



1H18 Results Presentation

17 April 2018

FOR THE HALF YEAR ENDED 28 FEBRUARY 2018

Bank of Queensland Limited ABN 32 009 656 740. AFSL No 244616.

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Results Overview

Jon Sutton
Managing Director & CEO

Financial Detail

Anthony Rose
Chief Financial Officer

Summary & Outlook

Jon Sutton
Managing Director & CEO

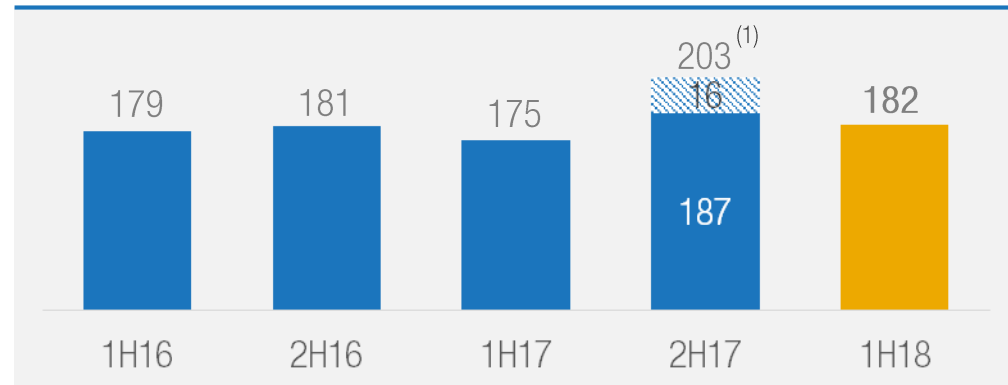
1H18 HIGHLIGHTS



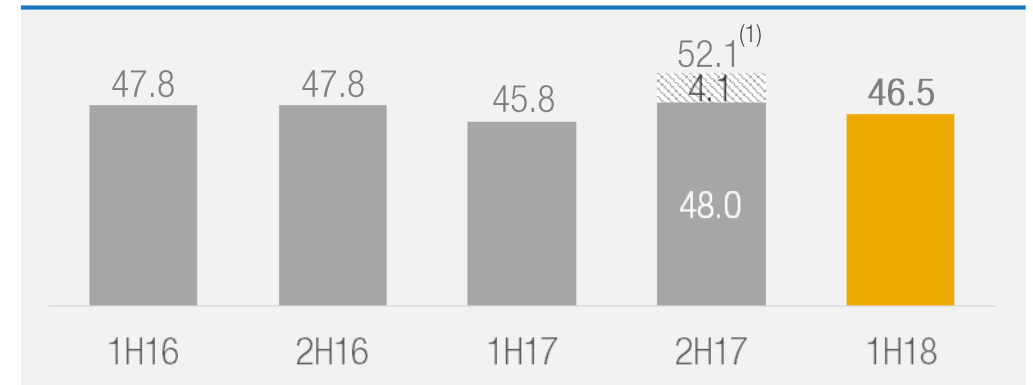
- 1 — Improved lending growth
- 2 — Retail and BOQ Business delivering on Group four-pillar strategy
- 3 — Asset quality remains sound
- 4 — Investing in transformation while maintaining expense discipline
- 5 — Strong capital position provides flexibility

KEY ELEMENTS OF THE RESULT

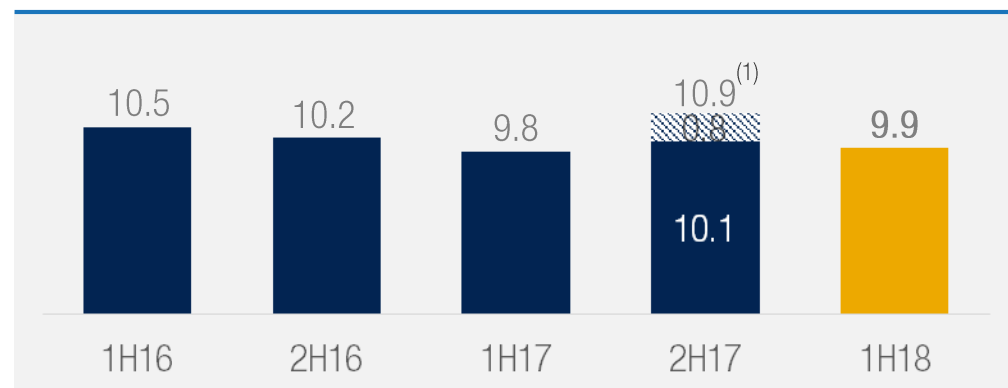
CASH EARNINGS AFTER TAX (\$M)



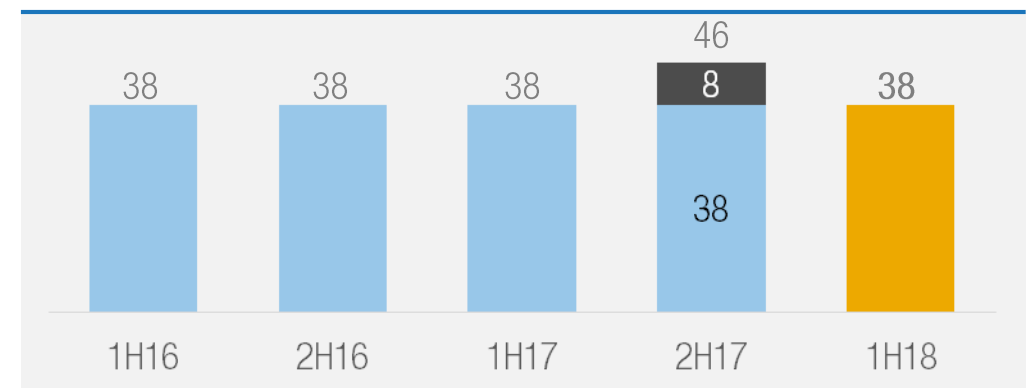
EARNINGS PER ORDINARY SHARE (CENTS)



RETURN ON EQUITY (%)



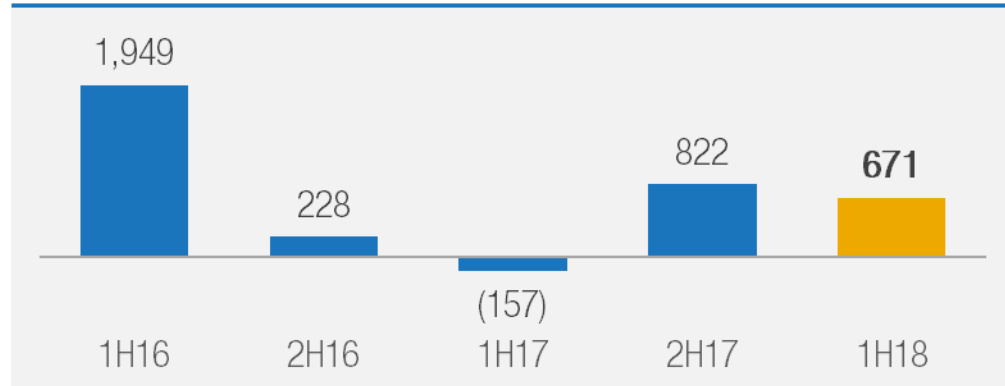
DIVIDENDS PER ORDINARY SHARE (CENTS)



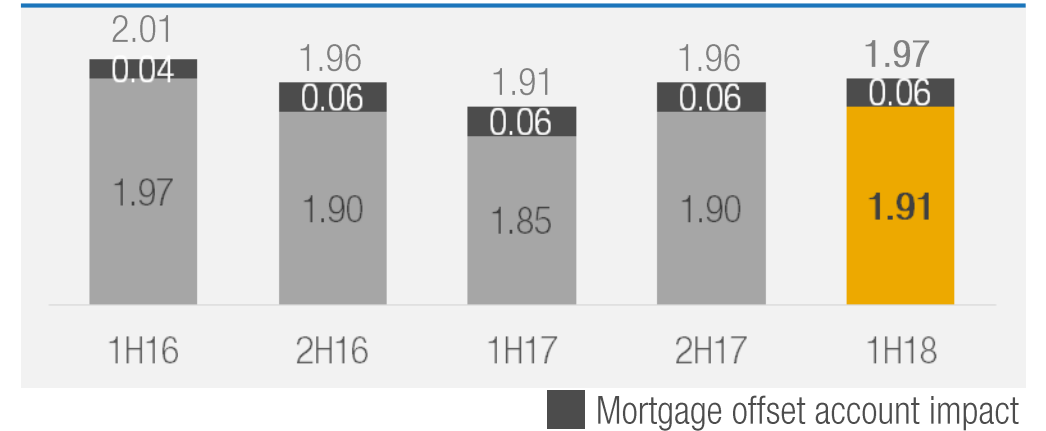
■ Special dividend

DRIVERS OF THE RESULT

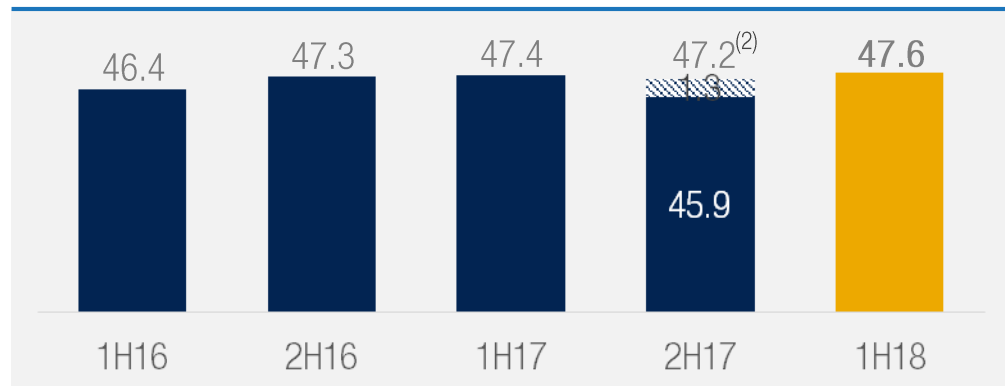
LENDING GROWTH (\$M)



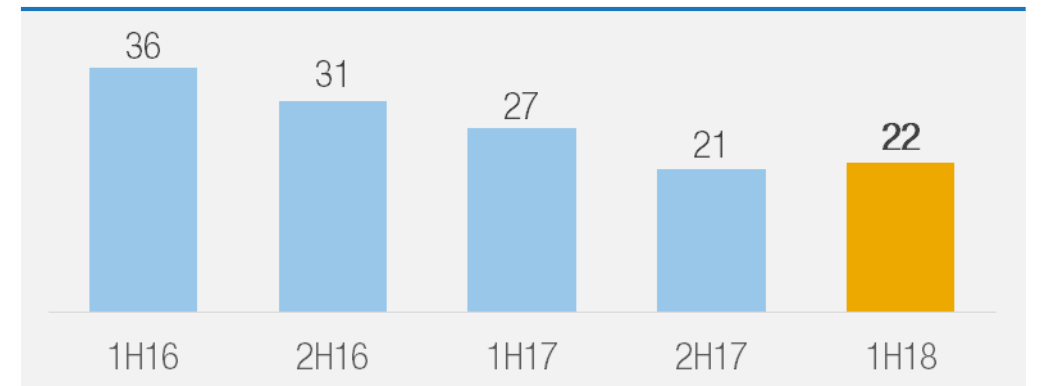
NET INTEREST MARGIN (%)⁽¹⁾



COST TO INCOME RATIO (%)



LOAN IMPAIRMENT EXPENSE (\$M)



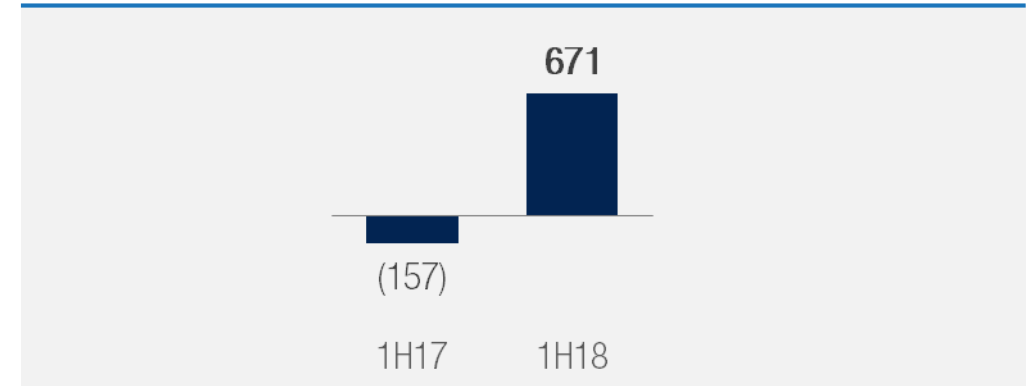
IMPROVED LENDING GROWTH



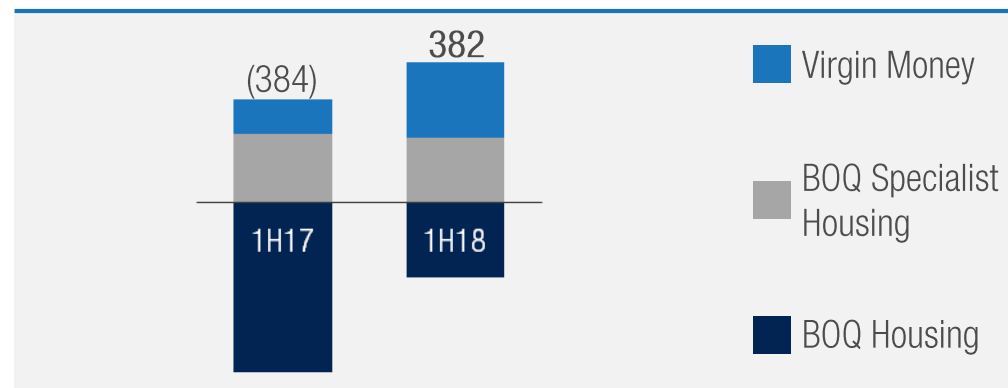
SUMMARY

- Strong home loan growth through Virgin Money Australia & BOQ Specialist continuing
- Mortgage broker volumes building
- Strong growth in commercial loans driven by niche segments
- Branch network run-off slowing
- Historically, second half has been seasonally higher growth period

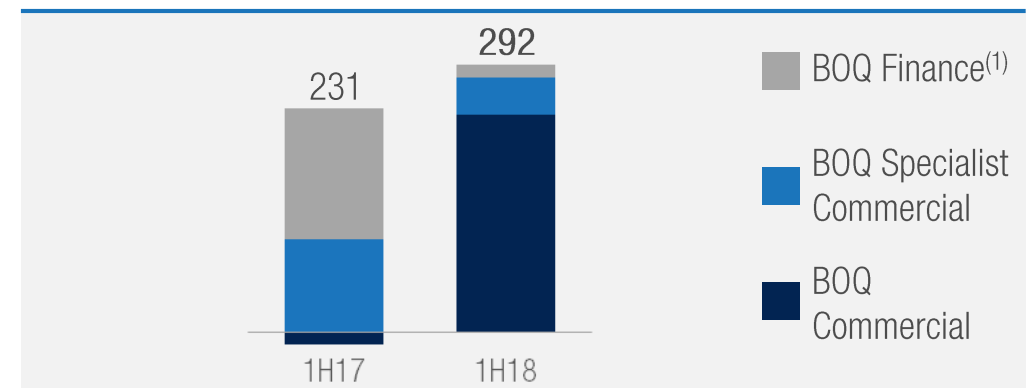
TOTAL LENDING GROWTH VS PCP (\$M)



HOUSING LOAN GROWTH (\$M)



COMMERCIAL LOAN & LEASING GROWTH (\$M)



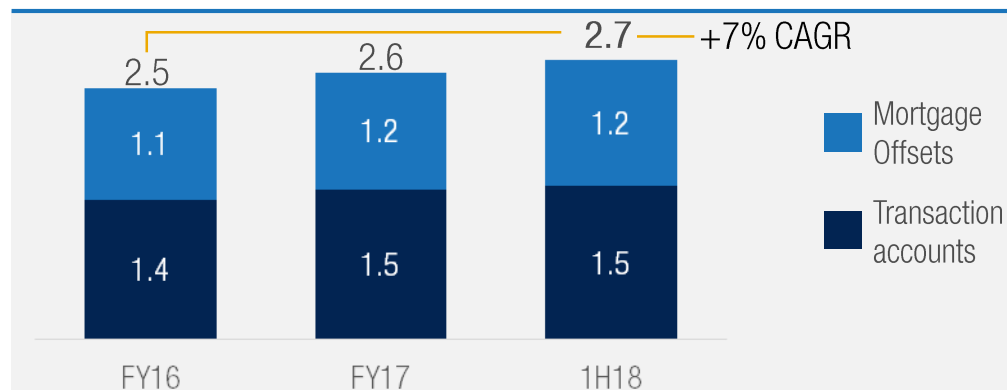
RETAIL BANKING FOCUS ON CHANNELS & DEPOSITS



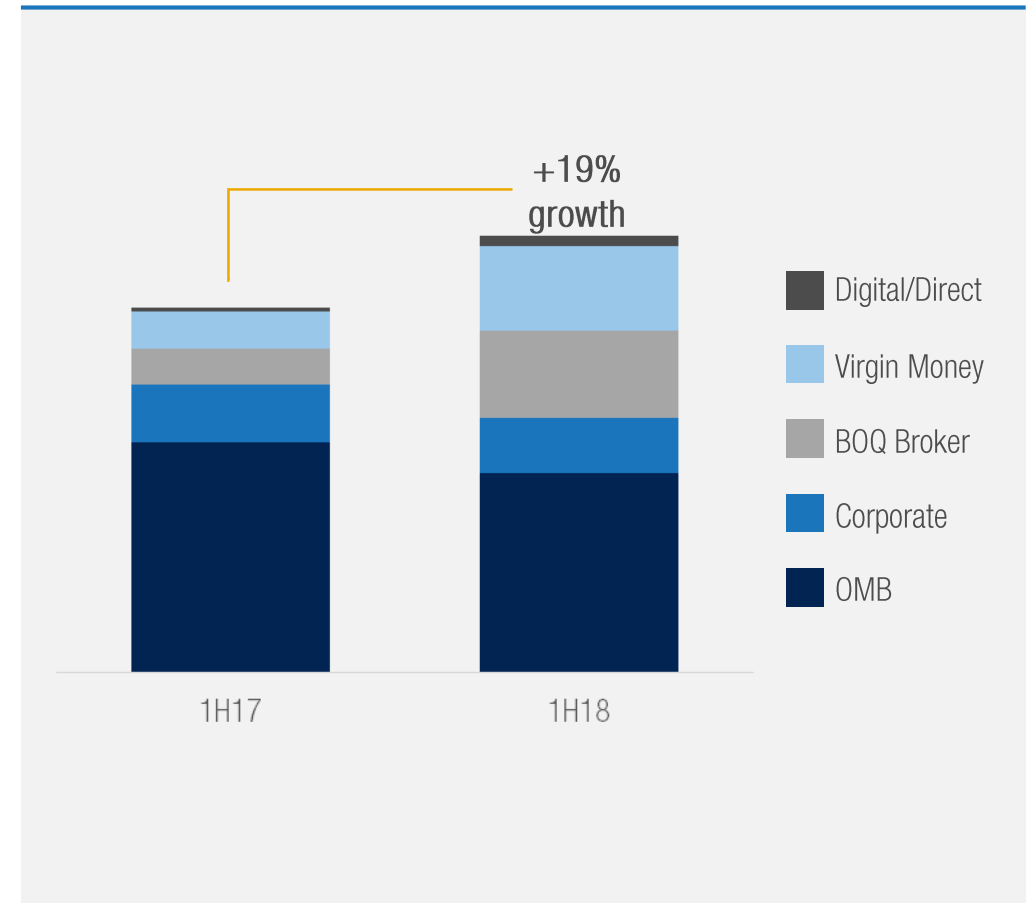
SUMMARY

- Retail expanding distribution channels through BOQ Broker, Virgin Money Australia and Digital
- Settlement volumes improved on PCP basis
- Strong relationship deposit growth in branch network driven by Balanced Scorecard

RETAIL RELATIONSHIP DEPOSIT BALANCES (\$B)



RETAIL HOUSING SETTLEMENTS BY CHANNEL (\$M)



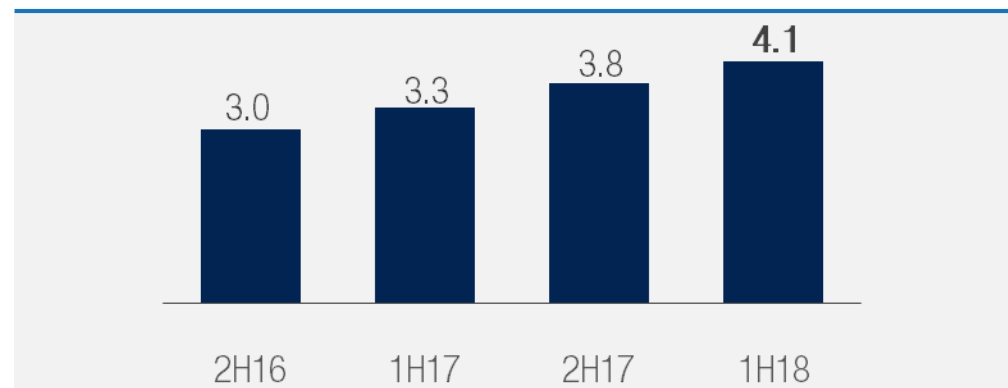
BOQ BUSINESS GROWING NICHE SEGMENTS



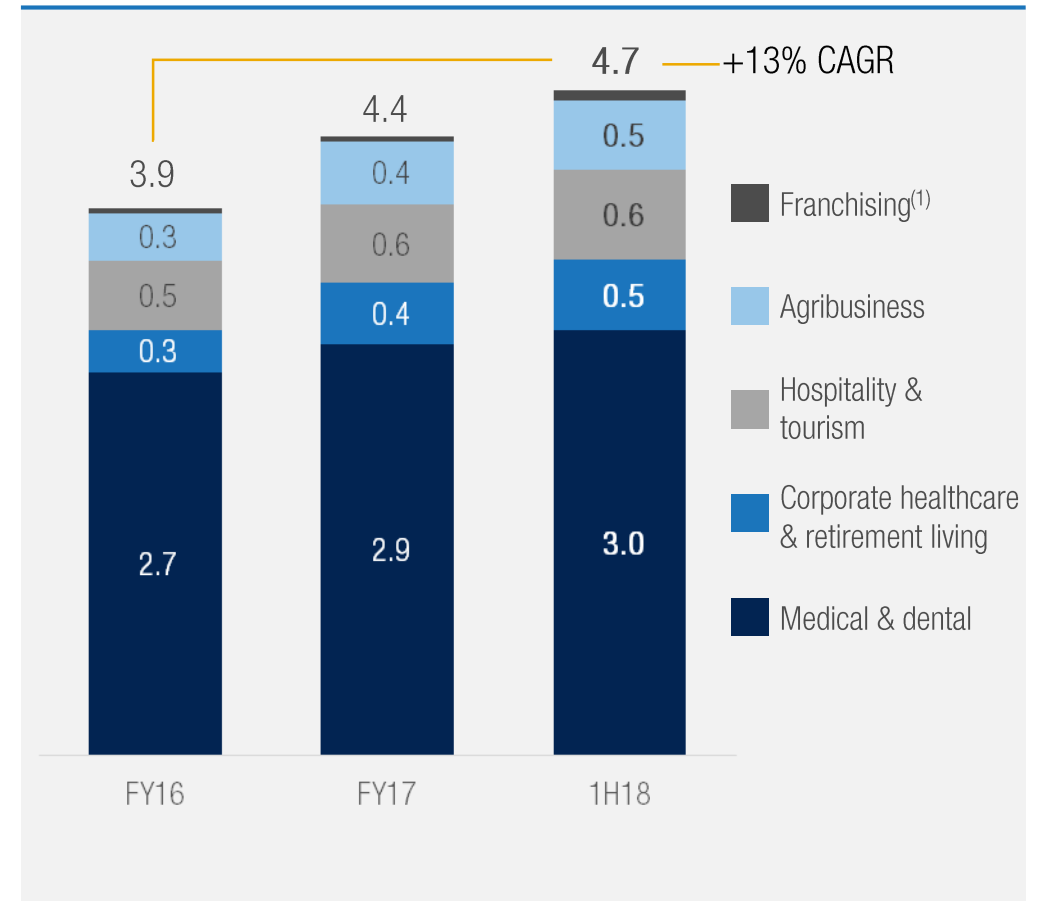
SUMMARY

- BOQ Business focus on growing niche segments of agribusiness, corporate healthcare & retirement living, hospitality & tourism
- BOQ Specialist mortgage growth remains strong – building future pipeline of commercial loan customers
- BOQ Finance focused on improving mix, growing in higher margin segments

BOQ SPECIALIST MORTGAGE BALANCES (\$B)



BUSINESS BANKING NICHE SEGMENT BALANCES (\$M)



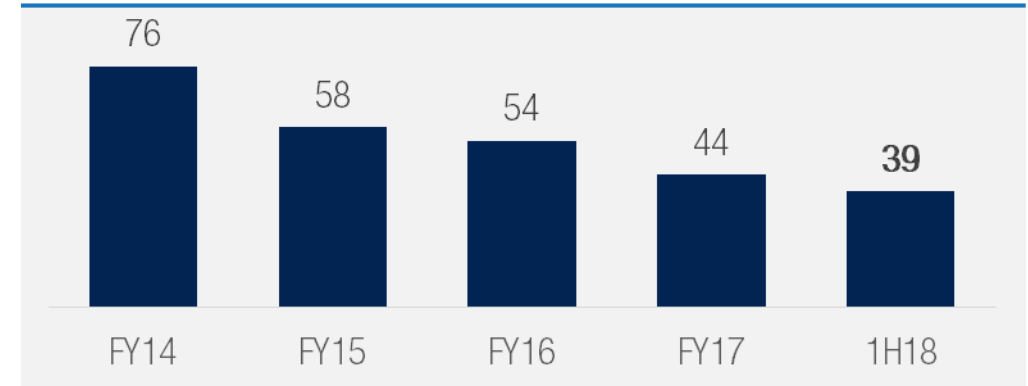
ASSET QUALITY REMAINS SOUND



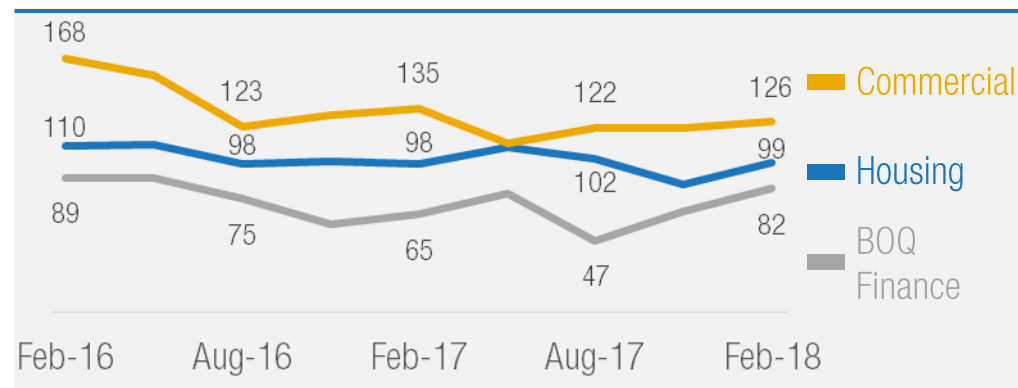
SUMMARY

- Impaired assets continue to reduce
- Arrears levels remain benign
- QLD and WA showing signs of improvement
- Prompt implementation of prudential practice guides

IMPAIRED ASSETS % OF GROSS LOANS (bps)



30-DAY ARREARS (bps)



GROUP IMPAIRMENT EXPENSE / GROSS LOANS (bps)



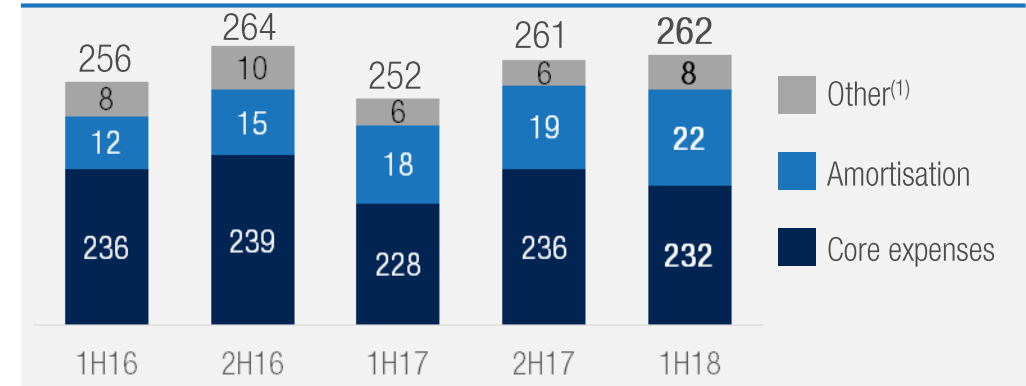
INVESTING IN TRANSFORMATION WHILE MAINTAINING EXPENSE DISCIPLINE



SUMMARY

- Cost savings enabling investment in technology and growth businesses
- New web experience platform now utilised across BOQ, Virgin Money Australia, BOQ Finance and BOQ Specialist
- 10 capex projects delivered in FY17; 18 delivered in 1H18 and 66 in progress

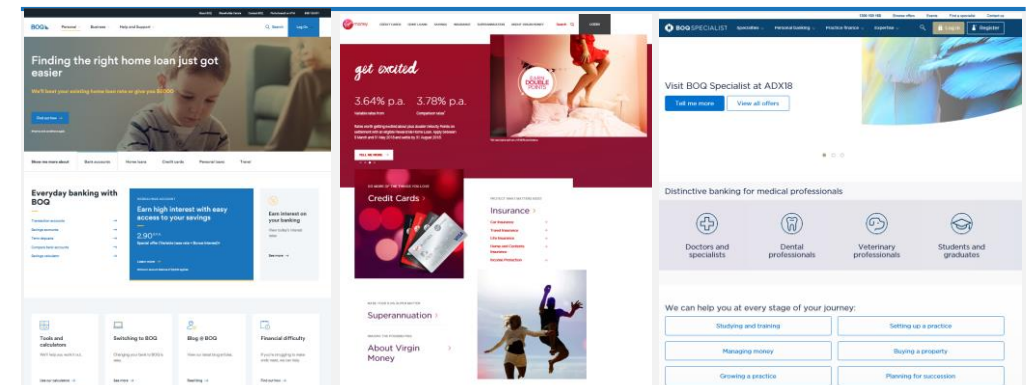
CORE EXPENSES REDUCING (\$M)



CAPITAL EXPENDITURE PROJECTS

Strategic/Longer term	Regulatory & maintenance
Tech infrastructure modernisation	New Payments Platform
Financial Markets digital platform	Cyber Security
Customer engagement platform	Cheque digitisation
API gateway & service fabric	PEXA
Web Experience Platform	Treasury & market risk systems

NEW WEB EXPERIENCE PLATFORM



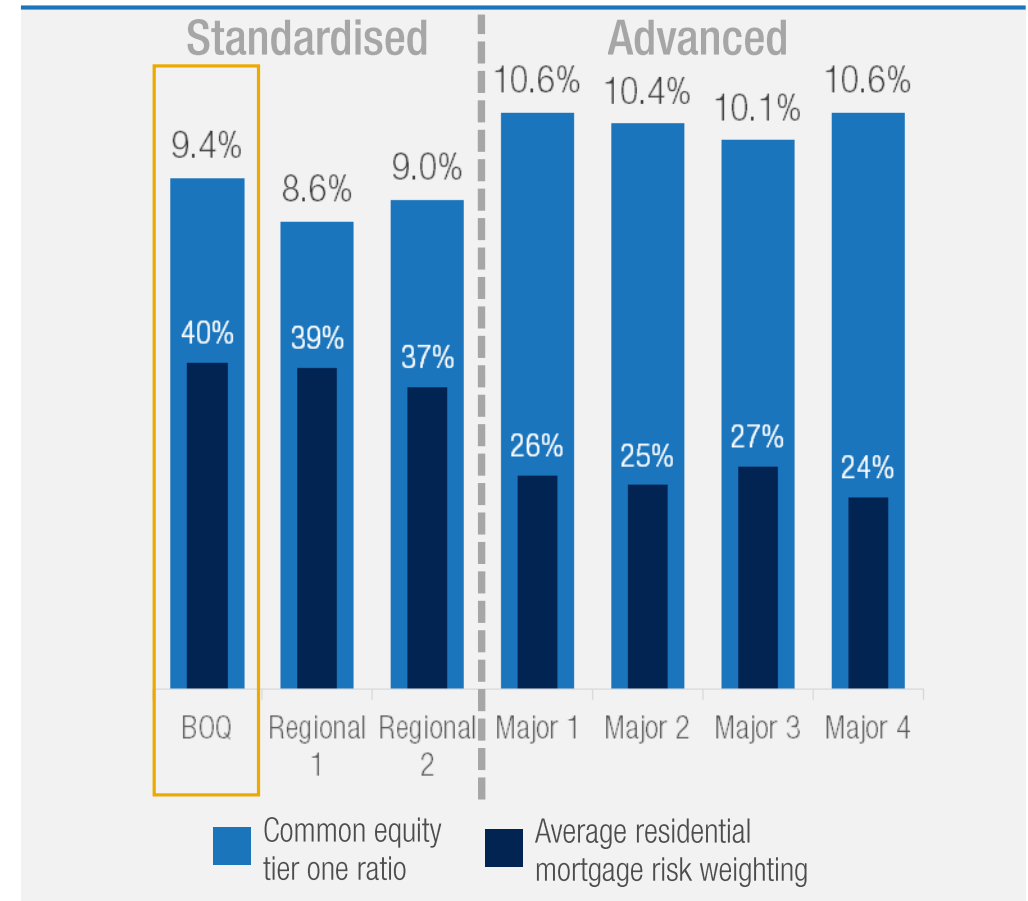
STRONG CAPITAL POSITION PROVIDES FLEXIBILITY



SUMMARY

- CET1 position remains very strong for a standardised bank at 9.42%
- Interim 9.25% CET1 target remains in place
- Basel & APRA announcements⁽¹⁾ suggest BOQ's position remains very comfortable relative to peers
- Capital management initiatives under active consideration

CET1 CAPITAL VS PEERS⁽²⁾



(1) <https://www.bis.org/bcbs/publ/d424.pdf>

<http://www.apra.gov.au/adi/PrudentialFramework/Documents/Revisions%20to%20the%20capital%20framework%20for%20ADIs.pdf>

(2) Peer data based on most recent half or full year disclosures



Financial Detail

Anthony Rose
Chief Financial Officer

FINANCIAL PERFORMANCE



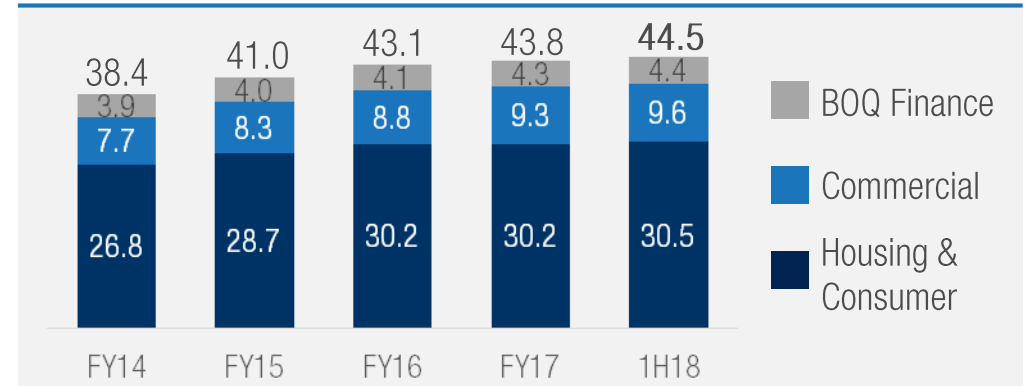
	1H18	1H18 v 1H17	1H18 v 2H17	1H18 v 2H17 adjusted ⁽¹⁾
Net interest income	\$475m	5% ▲	0%	0%
Non interest income	\$75m	(6%) ▼	(21%) ▼	(5%) ▼
Total income	\$550m	3% ▲	(3%) ▼	(1%) ▼
Operating expenses	(\$262m)	4% ▲	0%	0%
Underlying profit	\$288m	3% ▲	(6%) ▼	(1%) ▼
Loan impairment expense	(\$22m)	(19%) ▼	5% ▲	5% ▲
Profit before tax	\$266m	5% ▲	(7%) ▼	(2%) ▼
Income tax expense	(\$84m)	8% ▲	0%	(1%) ▼
Cash earnings after tax	\$182m	4% ▲	(10%) ▼	(3%) ▼
Cash basic earnings per share	46.5c	2% ▲	(11%) ▼	(3%) ▼
Return on average tangible equity	12.9%	(10bps) ▼	(140bps) ▼	(30bps) ▼

LOAN PORTFOLIO AND GROWTH

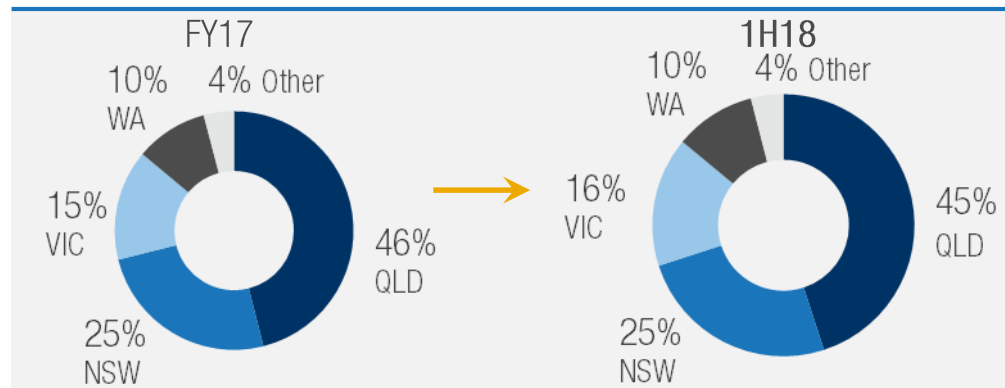
SUMMARY

- Growth across all portfolios
- Total lending growth at 0.7x system; Housing 0.5x; Commercial 1.6x
- Strongest growth in niche commercial segments and new housing channels
- Growth being driven outside of QLD, improving geographic diversification

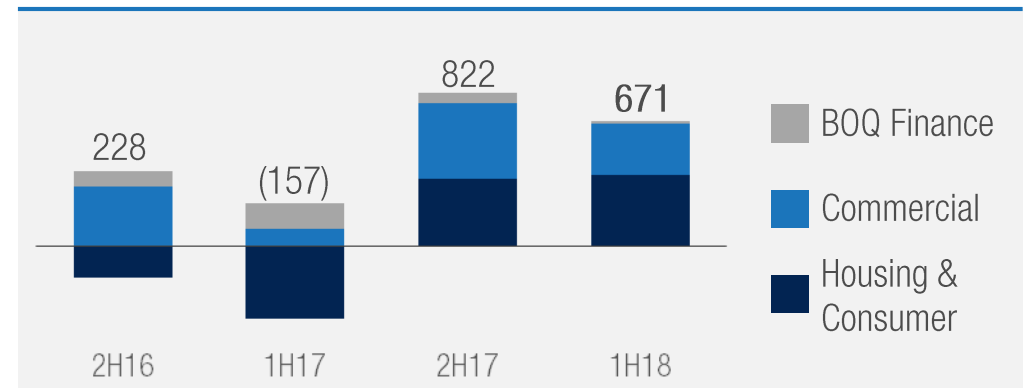
GROSS LOANS & ADVANCES (\$B)



TOTAL LENDING GEOGRAPHIC MIX








HALF YEARLY GROWTH COMPOSITION (\$M)



BOQ REPORTING SEGMENT OVERVIEW



	Retail Banking	BOQ Business
Brands	 	  
Summary	<ul style="list-style-type: none"> Housing loans and deposits originated through the branch network, direct channels, Virgin Money Australia and mortgage brokers. Excludes home loans originated by BOQ Specialist and SME loans originated through branches. 	<ul style="list-style-type: none"> Commercial loans, SME loans, housing loans, asset finance and deposits originated through BOQ Business, BOQ Specialist and BOQ Finance. Includes SME loans originated through the BOQ branch network.
Balance sheet	Housing loans: \$25bn Deposits: \$17bn	Housing loans: \$5bn Commercial loans: \$10bn BOQ Finance: \$4bn Deposits: \$13bn
Cash earnings	\$75m	\$107m

FINANCIAL PERFORMANCE: RETAIL BANKING



	1H18	1H18 v 1H17	1H18 vs 2H17
Net interest income	\$227m	5% ▲	(1%) ▼
Non interest income	\$33m	(3%) ▼	(6%) ▼
Total income	\$260m	4% ▲	(2%) ▼
Operating expenses	(\$141m)	4% ▲	2% ▲
Underlying profit	\$119m	3% ▲	(6%) ▼
Loan impairment expense	(\$10m)	(9%) ▼	233% ⁽¹⁾ ▲
Profit before tax	\$109m	5% ▲	(11%) ▼
Income tax expense	(\$34m)	6% ▲	(11%) ▼
Cash earnings after tax	\$75m	4% ▲	(12%) ▼

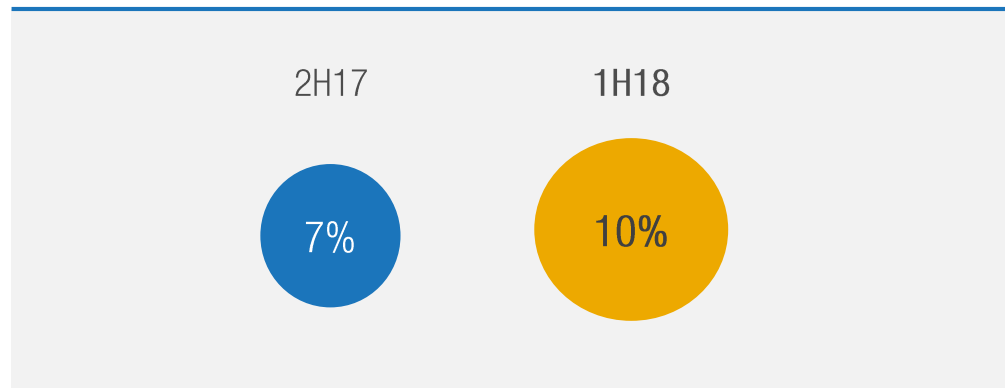
RETAIL BANKING



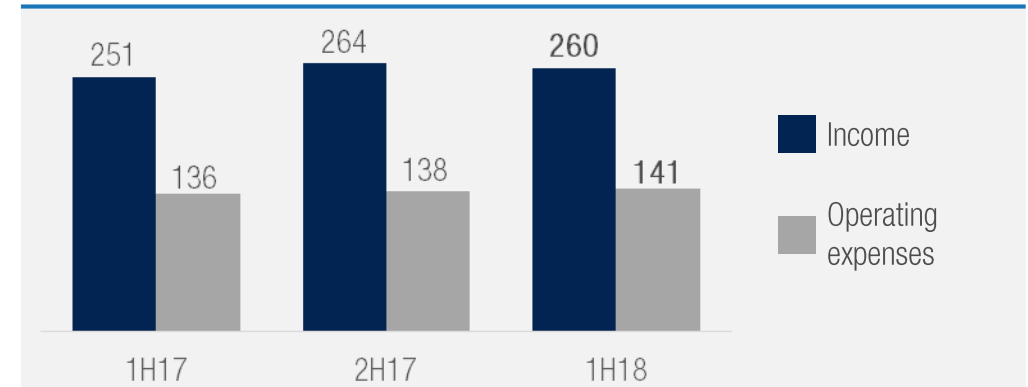
SUMMARY

- Focus on channel diversification and MFI customer growth
- Virgin Money Australia housing loan growth remains strong, contributing 20% of Retail housing settlements
- BOQ Broker volumes driving 20% of Retail housing settlements
- Branch network run-off improving
- Deposit growth focused on transaction and savings to improve funding costs

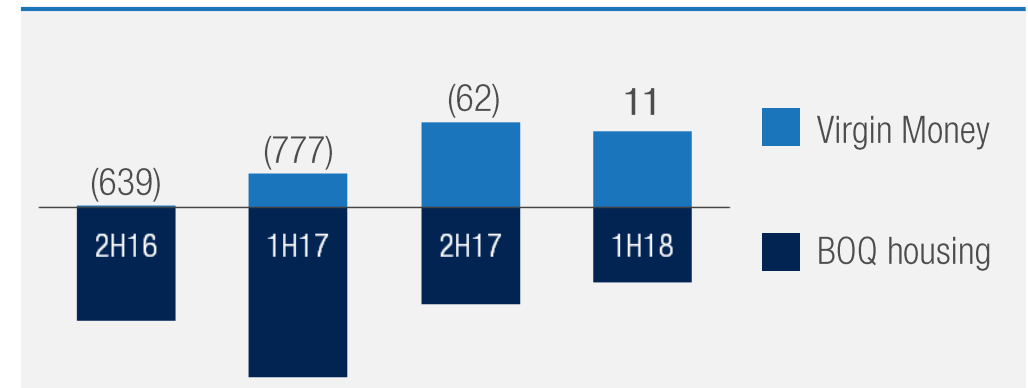
RETAIL TRANSACTION ACCOUNT GROWTH VS PCP



INCOME AND EXPENSES (\$M)



HOUSING LOAN GROWTH BY CHANNEL (\$M)



FINANCIAL PERFORMANCE: BUSINESS BANKING



	1H18	1H18 v 1H17	1H18 vs 2H17 adjusted ⁽¹⁾
Net interest income	\$251m	7% ▲	1% ▲
Non interest income	\$30m	0%	(6%) ▼
Total income	\$281m	6% ▲	0%
Operating expenses	(\$112m)	5% ▲	(1%) ▼
Underlying profit	\$169m	8% ▲	1% ▲
Loan impairment expense	(\$12m)	(25%) ▼	(33%) ▼
Profit before tax	\$157m	11% ▲	5% ▲
Income tax expense	(\$50m)	14% ▲	9% ▲
Cash earnings after tax	\$107m	10% ▲	4% ▲

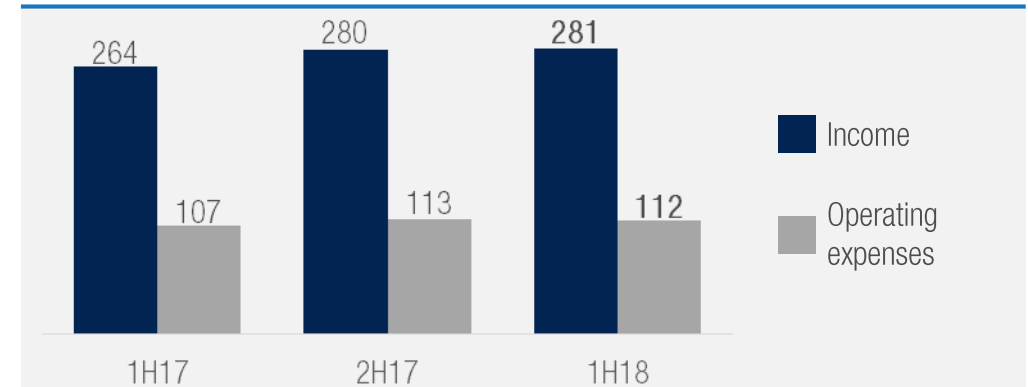
BUSINESS BANKING



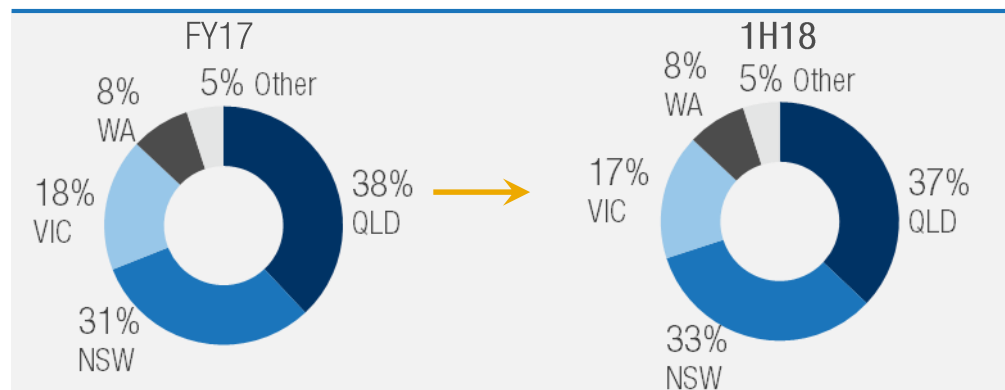
SUMMARY

- Focus on quality and growth in niche segments, delivering \$281m in commercial loan growth
- BOQ Specialist mortgage growth remains strong
- BOQ Finance focus on margin and mix
- Delivering through consistent and superior industry specialist relationship offering

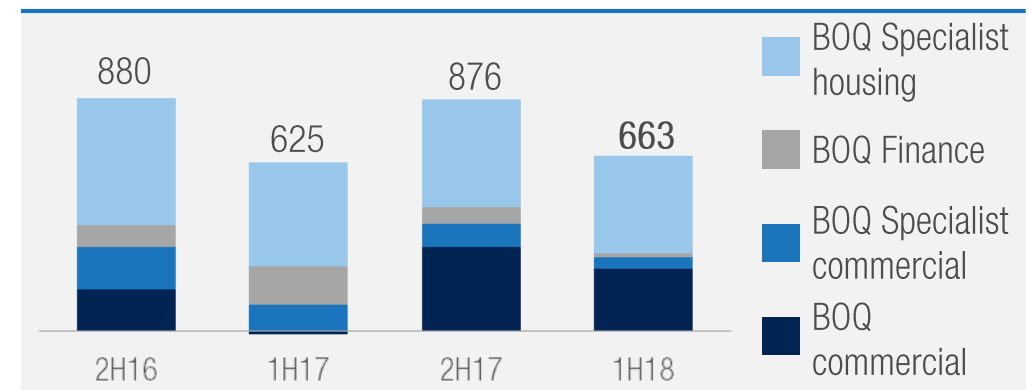
INCOME AND EXPENSES (\$M)⁽¹⁾



COMMERCIAL LOAN GEOGRAPHIC MIX



LOAN GROWTH BY CHANNEL (\$M)

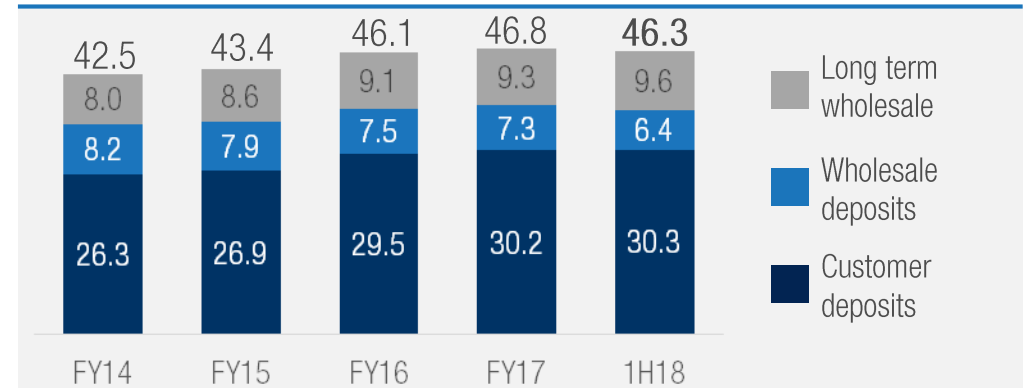


FUNDING MIX

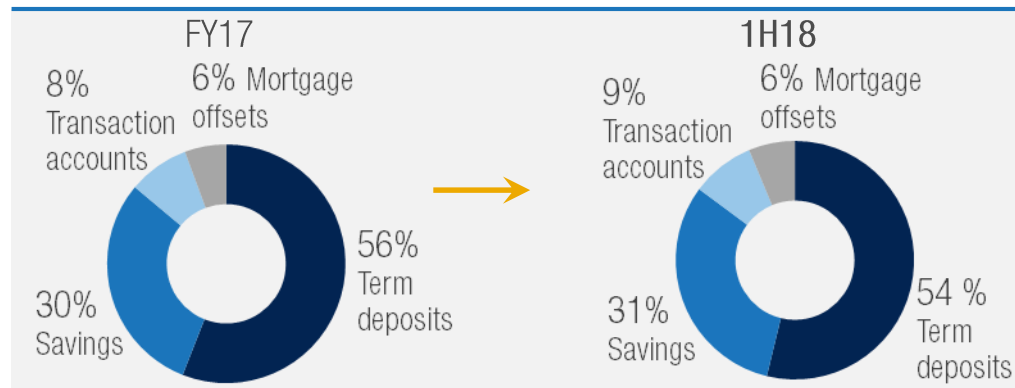
SUMMARY

- Focus on growing lower cost deposits, diversifying funding base and improving mix
- Long term funding profile built out through senior unsecured
- Pricing analytics tool deployed to enhance term deposit retention levels
- Capital Note issuance to refinance redemption of CPS

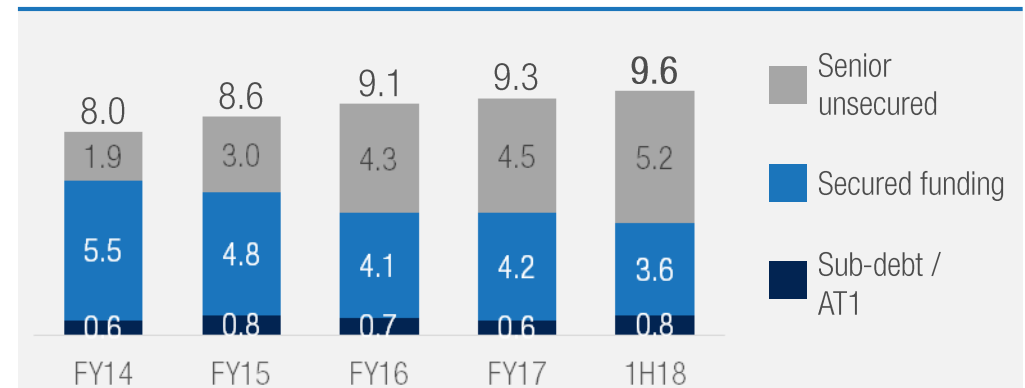
OVERALL FUNDING MIX (\$B)



CUSTOMER DEPOSIT MIX



LONG TERM WHOLESALE FUNDING (\$B)



NET INTEREST MARGIN



NET INTEREST MARGIN MOVEMENTS 2H17 TO 1H18⁽¹⁾



1H18 CONSIDERATIONS

- Front book vs back book impact ongoing given increased industry wide discounting for new business
- Deposit funding spreads improved for the half
- Hedging cost headwind emerging given current cash-bills spread

SUMMARY OF KEY MOVING PARTS

Element	1H17	2H17	1H18 ⁽²⁾
Asset pricing benefits	+6bps	+6bps	+4bps
Front book pricing & mix	(4bps)	(4bps)	(5bps)
Funding costs & mix	(3bps)	+5bps	+2bps
Hedging costs	-	-	+2bps
Capital & LCDs	(3bps)	(2bps)	(1bp)

(1) NIM has been adjusted for Mortgage Offset balances to align with industry practice. Average Mortgage Offset balances were \$1,447m in 1H17, \$1,565m in 2H17 and \$1,728m in 2H18.

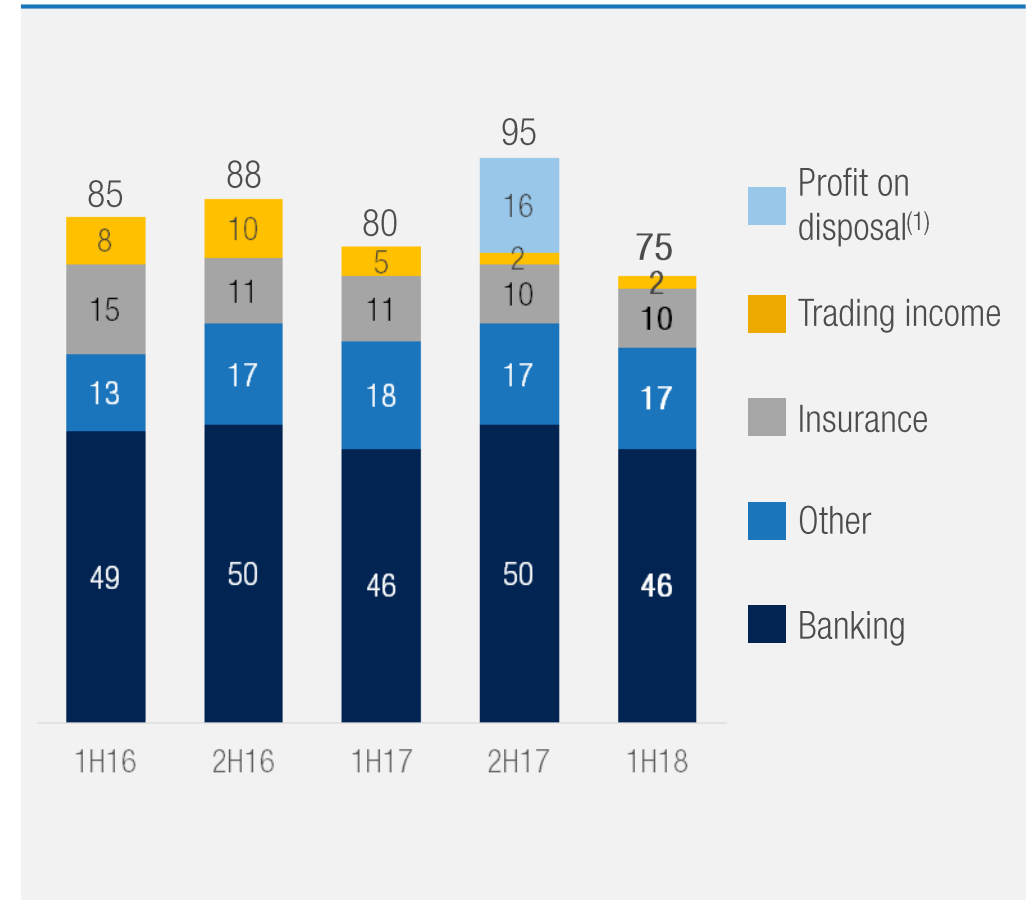
(2) Other moving parts in 1H18 include the -1bp impact due to increased proportion of Third Party Costs

NON INTEREST INCOME

SUMMARY

- Banking fees remain under pressure
- ATM fee impact \$0.6m for the half
- St Andrew's income stabilised
- Trading income opportunities diminished

NON INTEREST INCOME BREAKDOWN (\$M)



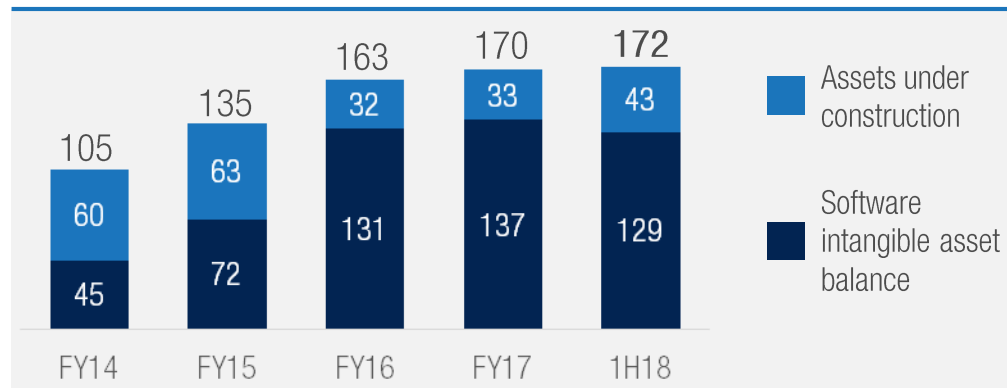
EXPENSES



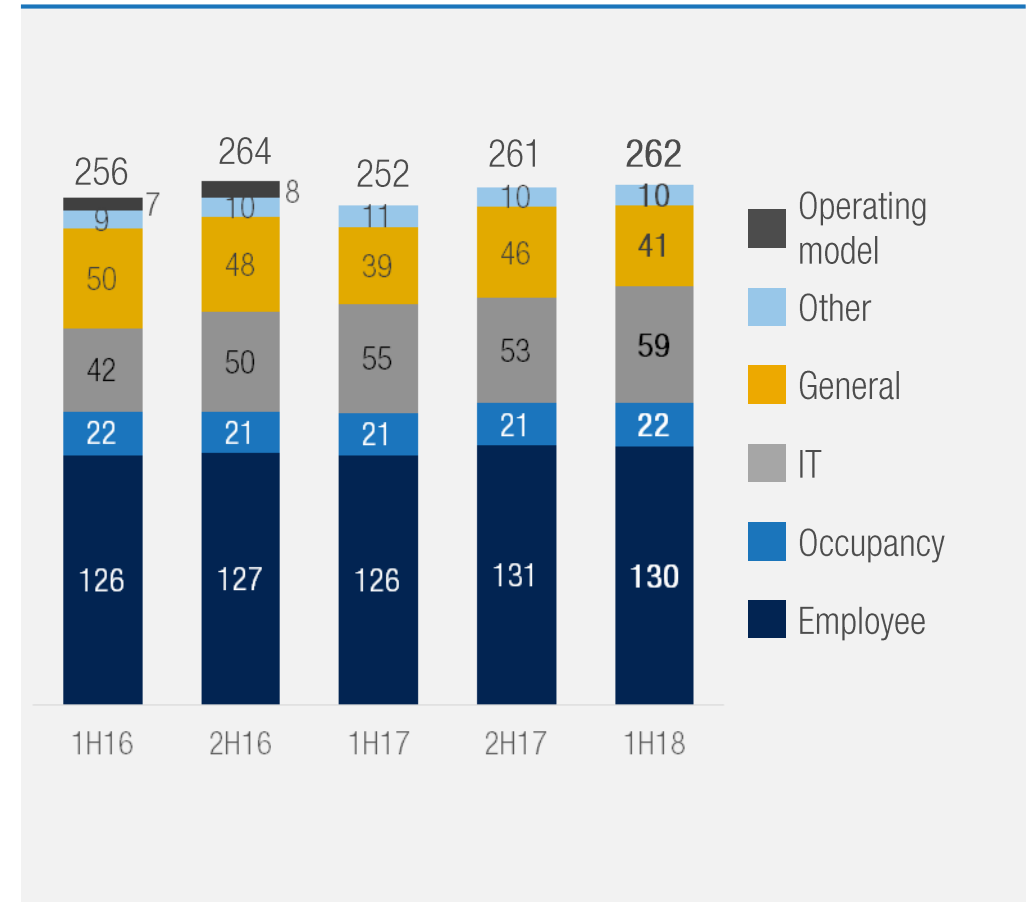
SUMMARY

- Flat cost profile from 2H17
- IT expenses increased due to higher software amortisation
- Efficiency programs delivered targeted savings, allowing investment in growth businesses

CARRYING VALUE OF INTANGIBLE ASSETS (\$M)



OPERATING EXPENSE BREAKDOWN (\$M)



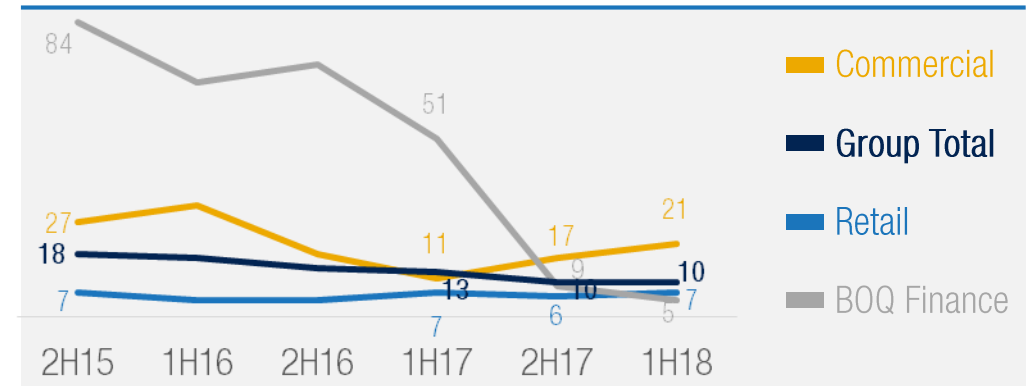
ASSET QUALITY



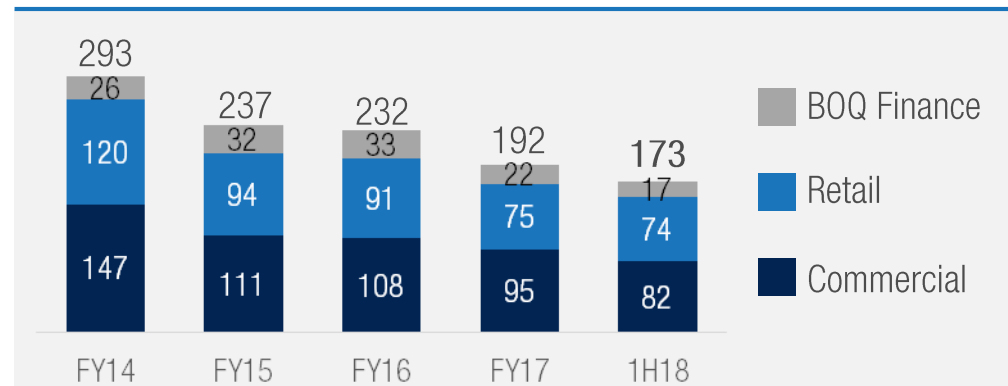
SUMMARY

- Loan impairment expense flat at 10bps of GLA
- Impaired assets reduced a further 10% from 2H17
- New impaired asset volumes also reduced to lowest level since pre-2012

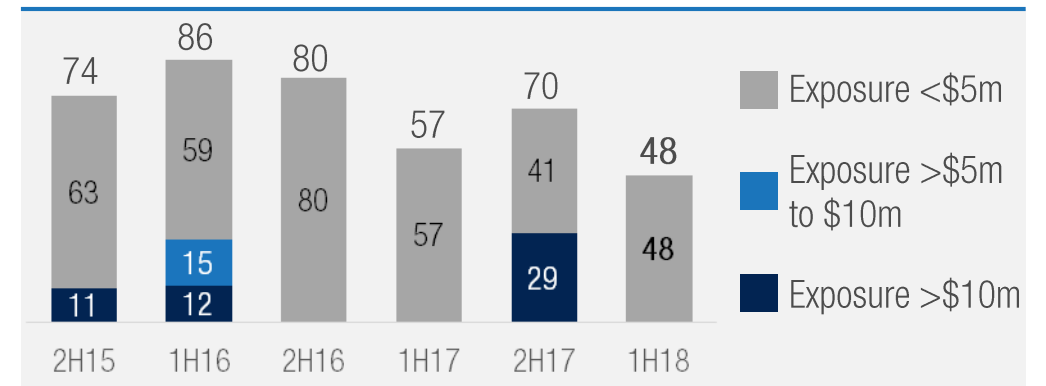
LOAN IMPAIRMENT EXPENSE BY PRODUCT (bps)



IMPAIRED ASSETS (\$M)



NEW IMPAIRED ASSETS (\$M)



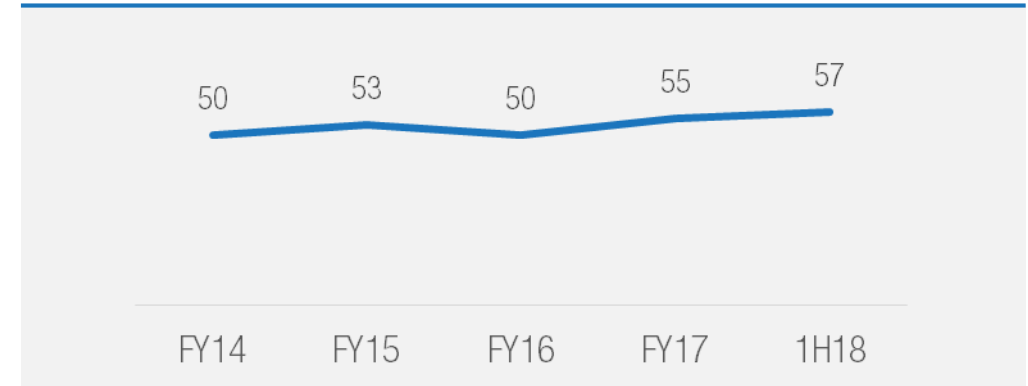
PROVISION COVERAGE



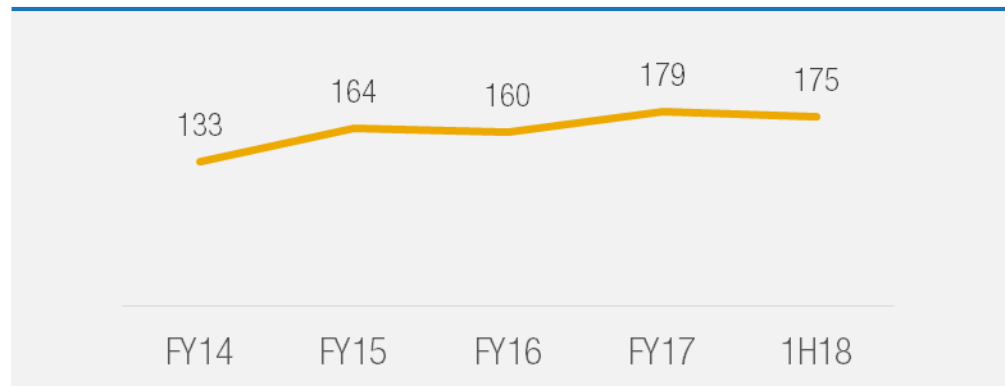
SUMMARY

- Specific provision coverage increased to 57%
- Provision coverage compares favourably with peers
- Total provision coverage remains strong

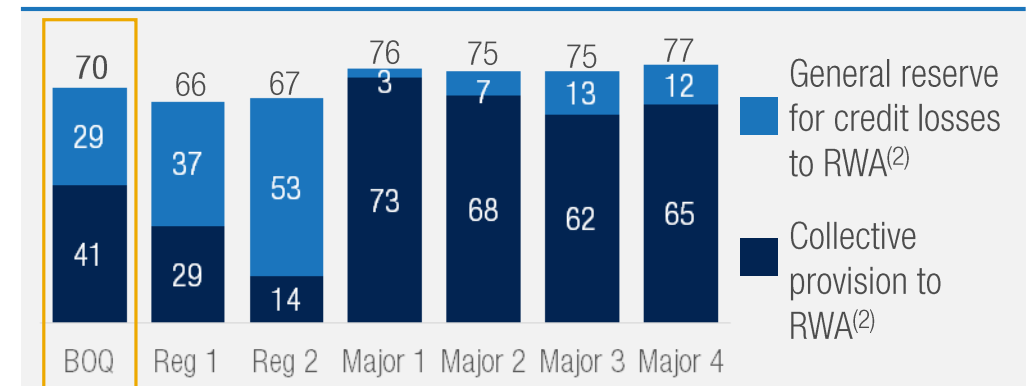
SPECIFIC PROVISIONS / IMPAIRED ASSETS (%)



TOTAL PROVISION & GRCL⁽¹⁾ / IMPAIRED ASSETS (%)



PROVISIONING COVERAGE VS PEERS (bps)



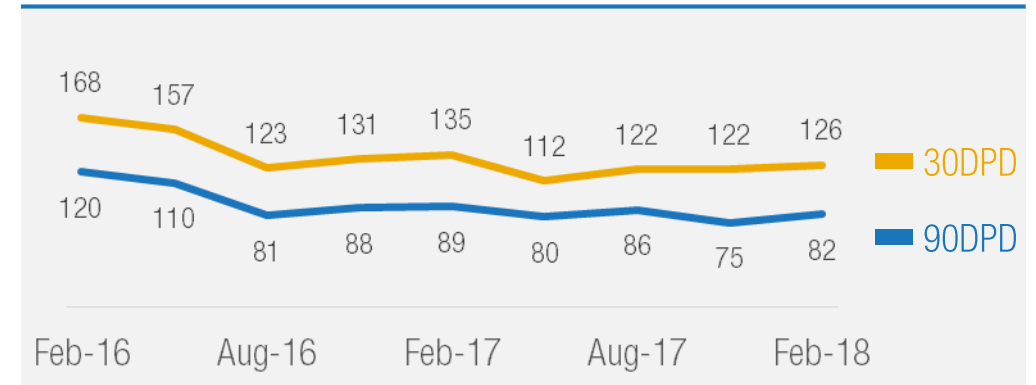
ARREARS



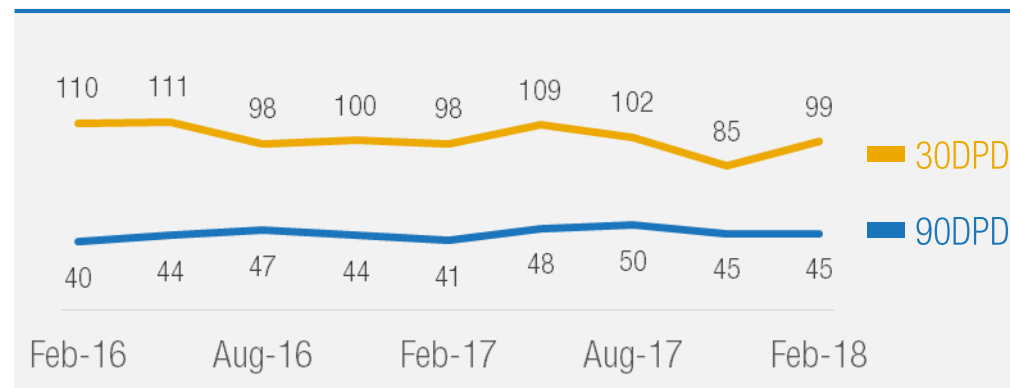
SUMMARY

- Arrears levels remain low across all portfolios
- Usual seasonal uptick apparent in February quarter

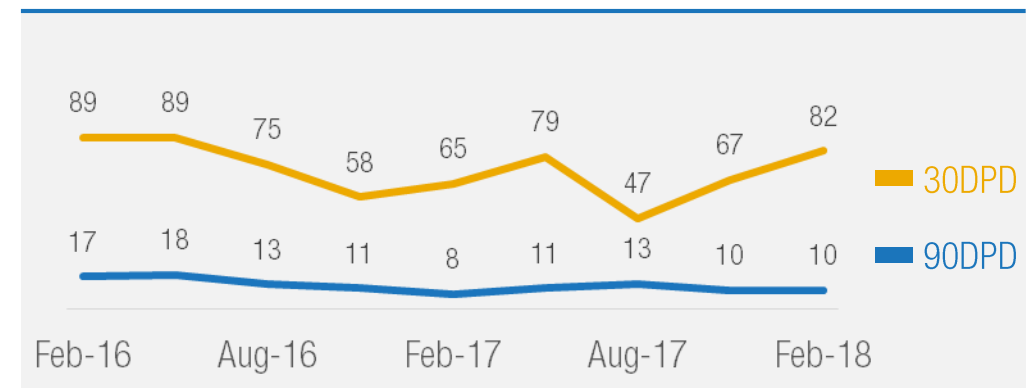
COMMERCIAL ARREARS (bps)



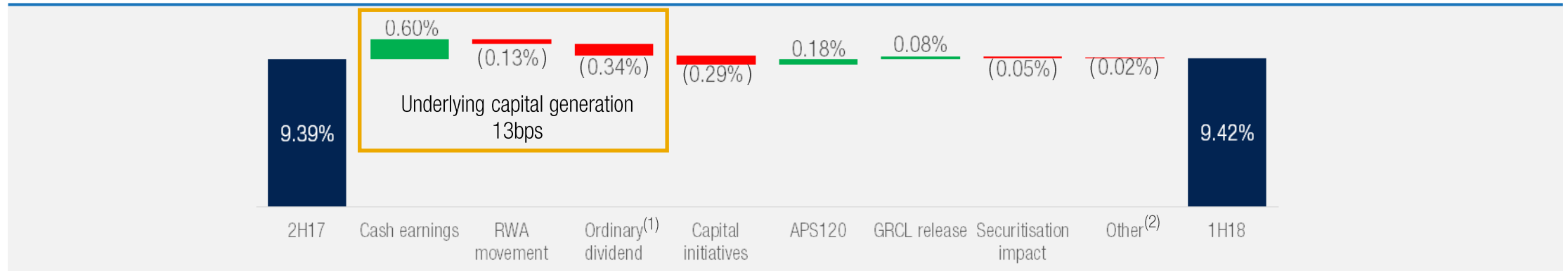
HOUSING ARREARS (bps)



BOQ FINANCE ARREARS (bps)



COMMON EQUITY TIER 1 MOVEMENTS



SUMMARY

- 9.42% Common Equity Tier 1 (CET1) ratio
- 1H18 benefits of +26bps from APS 120 & GRCL reduction
- Capital management initiatives announced last half reduced CET1 by 29bps
- Other non-underlying items reduced CET1 by 7bps

CAPITAL MANAGEMENT

- 9.25% interim CET1 target
- Capital utilisation options under consideration:
 - Organic growth
 - Accelerating digital transformation
 - Future returns of capital to shareholders

SALE OF ST ANDREW'S



SUMMARY

- Sale to Freedom Insurance for total proceeds of \$65m⁽¹⁾, inclusive of a \$35m pre-completion reinsurance arrangement
- Entry into a three-year exclusive life insurance distribution partnership
- Indicative after tax profit on sale of ~\$8m⁽¹⁾
- CET1 uplift of ~20bps following completion
- Customers to benefit from Freedom's specialised industry focus
- Subject to regulatory approvals and conditions – expected completion in second half of calendar year

ST ANDREW'S HISTORICAL CONTRIBUTION (\$M)

	1H17	2H17	1H18
Non interest income	10	10	10
Direct operating expenses	4	4	4
Profit before tax	6	6	6
Income tax expense	2	2	2
Statutory net profit after tax	4	4	4



Summary & Outlook

Jon Sutton
Managing Director & CEO

Industry

- Intense regulatory & public scrutiny
- Conduct, culture & trust critical
- Structural changes likely

Economic

- Conditions supportive of small business
- QLD & WA showing signs of improvement
- Slowing credit growth

STRATEGIC FOCUS



Strategic pillar

Customer in charge

Grow the right way

There's always a better way

Loved like no other

Goals

- Achieving minimum digital parity and meeting more of our customers' digital needs
- Delivering a seamless customer experience across channels

- Improving deposit gathering and lifting MFI penetration across all business lines
- Growing assets with pricing based on risk profile and holistic relationship

- Overhauling key processes to align to our relationship proposition
- Creating capacity to invest by Bringing the Future Forward

- Delivering a differentiated service offering
- Investing in an engaged and capable team

FY18 priorities

1. Upgrade customer facing digital platforms
2. Expand Virgin Money Australia product offering
3. Increase frontline staff to support BOQ Business growth

1. Refocus distribution channels towards deposit gathering and MFI
2. Close key product gaps that support deeper relationships
3. Implement new FX digital platform

1. Operating model refresh and establish centres of excellence
2. Delivery of key transformation initiatives
3. Continuous improvement focused on productivity and customer experience

1. Delivery of the 'Customer Heartbeat' program
2. Improve employee engagement
3. Implement a program to increase advocacy across key business partnerships

- 1** — Niche segment strategy delivering growth
- 2** — Virgin Money Australia continues to exceed expectations
- 3** — Structural changes in the industry provides opportunities
- 4** — Expense and investment discipline remains a priority
- 5** — Strong capital position provides flexibility



Appendices

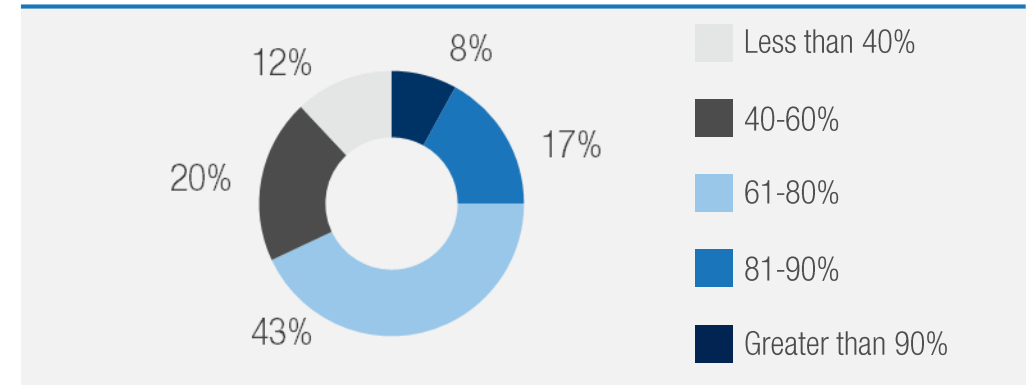
HOUSING PORTFOLIO



SUMMARY

- Broker settlements increased to 30% including Virgin Money
- Interest only settlements trending to less than 30%
- Room for growth under 10% investor cap
- Owner occupied P&I loans represent 49% of portfolio

HOUSING PORTFOLIO LVR BANDS



PORTFOLIO METRICS

Metrics (%)	1H17	2H17	1H18
Owner occupied	59	59	59
Investment	41	41	41
Interest only	39	37	32
Broker originated ⁽¹⁾	9	11	13
Weighted avg LVR	67	67	67
Line of Credit	8	8	7
Avg loan balance	\$265k	\$269k	\$275k
Variable rate	74	72	71
Fixed rate	26	28	29

SETTLEMENT METRICS

Metrics (%)	1H17	2H17	1H18
Owner occupied	70	63	61
Investment	30	37	39
Interest only	38	37	16
Broker originated ⁽¹⁾	15	28	30
Weighted avg LVR	67	69	68
Line of Credit	2	1	1
Avg loan balance	\$370k	\$381k	\$394k
Variable rate	72	72	72
Fixed rate	28	28	28

LIMITED EXPOSURE TO HIGH RISK SECTORS

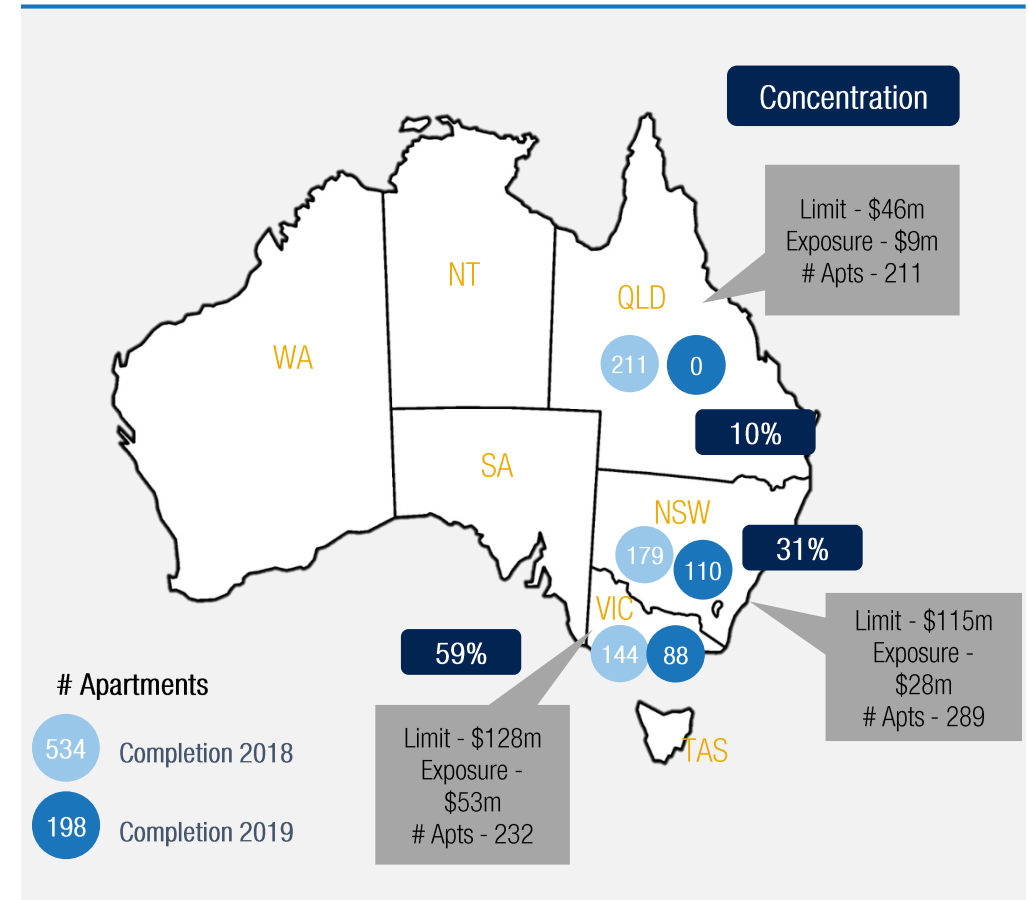
APARTMENT CONSTRUCTION EXPOSURES

- \$90m current exposure to residential construction
- 16 developments across 3 states, completing 2018 through 2019
- Well diversified intra-state

OTHER HIGH RISK SECTORS

- No material regional housing exposures
- No systemic issues emerging
- Direct mining industry exposure ~\$100m

LENDING TO RESIDENTIAL APARTMENT CONSTRUCTION



ABBREVIATIONS



1H: First half of financial year	EPS: Earnings per share
2H: Second half of financial year	FY: Financial year
30DPD: 30 days past due	GLA: Gross Loans & Advances
90DPD: 90 days past due	GRCL: General Reserve for Credit Losses
APRA: Australian Prudential Regulation Authority	LCD: Low cost deposit
APS: ADI Prudential Standards	LOC: Line of Credit
Apts: Apartments	LVR: Loan to valuation ratio
AT1: Additional Tier One	MFI: Main Financial Institution
Avg: Average	NIM: Net Interest Margin
BDD: Bad & Doubtful Debt Expense	OMB: Owner Managed Branch
bps: basis points	P&I: Principal & interest
CAGR: Compound annual growth rate	PCP: Prior corresponding period
CET1: Common Equity Tier 1	ROE: Return on equity
cps: Cents per share	ROTE: Return on tangible equity
CPS: Convertible Preference Shares	SME: Small and Medium Enterprises
CTI: Cost-to-income ratio	TD: Term deposit
DPD: Days past due	VMA: Virgin Money Australia
DRP: Dividend Reinvestment Plan	