



IT'S POSSIBLE to  
LOVE A BANK



Results presentation for the half year ended 28 February 2015  
26 March 2015

# Agenda

▶ Result overview

**Jon Sutton**

Managing Director & CEO

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▶ Financial overview

**Anthony Rose**

Chief Financial Officer

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▶ Summary & outlook

**Jon Sutton**

Managing Director & CEO

# 1H15 overview

1

Solid first half result

2

Growth without compromising price or quality

3

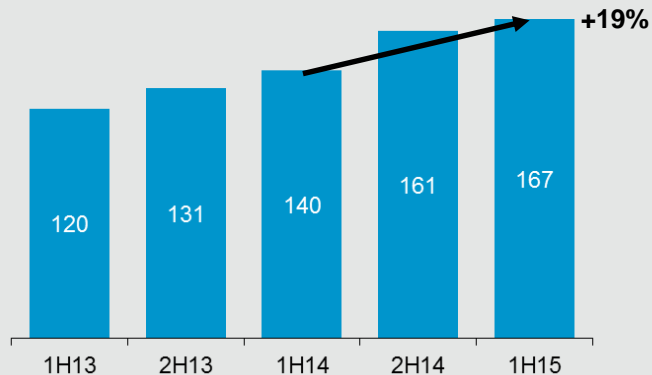
BOQ Specialist tracking to expectations

4

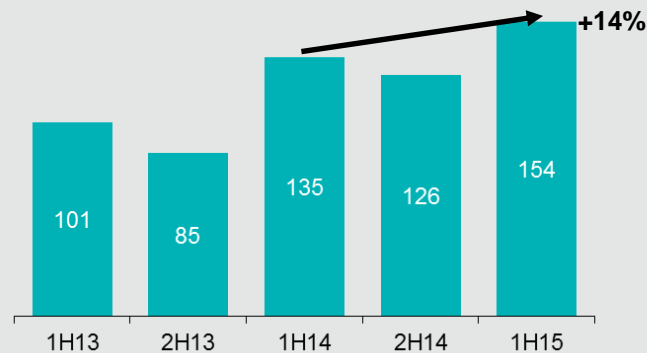
Foundations set for sustainable future

# Key metrics strong in 1H15

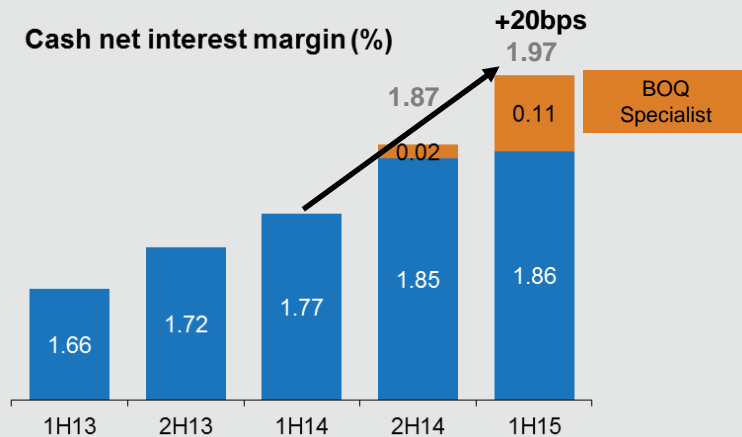
Cash earnings after tax (\$m)



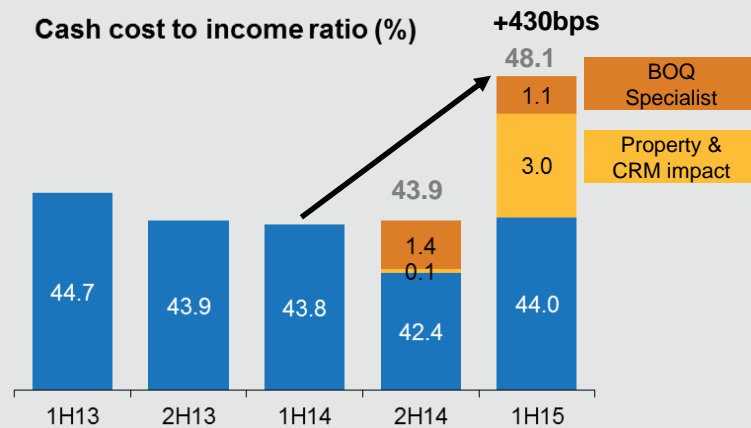
Statutory profit after tax (\$m)



Cash net interest margin (%)

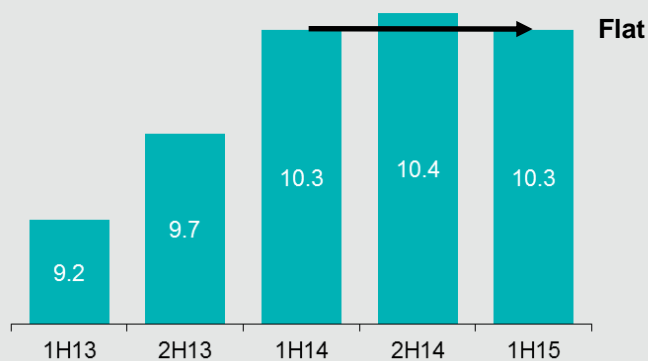


Cash cost to income ratio (%)

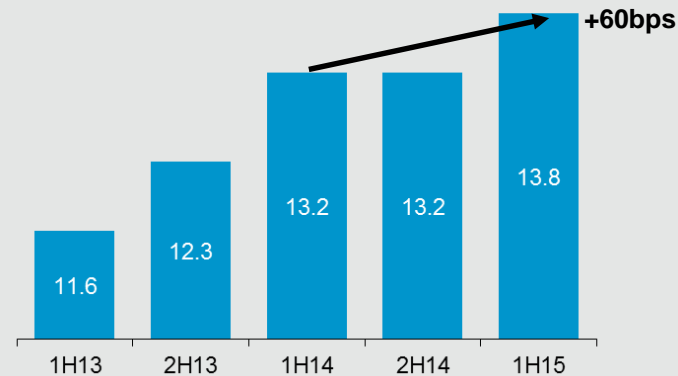


# Key metrics strong in 1H15

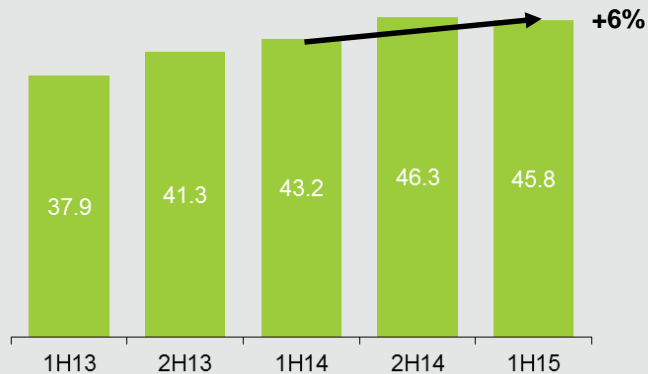
## Cash ROE (%)



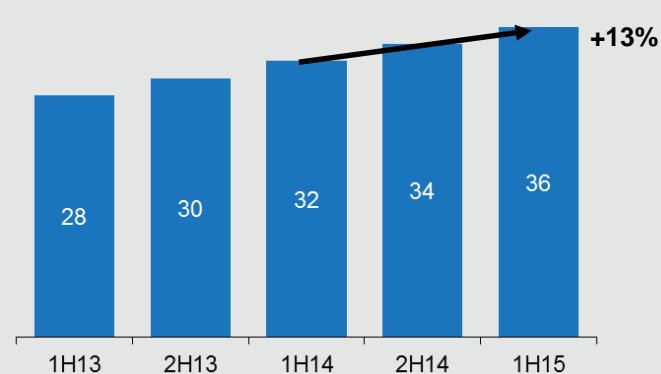
## Cash ROTE (%)



## Cash basic EPS (cps)



## Dividends (cps)



# Delivering against strategy in 1H15

Customer in charge

Grow the right way

There's always a better way

Loved like no other

Lending growth heading back to system<sup>(1)</sup>

- ▶ Group total lending up 7% (0.9x system)
- ▶ Retail growth of 0.8x system driven by broker expansion & BOQ Specialist
- ▶ Business growth of 1.2x system

Ongoing improvement in NIM

- ▶ NIM up 20bps to 1.97%<sup>(2)</sup>, including 11bps contribution from BOQ Specialist
- ▶ Improvement in funding costs offsetting tighter lending spreads

Balance sheet strength improved

- ▶ Risk metrics continue to improve: impaired assets down 12%<sup>(3)</sup>; BDD down to 18bps
- ▶ Capital ratios remain at top end of peers

Investing for further growth

- ▶ Ongoing investment in customer facing channels
- ▶ 2015 key year for transformational projects

(1) System figures are based on January APRA Banking Statistics, January YTD annualised

(2) Change from 1H14

(3) Change from 2H14

# BOQ Specialist delivering to expectations

- ▶ Loan growth momentum maintained
- ▶ \$19m Cash earnings is on track for \$38m guidance
- ▶ Margins remain healthy
- ▶ Impairment expense low for nature of commercial portfolio
- ▶ On-balance sheet mortgages ahead of target

## Key metrics disclosed at acquisition

	Announcement guidance	1H15 performance
Commercial lending growth	11-13%	In line
Asset Spread	4.70%	Slightly above
BDD/GLA	Mid 20s	In line

## Mortgage originations (\$m)

	1H14	2H14	1H15
On Balance Sheet	-	-	352
Third Party	558	698	397
<b>Total</b>	<b>558</b>	<b>698</b>	<b>749</b>



**BOQ SPECIALIST**

Distinctive banking

# Management targets

Excludes Virgin Money Australia and BOQ Specialist

Metrics <sup>(1)</sup>	1H15 Results	FY15+ Target (from 2H12)
<b>BOQ asset growth</b>		
-Retail	0.5x system	1.2x system
-Business <sup>(2)</sup>	1.3x system	1.5x system
<b>Net Interest Margin</b>	186bps	Low-Mid 160s
<b>Expense growth<sup>(3)</sup></b>	5%	< Inflation
<b>Cost to Income<sup>(3)</sup></b>	44%	Low 40s
<b>Bad &amp; Doubtful Debts to GLA</b>	18bps	~20bps
<b>Return on Tangible Equity<sup>(3)(4)</sup></b>	14.4%	13%+

- ▶ Management targets set at the end of FY12
- ▶ New measures to track delivery against strategy being developed

(1) Cash earnings basis

(2) Excluding the impact of impaired asset run-off

(3) Excludes one-off costs

(4) Excluding goodwill and identifiable intangible assets





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# Financial overview

**Anthony Rose**

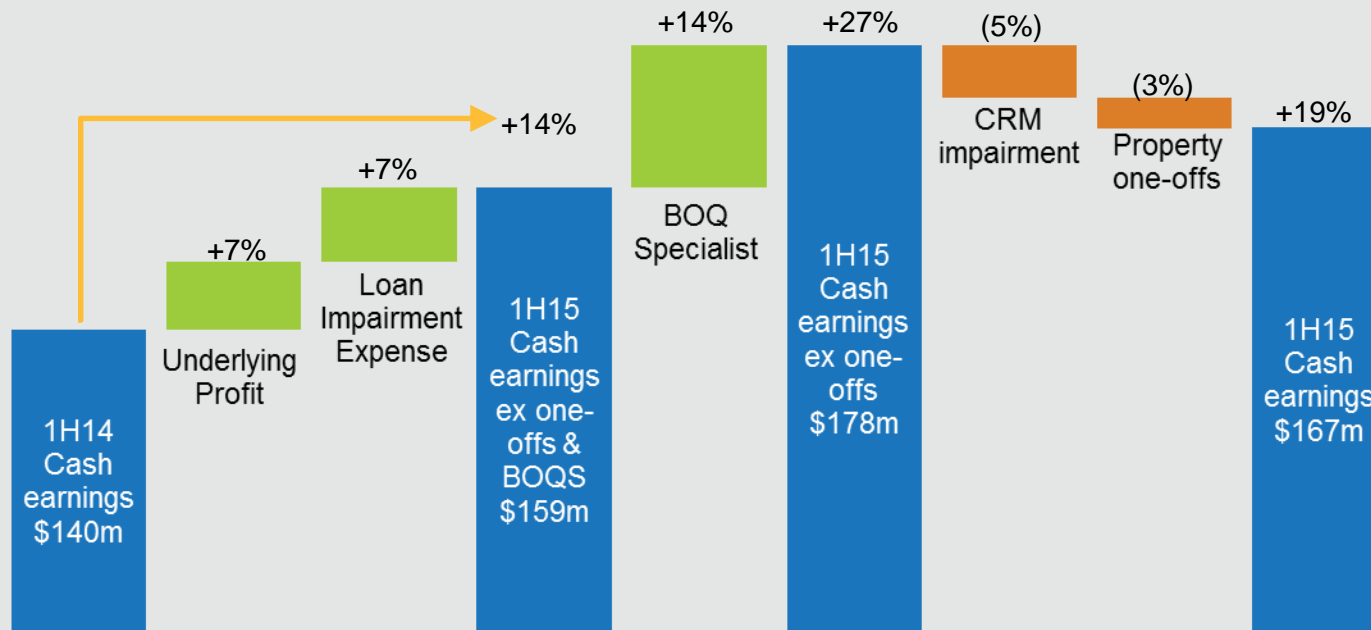
Chief Financial Officer

# Solid underlying financial performance

	Group 1H15	BOQ Specialist 1H15	Group ex-BOQ Specialist 1H15	2H14	1H14	1H15 v 2H14	1H15 v 1H14	
Net interest income	\$448m	\$61m	\$387m	\$390m	\$362m	(1%)	7%	▲
Non interest income	\$84m	\$5m	\$79m	\$86m	\$82m	(8%)	(4%)	▼
Total income	\$532m	\$66m	\$466m	\$476m	\$444m	(2%)	5%	▲
Operating expenses	(\$256m)	(\$35m)	(\$221m)	(\$208m)	(\$195m)	6%	13%	▲
Underlying profit	\$276m	\$31m	\$245m	\$268m	\$249m	(9%)	(2%)	▼
Loan impairment expense	(\$36m)	(\$4m)	(\$32m)	(\$40m)	(\$46m)	(20%)	(30%)	▼
Profit before tax	\$240m	\$27m	\$213m	\$228m	\$203m	(7%)	5%	▲
Income tax expense	(\$73m)	(\$8m)	(\$65m)	(\$70m)	(\$63m)	(7%)	3%	▲
Cash earnings after tax	\$167m	\$19m	\$148m	\$158m	\$140m	(6%)	6%	▲

# Underlying earnings momentum

## 1H14-1H15 Underlying earnings momentum



Note: All figures in the chart are presented on a post-tax basis

# Cash to statutory reconciliation

- ▶ Legacy items dealt with
- ▶ BOQ Specialist integration & transaction costs within assumed profile

	1H14	2H14	1H15
<b>Cash earnings after tax</b>	<b>\$140m</b>	<b>\$161m</b>	<b>\$167m</b>
Amortisation of customer contracts	(\$2m)	(\$4m)	(\$5m)
Hedge ineffectiveness	(\$1m)	(\$1m)	\$1m
Government guarantee break fee	(\$1m)	-	-
Integration / due diligence costs	-	(\$8m)	(\$8m)
Legacy items	(\$1m)	(\$22m)	(\$1m)
<b>Statutory profit after tax</b>	<b>\$135m</b>	<b>\$126m</b>	<b>\$154m</b>

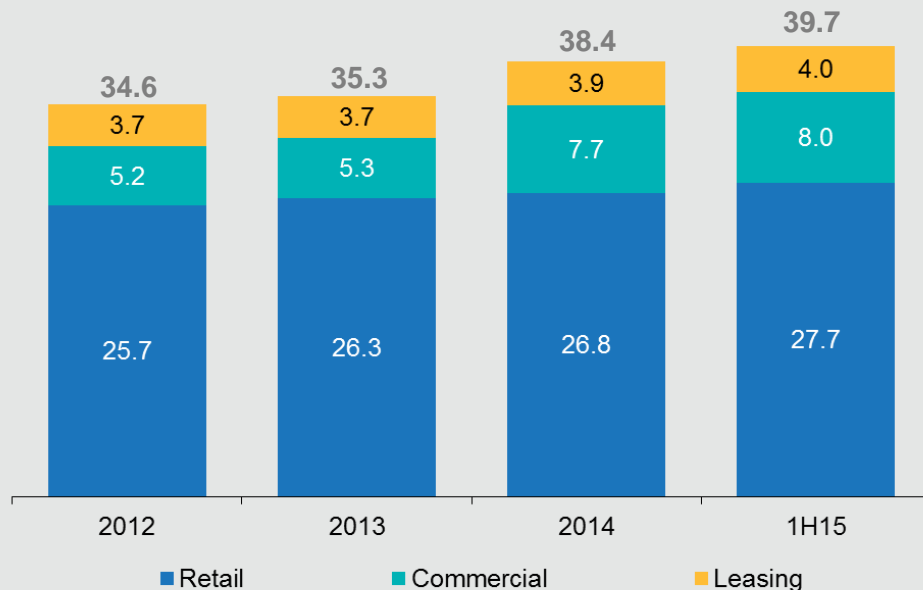
## BOQ Specialist transaction/integration costs (post-tax basis)

	Assumptions at acquisition	2H14	1H15	Total
Integration/transaction	\$23m	\$8m	\$4m	\$12m
Balance Sheet transition	\$6m	-	\$4m	\$4m
<b>Total</b>	<b>\$29m</b>	<b>\$8m</b>	<b>\$8m</b>	<b>\$16m</b>

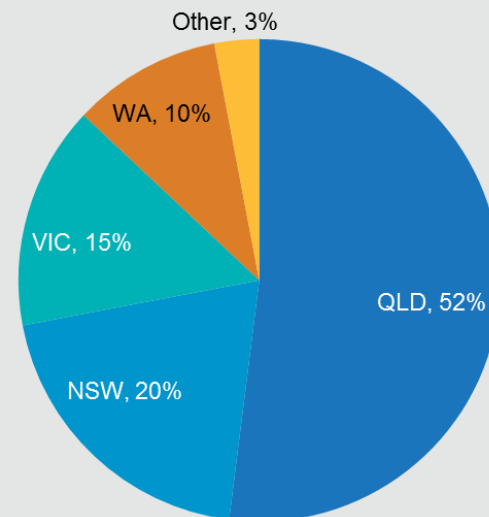
# Loan portfolio returning to growth

- ▶ Total lending up 7% annualised
- ▶ Prior year initiatives and investments bearing fruit

Gross Loans and Advances (\$b)<sup>(1)</sup>



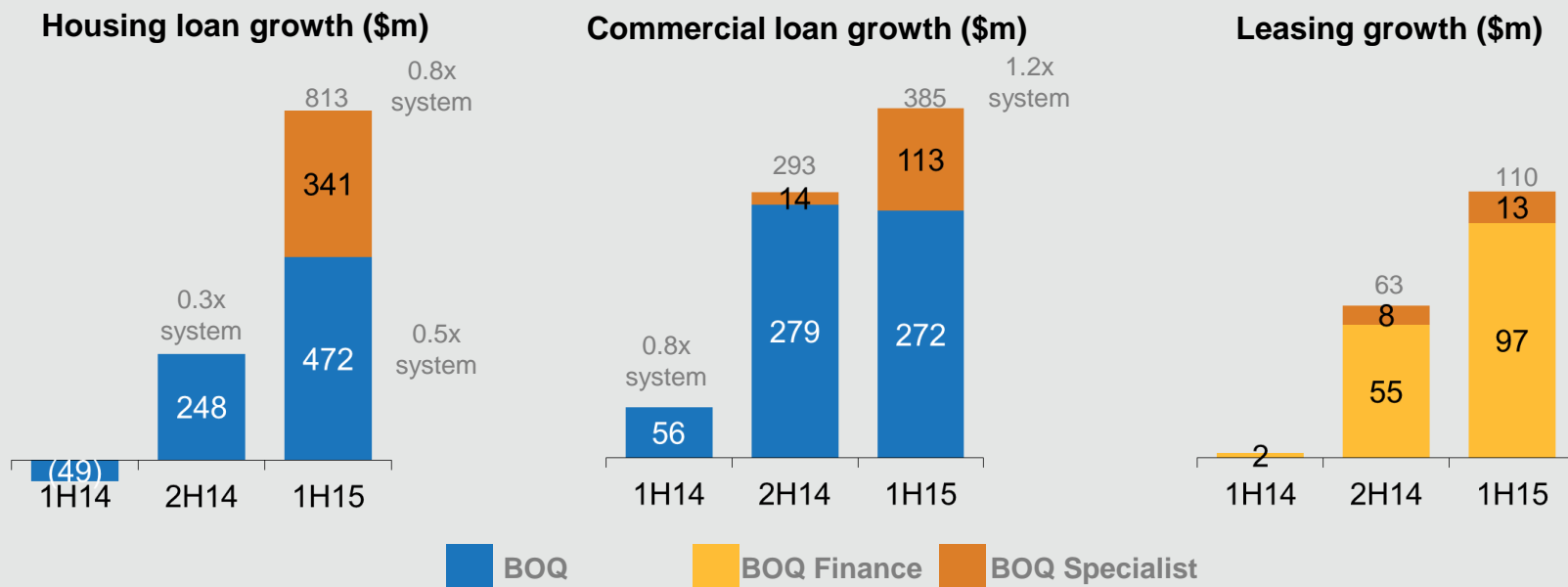
Total loans under management - 1H15



(1) Includes BOQ Specialist from acquisition in 2014

# Growth emerging across all portfolios

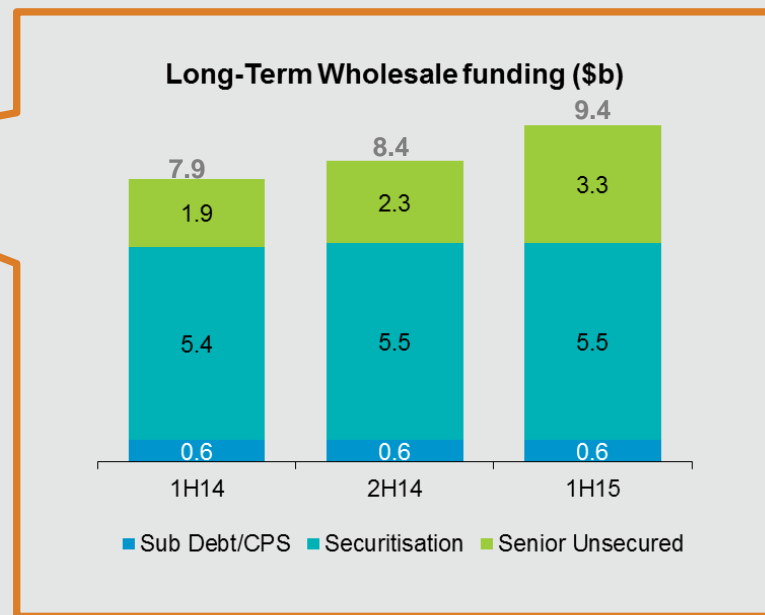
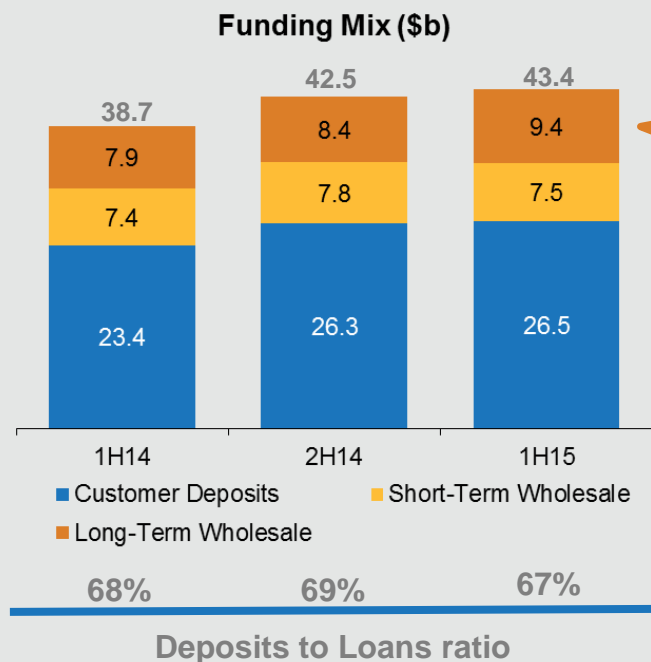
- ▶ Housing loan growth supported by broker expansion and BOQ Specialist
- ▶ Commercial and Leasing growth ahead of system



Note: Growth amounts are from the end of the prior half-year period; BOQ Specialist growth for 2H14 is a one-month growth figure following acquisition completion in July 2014

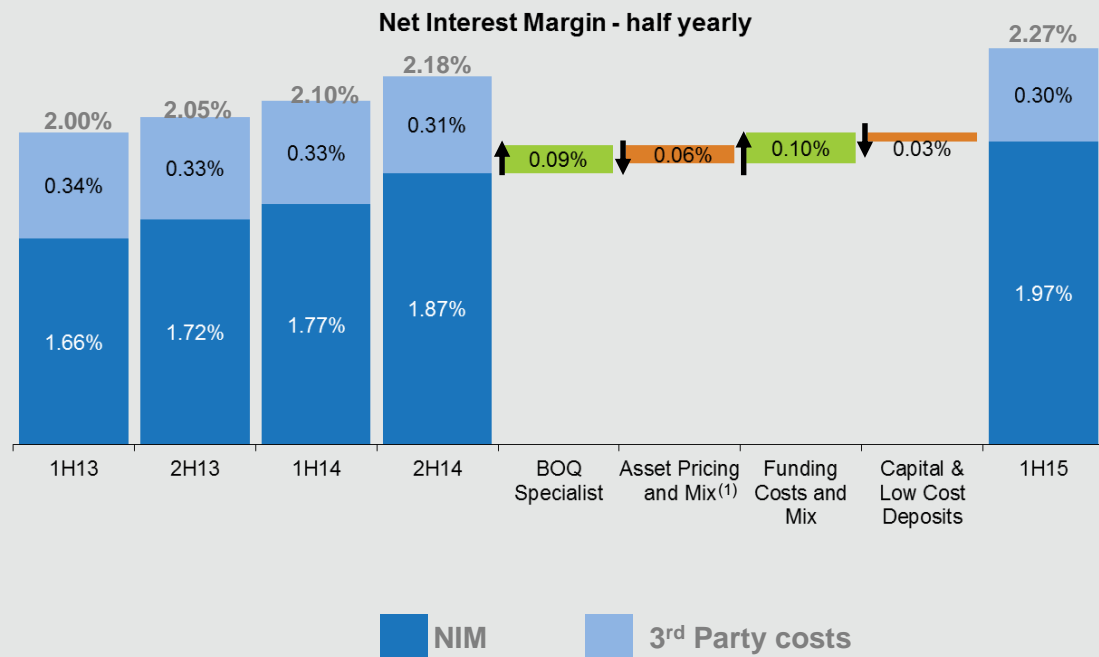
# Deposit target range maintained

- ▶ Continuing to derive benefits of credit rating upgrade
- ▶ Deposit pricing and mix initiatives implemented



# Continued strong margin management

- ▶ Improvement in funding costs offsetting tighter lending spreads
- ▶ Commercial loan and BOQ Specialist growth reducing third party cost impact

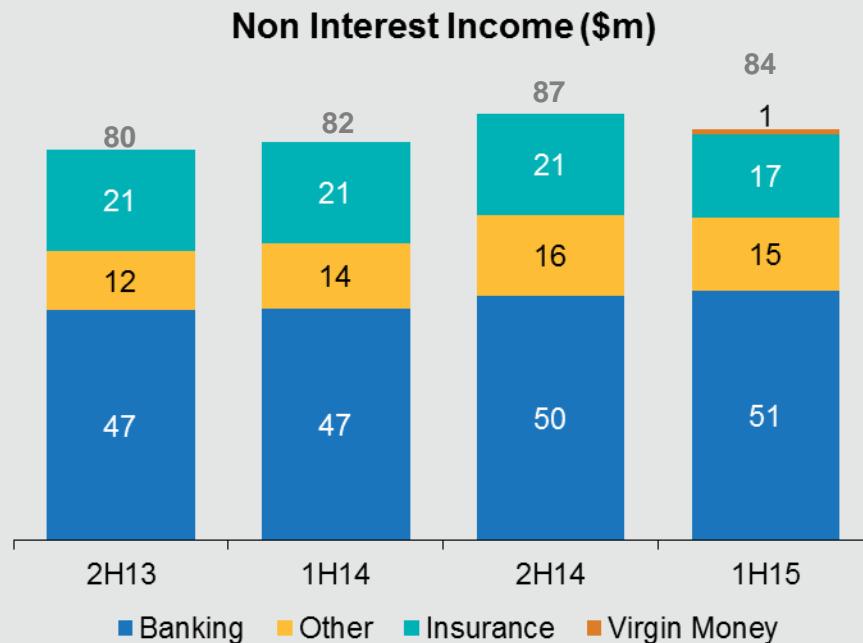


(1) Excluding BOQ Specialist



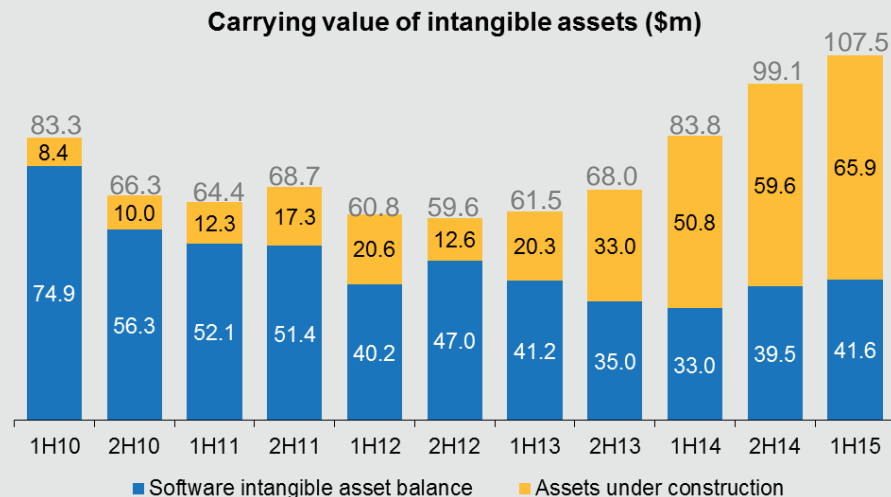
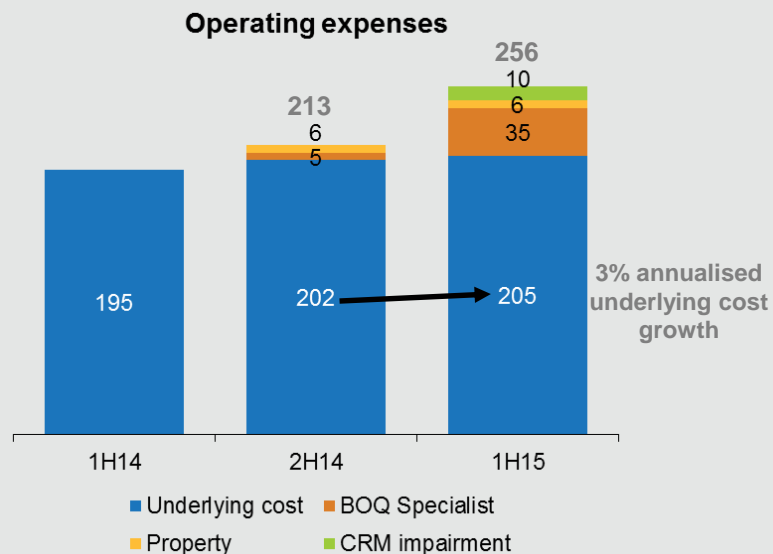
# Other income flat

- ▶ St Andrew's claims experience higher than usual
- ▶ Continued pressure on fee income with shift to fee free products
- ▶ Virgin Money provides positive contribution to other income



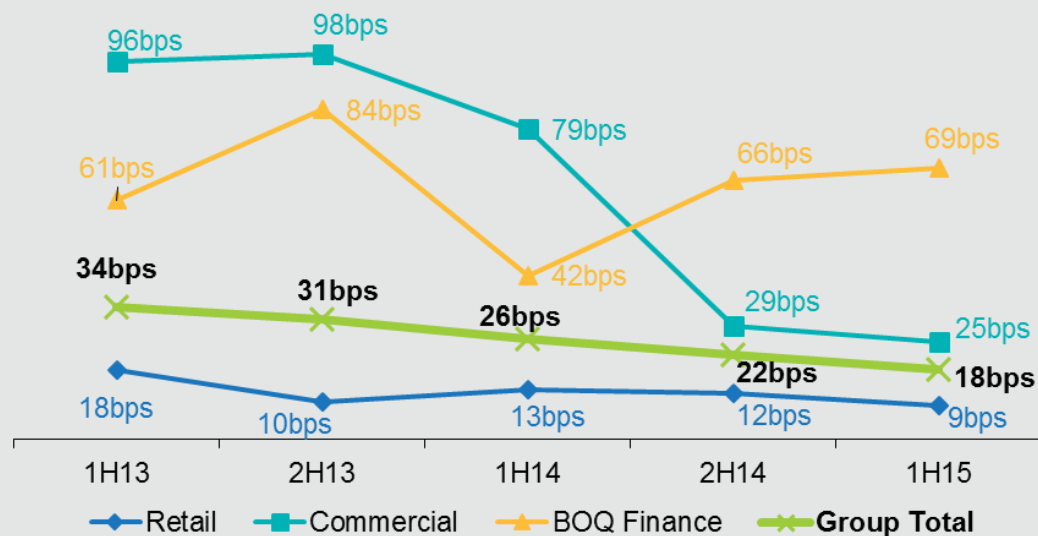
# Underlying expense growth stable

- Expenses impacted by BOQ Specialist, one-off property costs and CRM impairment
- Amortisation profile rising as expected with investment in digitisation
- On track for underlying cost to income ratio of 45% for 2H15



# Impairment expense improving

Annualised impairment charge to gross loans (bps)<sup>(1)</sup>

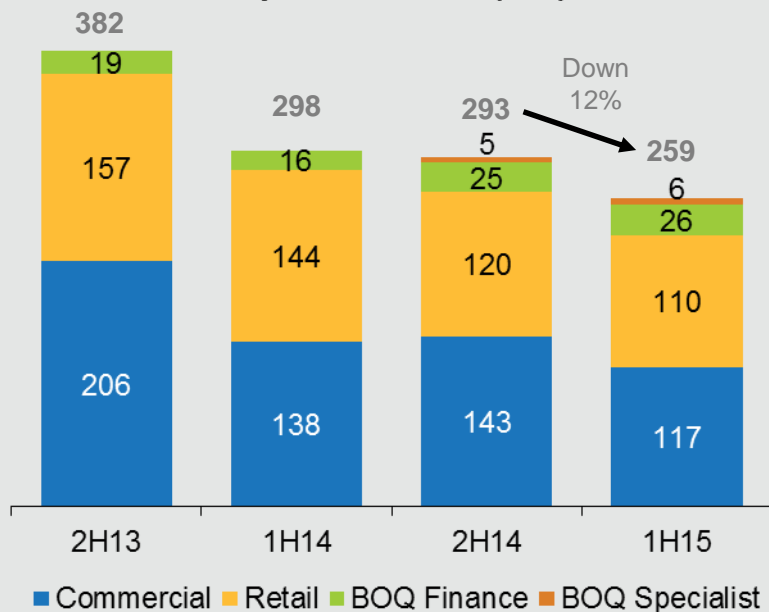


- ▶ Overall portfolio quality improving
- ▶ BOQ Finance returning to through-the-cycle trends

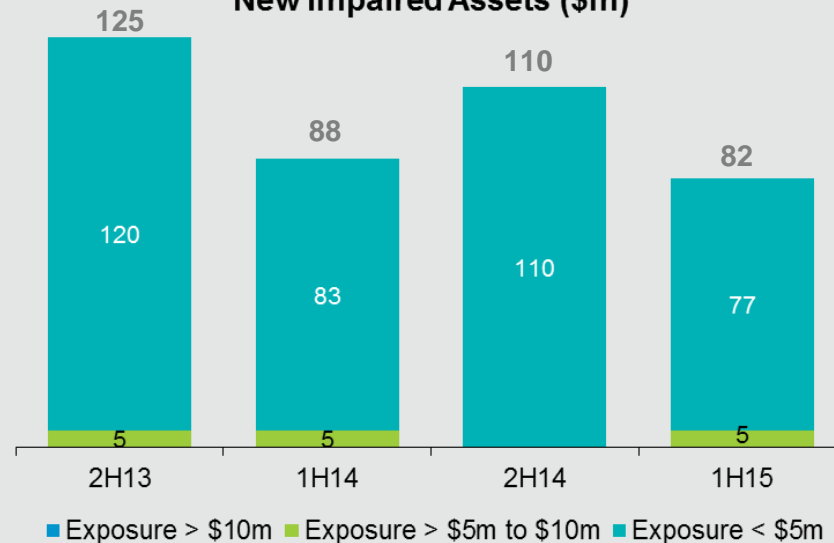
(1) Including BOQ Specialist

# Further reduction in impaired assets

Impaired assets (\$m)



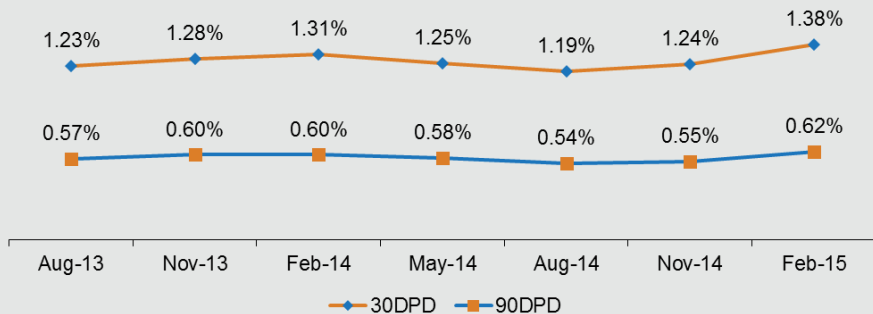
New Impaired Assets (\$m)



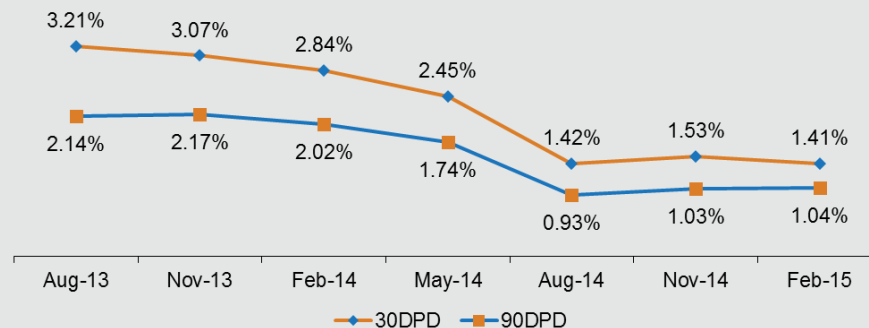
# Arrears levels appear to have bottomed

- ▶ Seasonal uptick in Housing arrears
- ▶ Commercial remaining flat
- ▶ BOQ Finance uptick attributable to seasonal issues and small number of larger accounts

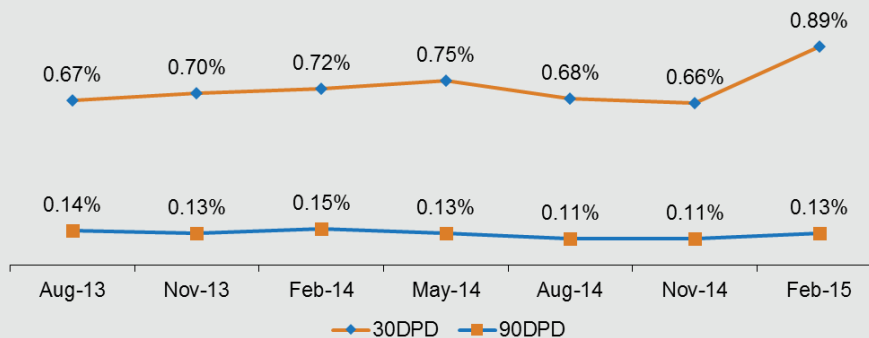
**Housing arrears<sup>(1)(2)</sup>**



**Commercial arrears<sup>(1)</sup>**



**BOQ Finance arrears<sup>(1)</sup>**

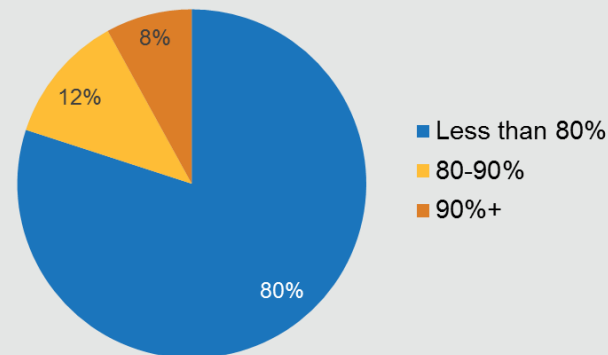


(1) Including BOQ Specialist (2) Housing including Lines of Credit

# Sound housing portfolio

- ▶ Quality continues to improve under revised risk appetite
- ▶ Historical portfolio weighting to Investor loans (44%), with 1H15 settlements 40%
- ▶ Investor lending growth – well below 10% level being monitored by APRA

Housing portfolio LVR bands

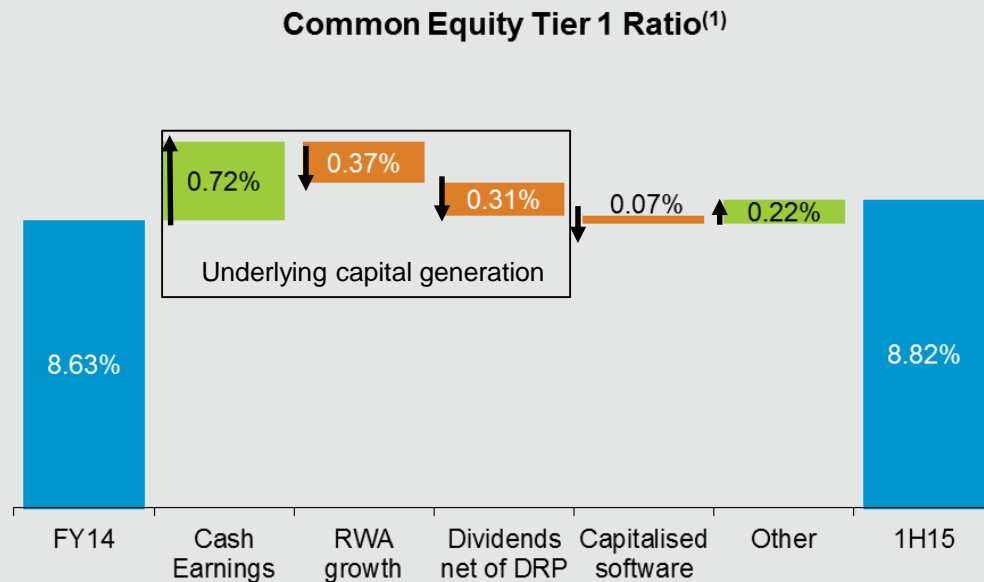


Portfolio metrics (%)	1H14	2H14	1H15
Owner occupied	56	56	56
Investment	44	44	44
Weighted avg LVR	65	64	65
Line of Credit	15	14	13
Avg loan balance	\$228k	\$229k	\$231k
Variable rate	79	79	79
Fixed rate	21	21	21

Settlement metrics (%)	1H14	2H14	1H15
Owner occupied	60	61	60
Investment	40	39	40
Weighted avg LVR	65	65	67
Line of Credit	5	5	5
Avg settlement limit	\$315k	\$324k	\$335k
Variable rate	77	84	82
Fixed rate	23	16	18

# Capital generation

- Underlying capital generation impacted by one-offs and stronger RWA growth
- Current level of ROE capable of supporting higher levels of growth



(1) "Cash Earnings" has been adjusted for one-off non-recurring items. "Other" includes a reduction in deferred tax assets largely relating to the reduction in the product remediation provision, normalisation adjustments to determine cash earnings and favourable market movements on liquid assets held in the banking book.

# Ongoing investment in risk management

- ▶ Building blocks in place for advanced accreditation
- ▶ Increased sophistication in portfolio management

## What we've achieved

- ▶ Group & business unit risk appetite statements
- ▶ Policy & process
- ▶ Basel II compliant credit risk models
- ▶ Portfolio management & reporting
- ▶ Governance framework
- ▶ Stress testing framework

## What we're currently enhancing

- ▶ Collective provision/GRCL
- ▶ New data warehouse
- ▶ Retail lending origination system
- ▶ ALM system
- ▶ Operational risk management framework
- ▶ Rollout of credit risk grading system

## What's to come

- ▶ Enhanced collateral management framework & process
- ▶ Operational risk system implementation
- ▶ Asset management & collections system
- ▶ Advanced internal / external data collection
- ▶ Advanced model validation, monitoring & governance
- ▶ Commercial lending origination system
- ▶ Evolved data governance
- ▶ Enhanced market risk trading platform





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# Summary & outlook

**Jon Sutton**

Managing Director & CEO

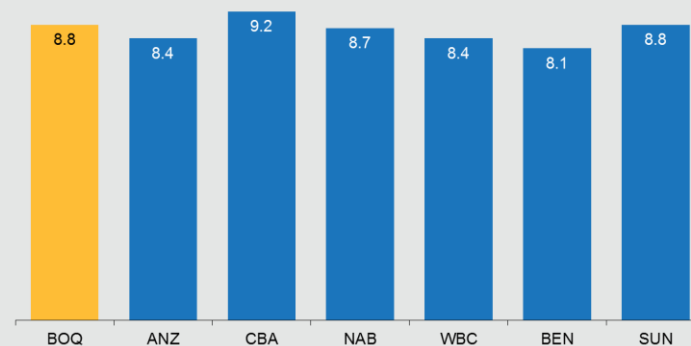
# Business environment

- ▶ Economy running below long-run trend
- ▶ Sustained improvement will require pickup in consumer and business confidence
- ▶ Outlook will remain uncertain over the short- to medium-term
- ▶ State economic performance mixed

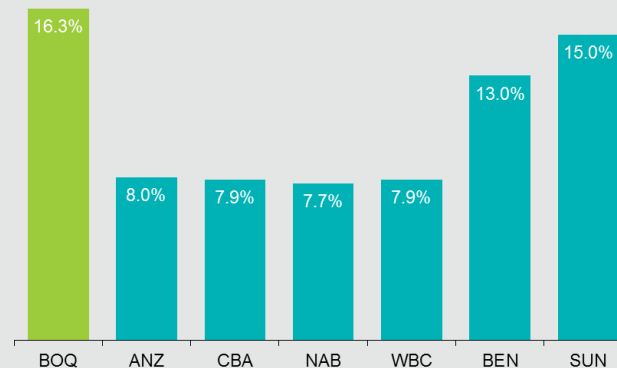
# Capital – the need for timely regulatory action

- ▶ FSI recommendations need to be implemented – risk weighting changes in particular
- ▶ Basel committee consultations will take time but capital levels heading higher, particularly for IRB banks
- ▶ BOQ remains well capitalised on all measures
- ▶ Building blocks in place for future advanced accreditation

Common Equity Tier 1 Ratio (%)<sup>(1)</sup>



S&P Risk-Adjusted Capital (RAC) Ratio <sup>(2)</sup>



(1) Source: Latest published company reports (2) Source: Latest published S&P reports. For BEN & SUN, upper limit of expected range is used as absolute figure is not published

# Strategic journey

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

# Priorities & outlook

1 Continued growth through new channels – Broker, BOQ Specialist, Virgin Money mortgages

2 Growing the right way – targeted business segments, risk sophistication, new OMB commission agreements

3 Delivery of transformational projects – lending program, IT services contract

4 Subdued economic conditions to remain

5 Confident in BOQ's long-term prospects



# 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.

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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.

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## 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.

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