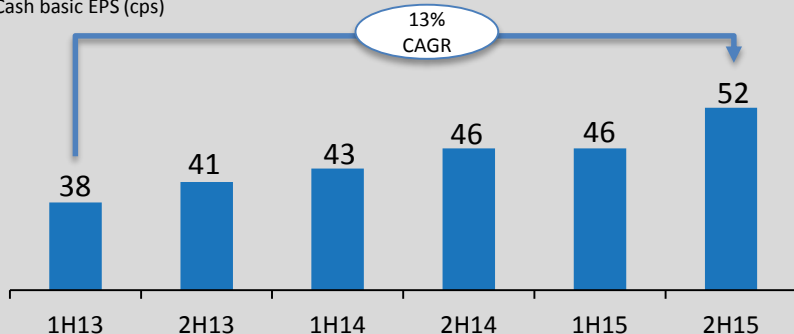
Cash ROTE at 15% in 2H

Cash ROTE (%)



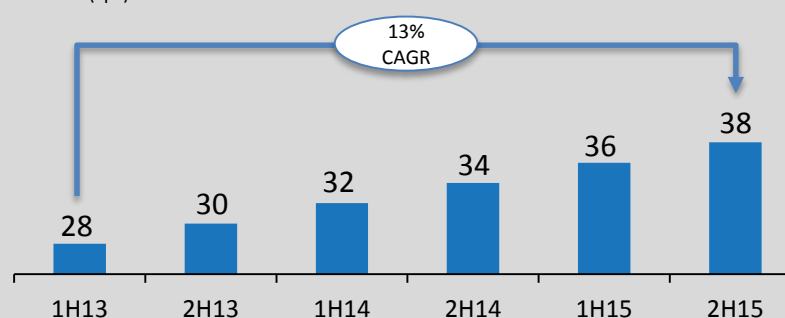
Strong EPS growth

Cash basic EPS (cps)

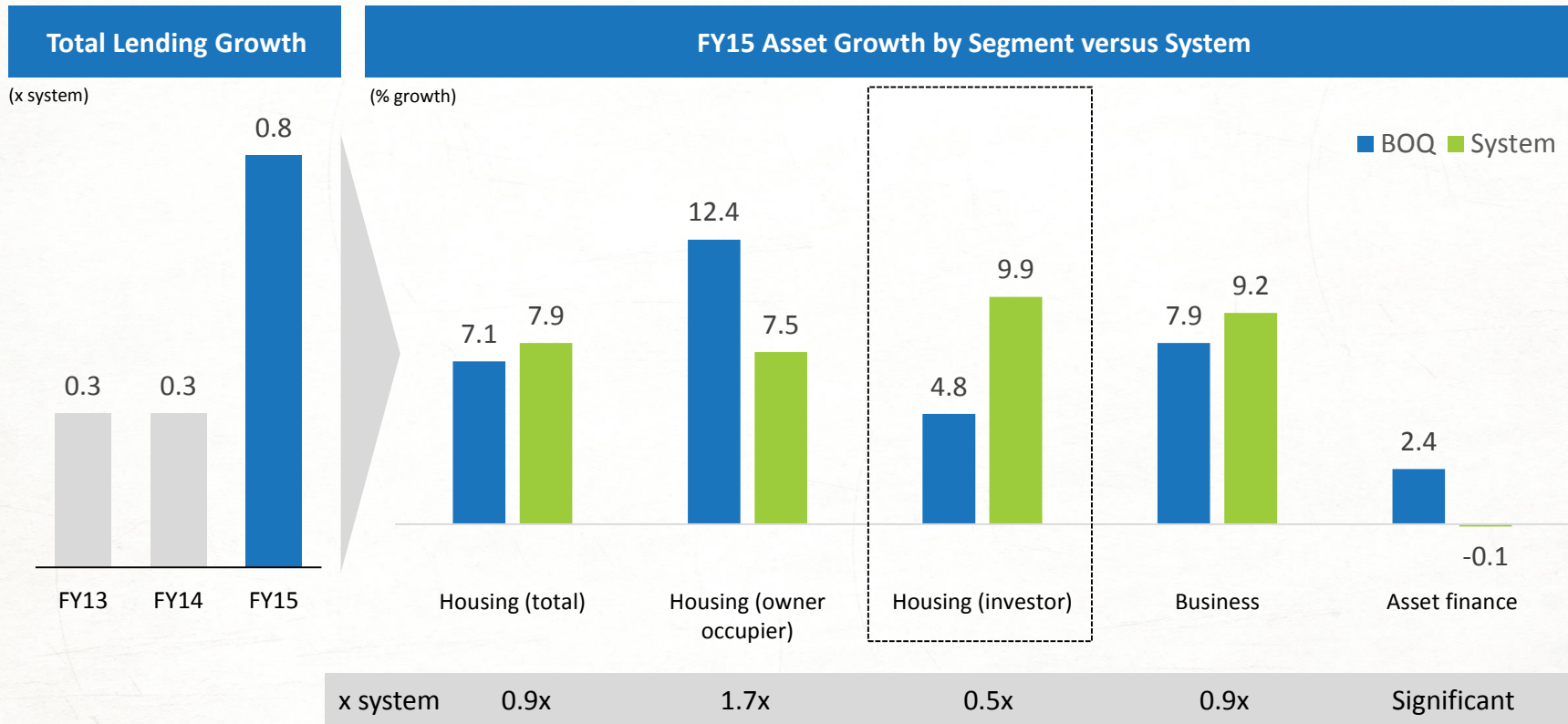


Record dividend

Dividends (cps)



RETURNING TO GROWTH WITH FURTHER UPSIDE POTENTIAL



- \$43m Cash earnings ahead of \$38m guidance
- Loan growth momentum maintained
- On-balance sheet mortgages ahead of target
- Well ahead of FY15 EPS accretion guidance of 2%
- High calibre CEO appointed

Key commercial loan book metrics disclosed at acquisition

	Announcement guidance	FY15 performance
Lending growth	11-13%	14%
Asset Spread	4.70%	Slightly above
BDD/GLA	Mid 20s	In line

Mortgage originations (\$b)

	1H14	2H14	1H15	2H15
On Balance Sheet	-	-	0.4	1.0
Third Party	0.6	0.7	0.4	0.1
Total	0.6	0.7	0.8	1.1

FINANCIAL OVERVIEW

ANTHONY ROSE
Chief Financial Officer



SOLID FINANCIAL PERFORMANCE

- Cash earnings growth driven by better quality business - higher NIM and lower impairments
- Solid momentum with 7.5% annualised earnings growth rate from 1H15 to 2H15

	1H15	2H15	2H15 v 1H15	FY15 Group	FY15 v FY14	FY15 v FY14 ex-BOQ Specialist
Net interest income	\$448m	\$459m	2% ▲	\$907m	19% ▲	3% ▲
Non interest income	\$84m	\$96m	14% ▲	\$180m	7% ▲	0%
Total income	\$532m	\$555m	4% ▲	\$1,087m	17% ▲	3% ▲
Operating expenses	(\$256m)	(\$244m)	(5%) ▼	(\$500m)	23% ▼	6% ▼
Underlying profit	\$276m	\$311m	13% ▲	\$587m	12% ▲	0%
Loan impairment expense	(\$36m)	(\$38m)	6% ▼	(\$74m)	(14%) ▼	(23%) ▼
Profit before tax	\$240m	\$273m	14% ▲	\$513m	18% ▲	5% ▲
Income tax expense	(\$73m)	(\$83m)	14% ▼	(\$156m)	16% ▼	3% ▼
Cash earnings after tax	\$167m	\$190m	14% ▲	\$357m	19% ▲	5% ▲

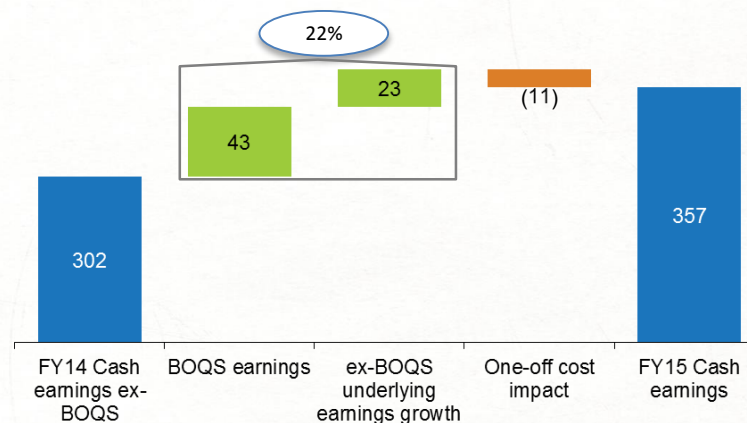
BOQ SPECIALIST ACQUISITION HAS DELIVERED SIGNIFICANT VALUE

- Integration completed and FY15 EPS accretion target of 2% exceeded
- 2H15 Cash earnings increase of 26%

BOQ Specialist Income Statement

	FY15
Net interest income	\$129m
Non interest income	\$12m
Total income	\$141m
Operating expenses	(\$71m)
Underlying profit	\$70m
Loan impairment expense	(\$8m)
Profit before tax	\$62m
Income tax expense	(\$19m)
Cash earnings after tax	\$43m

Group earnings growth ex-one off costs (\$m)⁽¹⁾



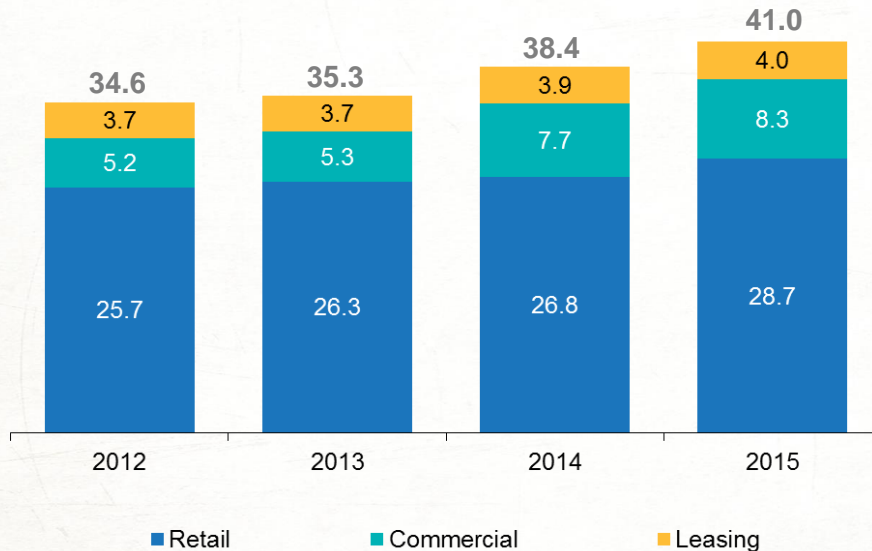
BOQ Specialist has delivered 14% cash earnings growth to the Group in FY15 for 10% share capital issuance

(1) FY14 Cash earnings adjusted for one-off 2H14 costs of \$6m.

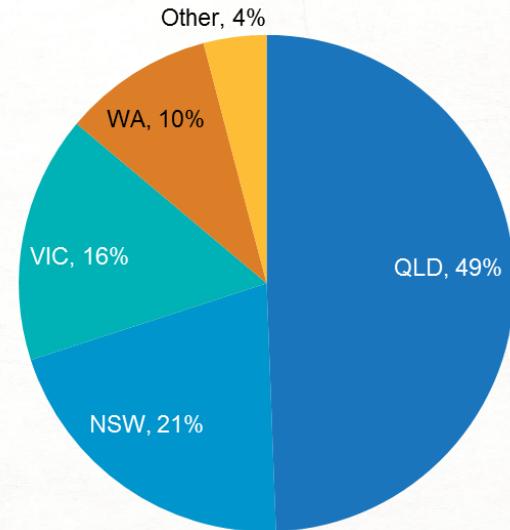
LOAN PORTFOLIO RETURNING TO GROWTH

- Total lending up 7%, driven by new channels
- Diversification of lending portfolio continues – QLD below 50% for the first time (from 60% FY12)

Gross Loans and Advances (\$b)⁽¹⁾



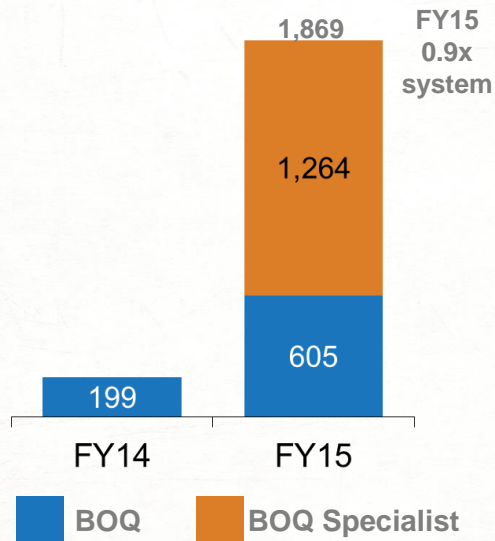
Total loans under management - FY15



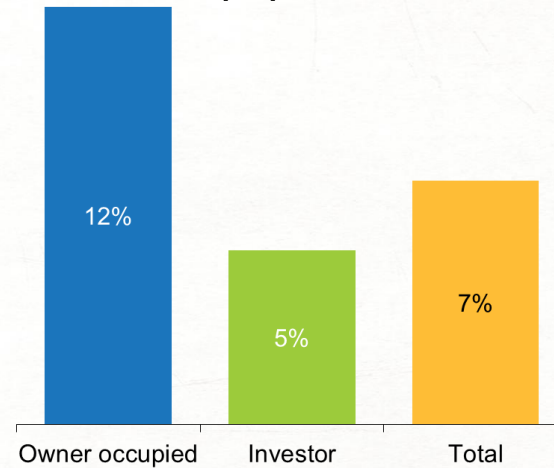
(1) Includes BOQ Specialist from acquisition in 2014

- Housing growth supported by broker expansion and BOQ Specialist
- Balanced approach to owner occupied & investor lending
- Branch network originations up year-on-year with smaller footprint

Housing loan growth (\$m)



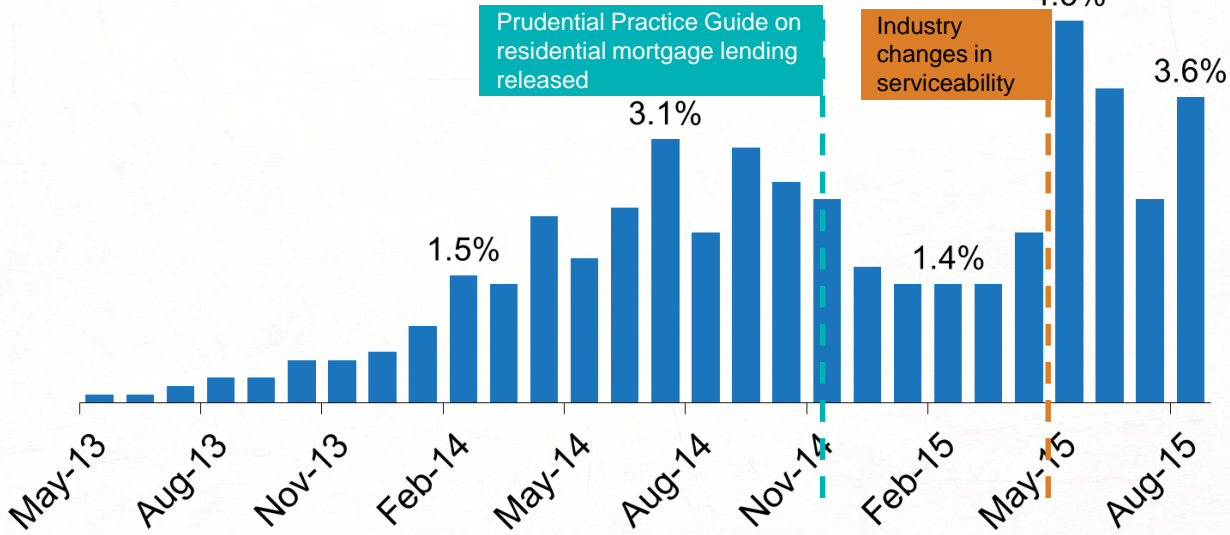
FY15 Housing growth by purpose⁽¹⁾



(1) Includes BOQ Specialist

- Broker growth trajectory has returned with industry-wide changes to serviceability now in place

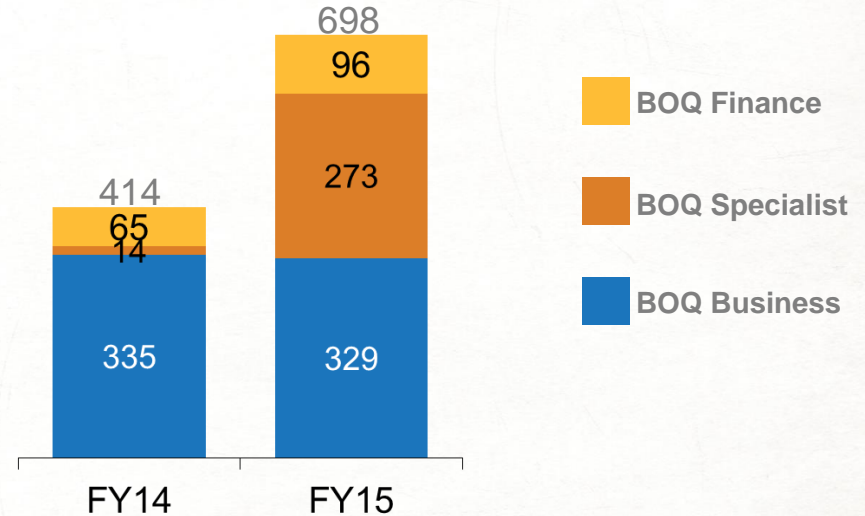
BOQ's market share of AFG mortgages⁽¹⁾



(1) Source: AFG Competition Index

- Subdued economic conditions & lack of business confidence
- Not compromising credit quality or margin for growth
- Focus on niche segments

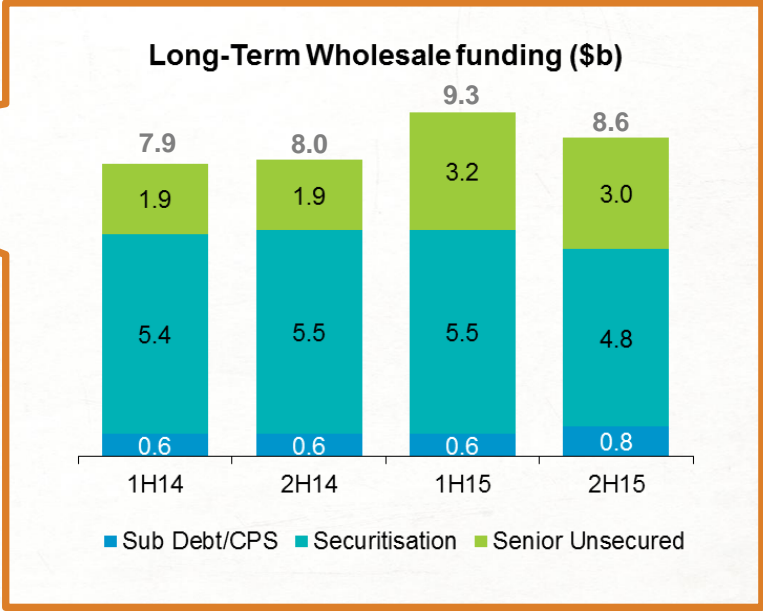
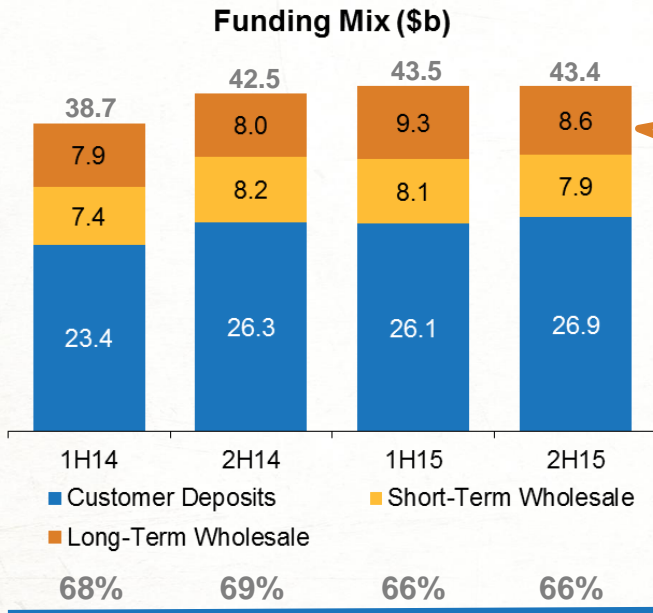
Commercial loan & leasing growth (\$m)⁽¹⁾



(1) BOQ Specialist growth for FY14 is a one-month growth figure following acquisition completion in July 2014. BOQ Finance includes former Investec Australia Leasing book.

DEPOSIT TARGET RANGE MAINTAINED

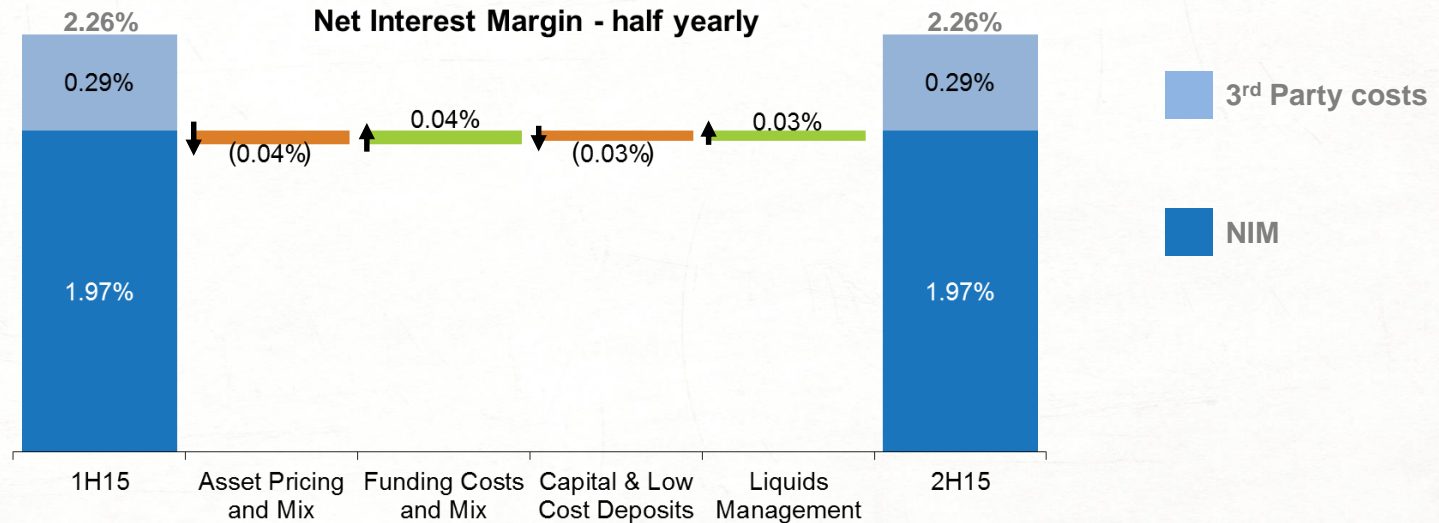
- Continued to improve customer deposit mix (portfolio up 3%)
- Transaction account growth of 14% and shift away from higher cost at-call savings



Deposits to Loans ratio

CONTINUED STRONG MARGIN MANAGEMENT

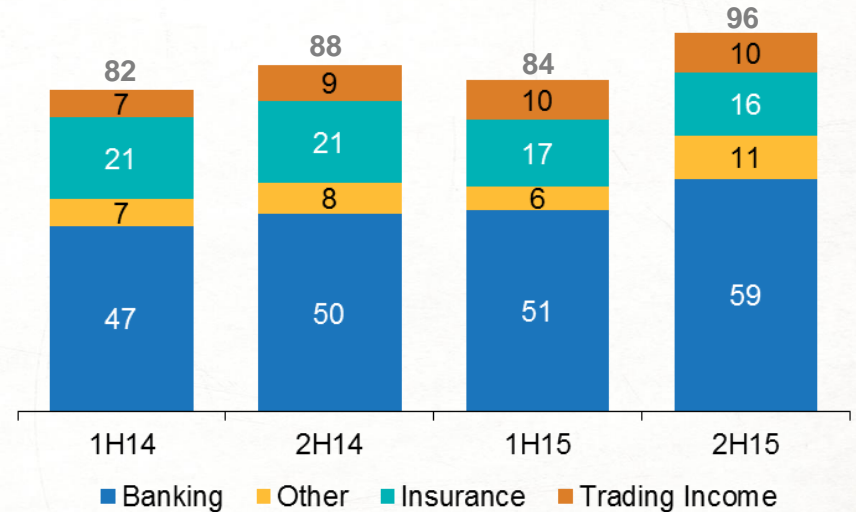
- Maintained NIM in a contracting market
- Dynamic market – margins playing out differently across segments



OTHER INCOME IMPACTED BY ONE-OFFS

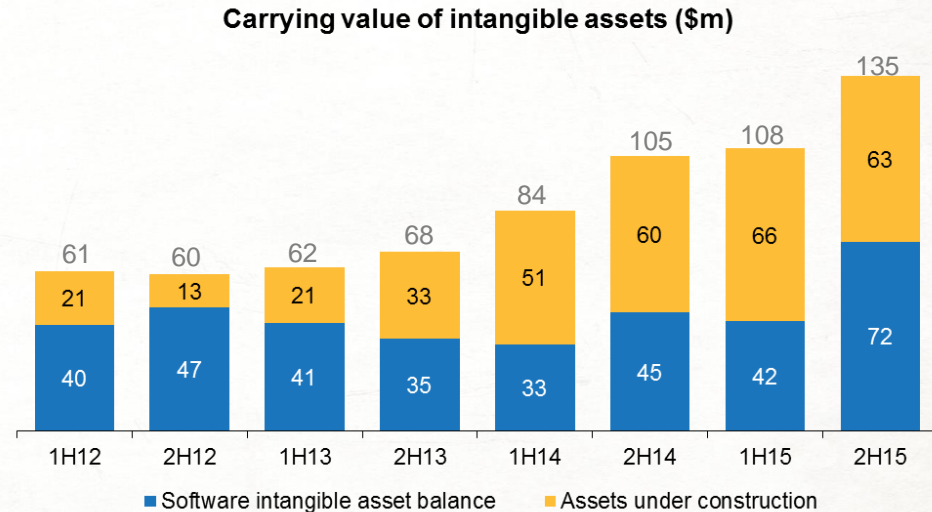
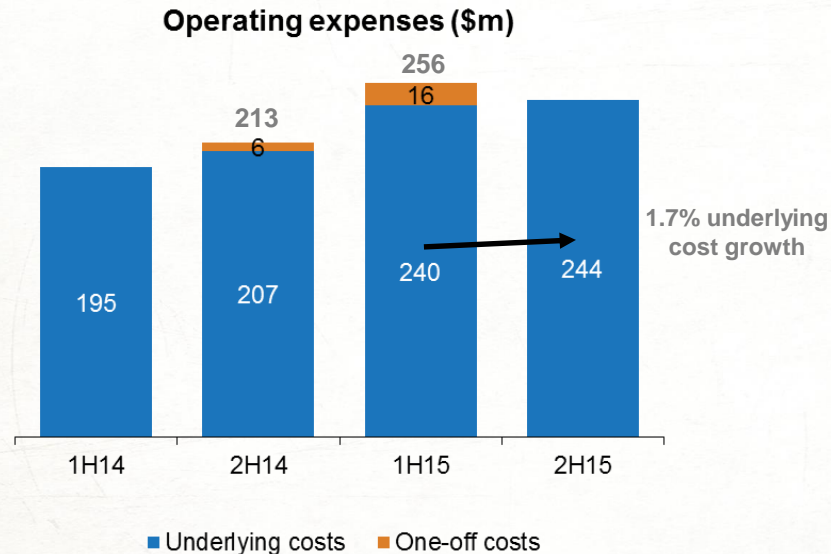
- Banking income up \$13m including BOQ Specialist contribution of \$12m in FY15
- Virgin Money performing to expectations and contributing to Other Income
- St Andrew's Insurance contribution lower as expected

Non Interest Income (\$m)



EXPENSES TIGHTLY MANAGED

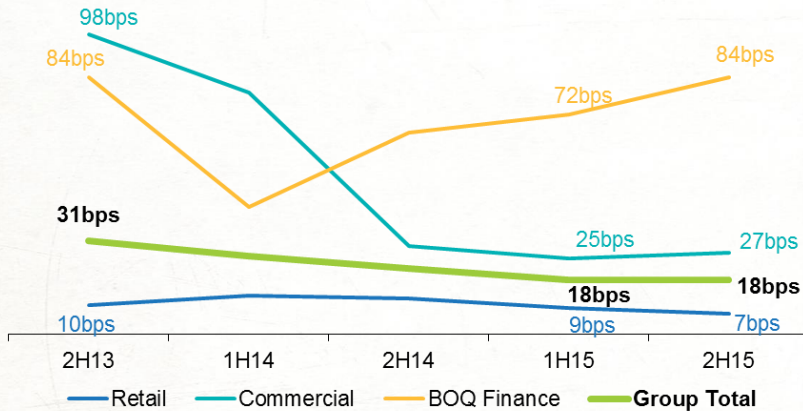
- Cost to income ratio rebased at 45%
- 1H15 impacted by one-off property costs and CRM impairment
- Amortisation profile rising with investment in digitisation



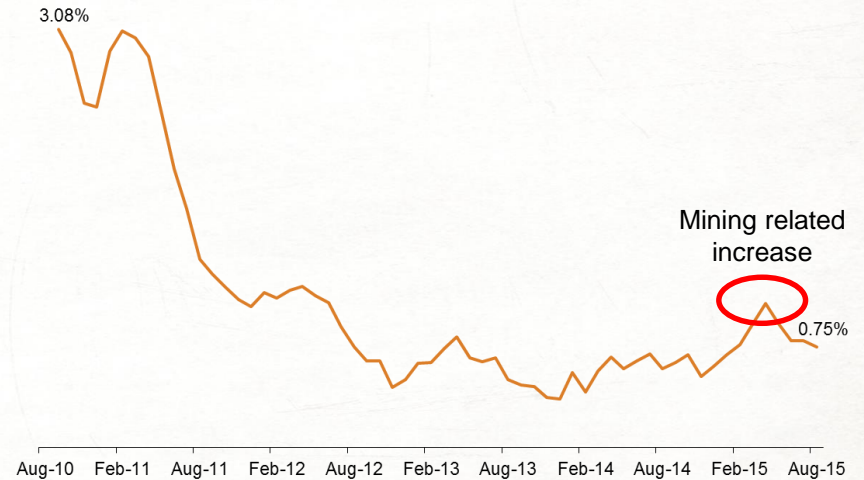
IMPAIRMENT EXPENSE NORMALISING

- Overall portfolio quality improving
- BOQ Finance uptick driven by QLD/WA mining exposed customers; majority of portfolio performing well

Annualised impairment charge to gross loans (bps)⁽¹⁾



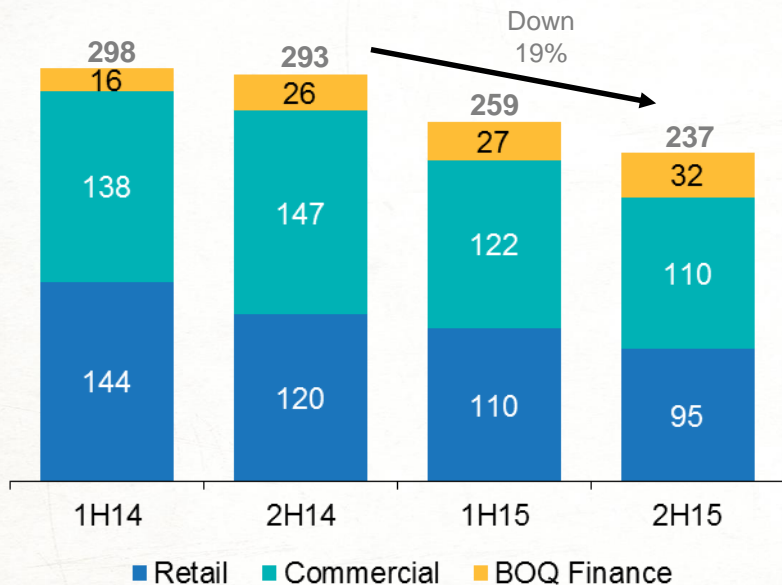
Equipment Finance 30 day arrears (%)



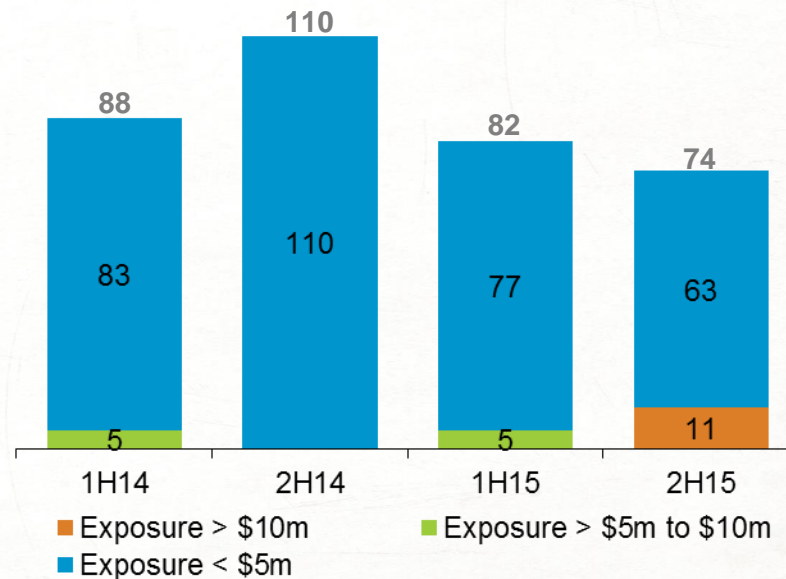
(1) Includes BOQ Specialist

FURTHER REDUCTION IN IMPAIRED ASSETS

Impaired assets (\$m)



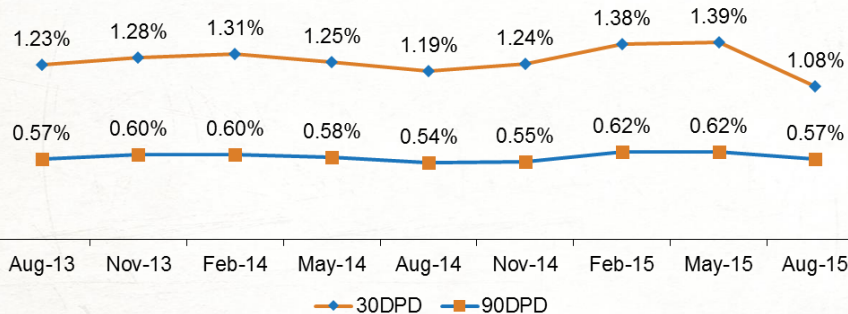
New Impaired Assets (\$m)



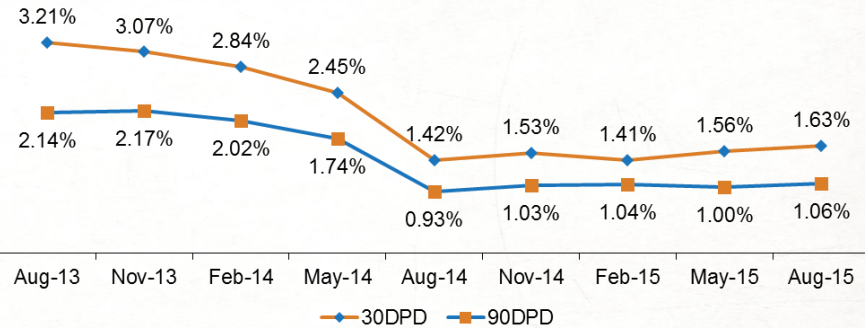
ARREARS LEVELS

- Good reduction is 30-day Housing arrears
- BOQ Finance arrears showing improvement on 1H15

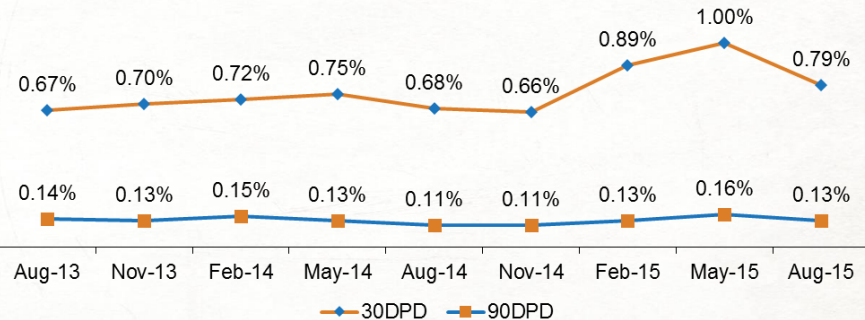
Housing arrears⁽¹⁾⁽²⁾



Commercial arrears⁽¹⁾



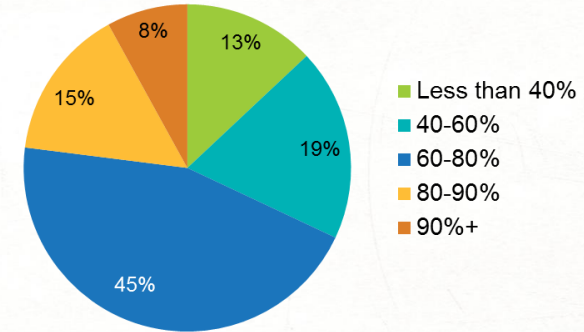
BOQ Finance arrears⁽¹⁾



(1) Including BOQ Specialist (2) Housing including Lines of Credit

- Quality continues to improve under revised risk appetite
- Historical portfolio weighting to Investor loans (42%), with FY15 settlements 37%
- Investor lending growth well below 10% level being monitored by APRA

Housing portfolio LVR bands



Portfolio metrics (%)	2H14	1H15	2H15
Owner occupied	56	57	58
Investment	44	43	42
Broker originated	3	4	6
Weighted avg LVR	64	65	65
Line of Credit	14	12	11
Avg loan balance	\$229k	\$238k	\$258k
Variable rate	79	79	81
Fixed rate	21	21	19

Note: Includes BOQ Specialist

Settlement metrics (%)	2H14	1H15	2H15
Owner occupied	61	61	63
Investment	39	39	37
Broker originated	9	13	14
Weighted avg LVR	65	67	68
Line of Credit	6	5	4
Avg settlement limit	\$324k	\$350	\$354k
Variable rate	84	81	75
Fixed rate	16	19	25

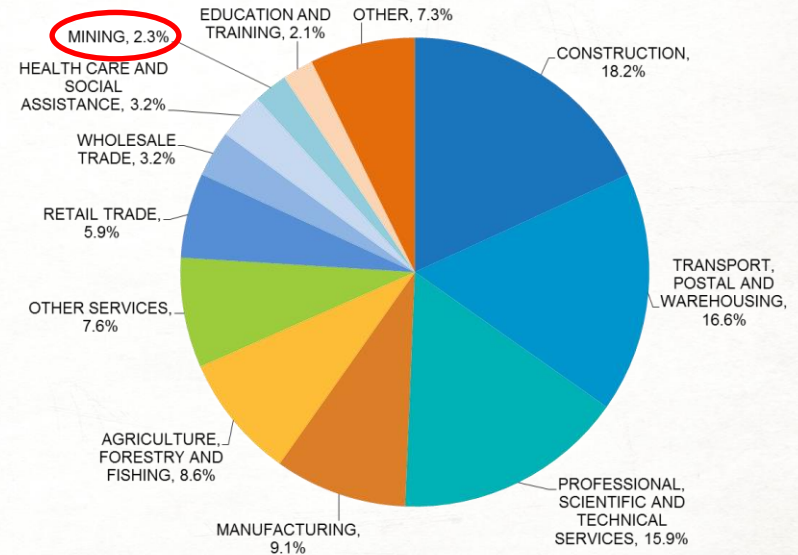
Housing portfolio

- LVRs managed across geography, density, size and value with support of LMI and Housing industry data providers
- No problem signs emerging in QLD & WA regional housing exposures

Commercial & Leasing portfolio

- No issues emerging
- Limited exposure to WA commercial property
- Well diversified leasing portfolio, ~45% vehicles
- Direct mining industry exposure <\$200m

BOQ Finance Industry exposures



TODAY

- Group & business unit appetite embedded
- Basel II compliant credit risk models
- Portfolio management & reporting
- Governance framework
- ALM system
- Operational risk management framework
- Credit risk grading system
- Collective provision/GRCL (in train)
- New data warehouse (in train)

FUTURE

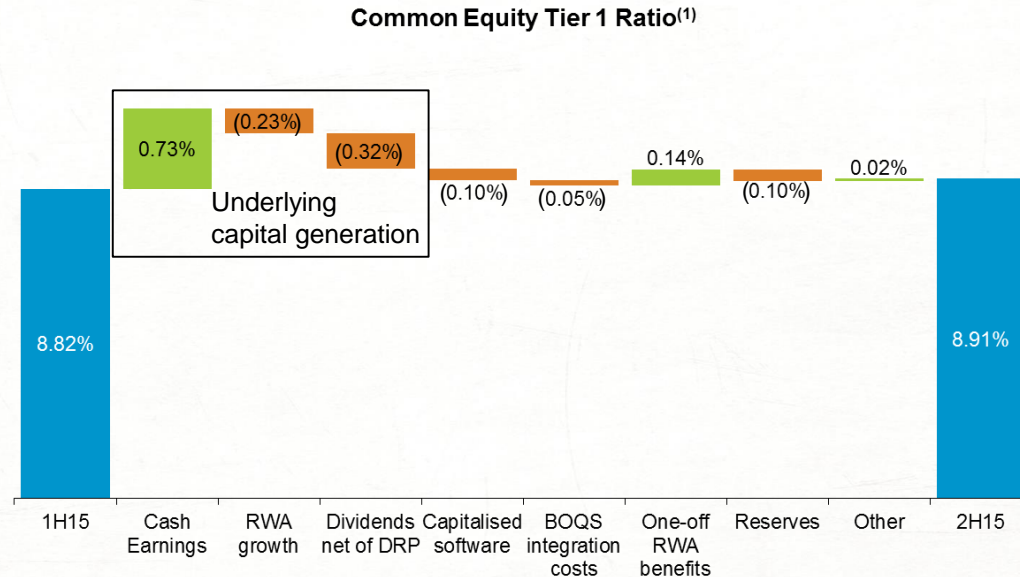
Basel II: Advanced Accreditation

- Potential path to partial/staged accreditation
- Well placed to commence formal program of work when benefits are clearer

Basel IV: Considerations

- Changes to IRB models
- RWA floors for residential mortgages
- Fundamental review of the trading book

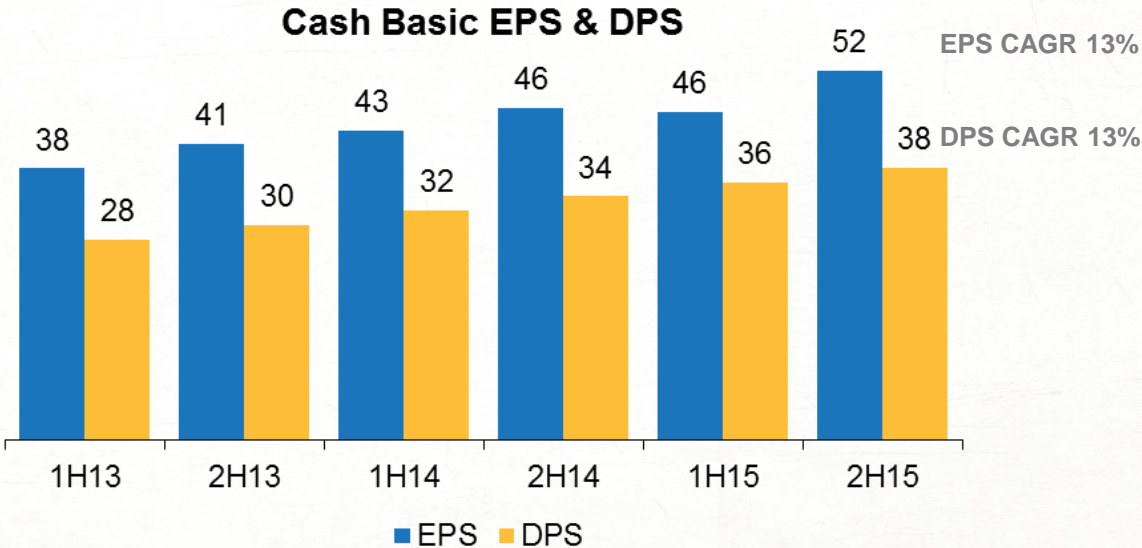
- Current level of ROTE capable of supporting higher levels of growth
- Remain well capitalised relative to peers



(1) Cash Earnings has been adjusted for one-off non-recurring items. Underlying RWA growth excludes the one-off impacts of APS210 transition benefit as well as the benefit of lower risk weights on BOQ Specialist housing loans upon transition. Reserves includes the impact of the Equity Reserve for Credit Loss and the AFS Reserve.

DIVIDENDS GROWING IN LINE WITH EARNINGS

- EPS growth has tracked DPS growth - this trend is expected to continue
- We will move to a more conventional dividend profile with more conservative 1H dividend



OUTLOOK & SUMMARY

JON SUTTON

Managing Director & CEO



FY15

Laying the foundations

- Restoring the balance sheet
- Risk frameworks & culture
- Compliance
- Opening new distribution channels
- Refreshed branding
- Niche market acquisitions – Virgin Money, BOQ Specialist


Digitising & transforming

- Back office digitisation
- New IT Sourcing model
- New OMB commission agreements
- Building online capability
- IT simplification


Sustainable growth

- Focus on niche market segments eg. BOQ Specialist
- Ongoing diversification through segments, geography
- Reinvigorate branch network
- Harness consumer trends in digital & social – eg. Virgin Money
- Advanced accreditation

DYNAMIC ENVIRONMENT FOR FINANCIAL SERVICES



National economic
growth and
confidence subdued



State economic
performance mixed &
regional differences
across Queensland



Regulatory
environment
evolving

Vision ...

 Our dream is to create AUSTRALIA'S MOST LOVED BANK 

Strategy ...

Focus on niche segments that value a more intimate banking relationship

FY16 priorities ...

Customer in charge	Grow the right way	There's always a better way	Loved like no other
<ol style="list-style-type: none"> 1. Expand accredited brokers to 4,000 2. Roll out Virgin Money mortgage product 3. Break-in digital 4. Ongoing branch network optimisation 	<ol style="list-style-type: none"> 1. Continue to increase customer deposits 2. Maintain discipline in pricing and credit quality 3. Grow specialist niches 	<ol style="list-style-type: none"> 1. Roll out new Lending origination system 2. Utilising data analytics 3. Continue to invest in risk foundations 	<ol style="list-style-type: none"> 1. Instill sales and service culture 2. Invest in leadership and talent 3. Build diversity

Outcomes ...

Outperformance for shareholders

SUMMARY



- 1 Pleasing performance in FY15
- 2 Growth returning with more upside potential
- 3 BOQ Specialist above expectations
- 4 FY16 a key year for transformation delivery
- 5 Outlook positive in challenging markets



 IT'S POSSIBLE to
LOVE A BANK 