1H19 RESULTS PRESENTATION

11 APRIL 2019

Half year ended 28 February 2019

RESULTS OVERVIEW

Anthony Rose Interim CEO

FINANCIAL DETAIL

Matt Baxby Chief Financial Officer

SUMMARY & OUTLOOK

Anthony Rose Interim CEO

1H19 RESULTS SUMMARY

1 Niche growth, asset quality and capital remain strong

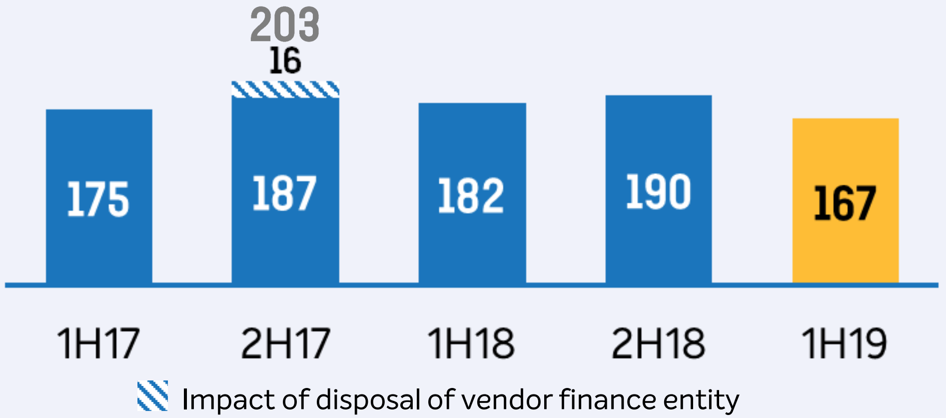
2 Industry developments & Retail Bank performance impacting returns

3 Initiatives underway for long term value creation

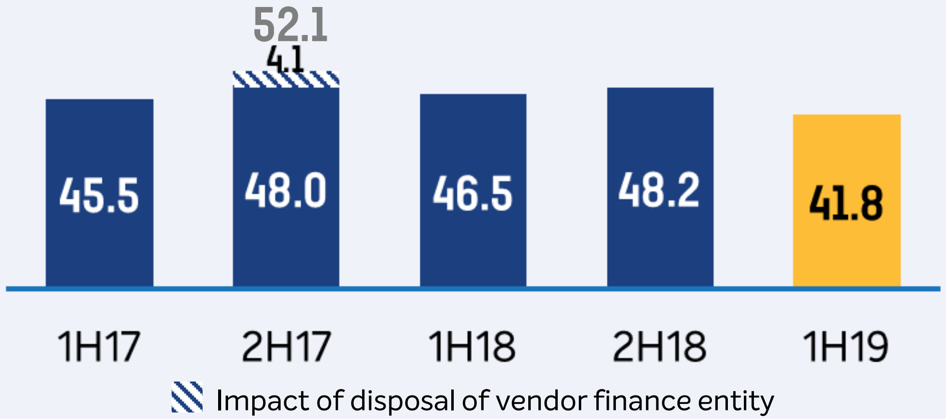
KEY ELEMENTS OF THE RESULT

BOQ GROUP

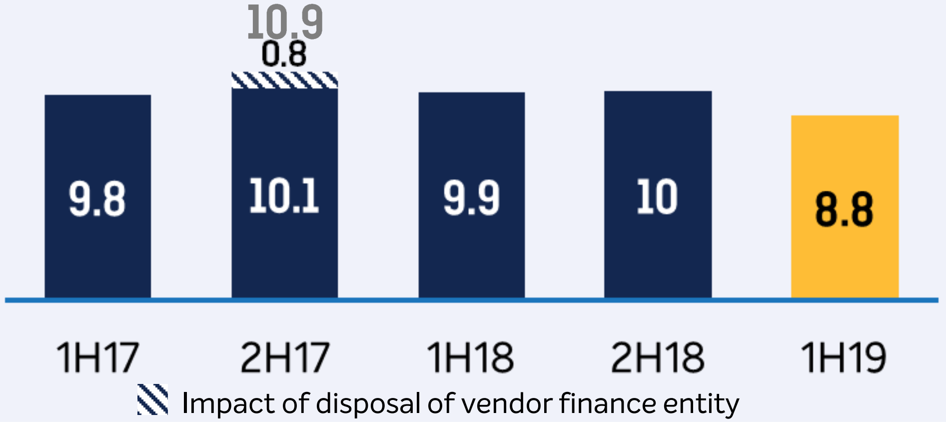
CASH EARNINGS AFTER TAX ($M)



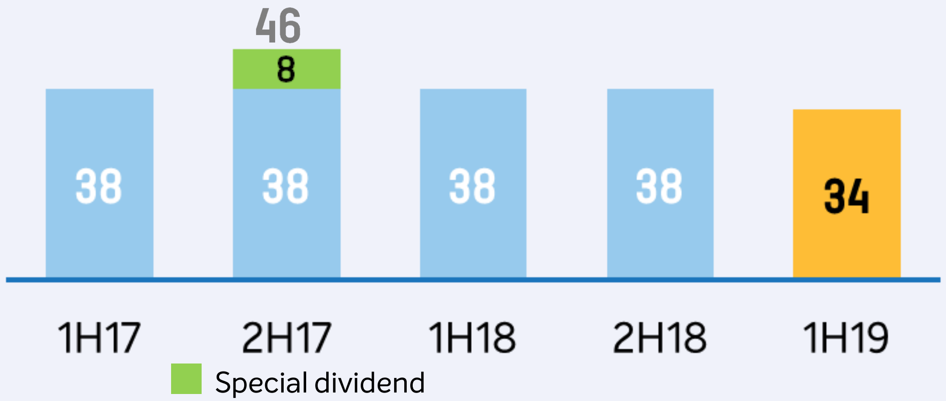
EARNINGS PER ORDINARY SHARE (CENTS)



RETURN ON EQUITY (%)

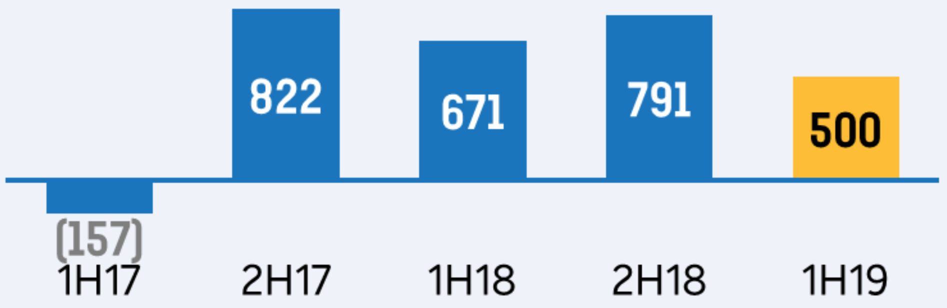


DIVIDENDS PER SHARE (CENTS)

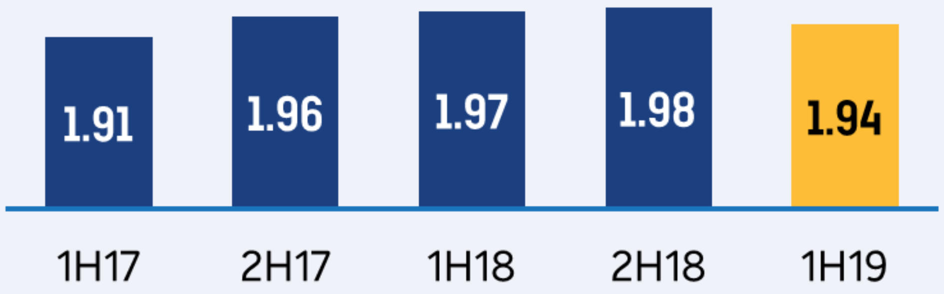


DRIVERS OF THE RESULT

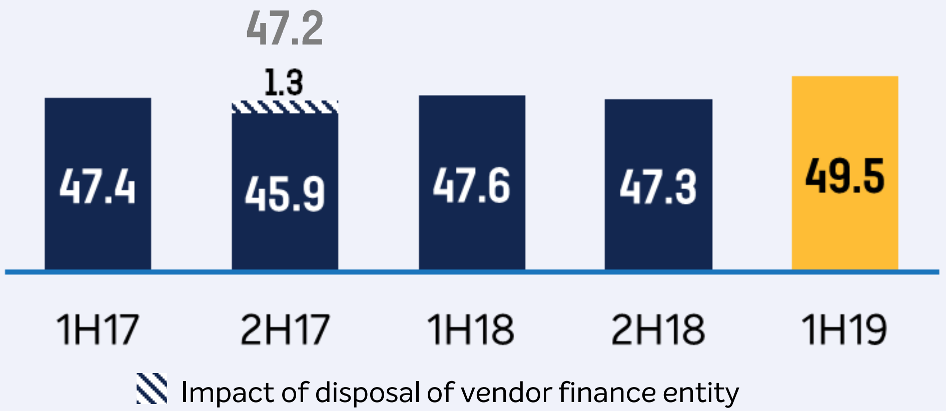
LENDING GROWTH ($M)



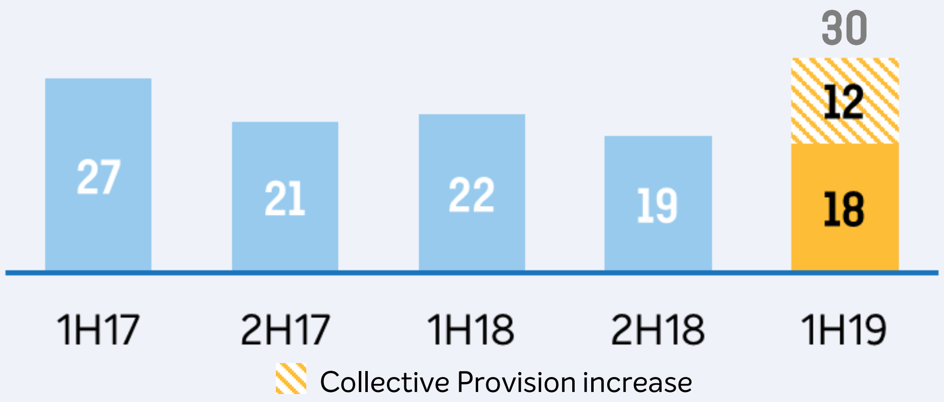
NET INTEREST MARGIN (%)



COST TO INCOME RATIO (%)



LOAN IMPAIRMENT EXPENSE ($M)

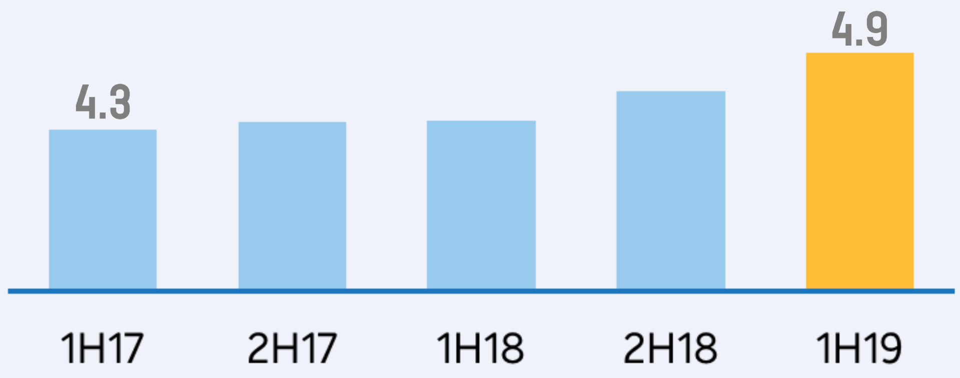


BOQ BUSINESS DELIVERING SOLID GROWTH

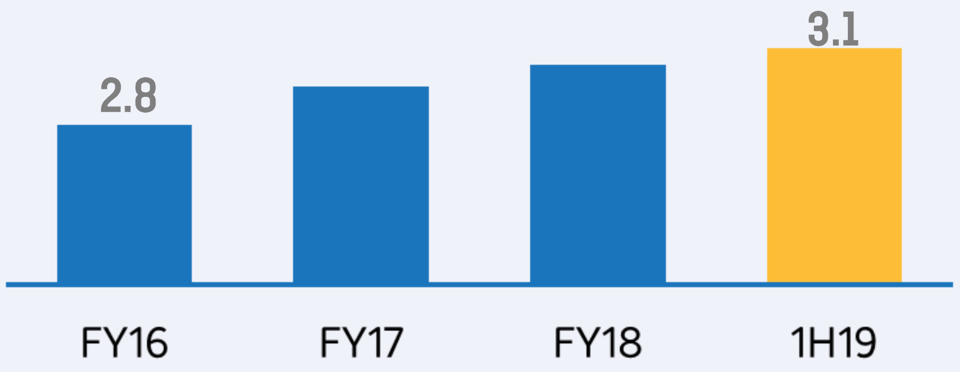
SUMMARY

> Total loan growth of $756m or 8% annualised
> Growth in BOQ Specialist & BOQ Finance demonstrates niche strategy is working
> Focus on quality and return for risk

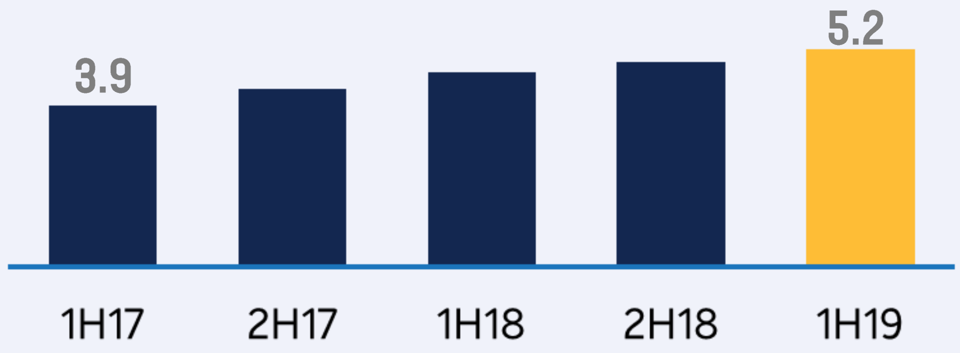
BOQ FINANCE BALANCES ($B)



BOQ SPECIALIST COMMERCIAL BALANCES ($B)



BOQ SPECIALIST HOUSING BALANCES ($B)



MIXED PERFORMANCE ACROSS RETAIL

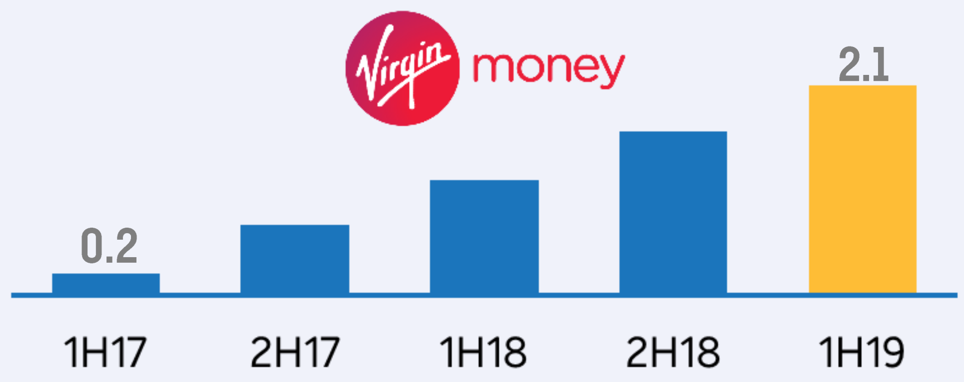
SUMMARY

- Successful diversification of distribution channels
- Virgin Money continues to achieve strong levels of customer acquisition
- Core Retail business continues to underperform due to three key constraints

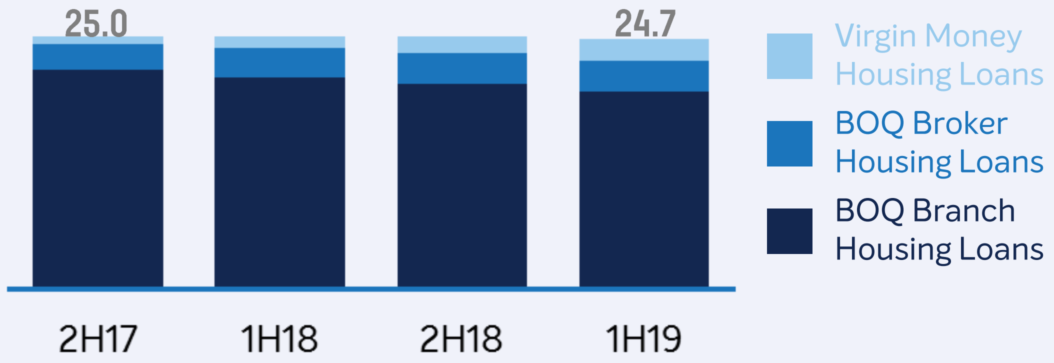
RETAIL BANKING CONSTRAINTS

- Lending processes made complex by application of responsible lending
- Digital customer platforms lagging peers
- Regulatory uncertainty impacted Owner Manager renewal

VIRGIN MONEY HOUSING LOAN BALANCES ($B)



RETAIL HOME LOAN BALANCES ($B)[1]



(1) Excludes Digital & Direct

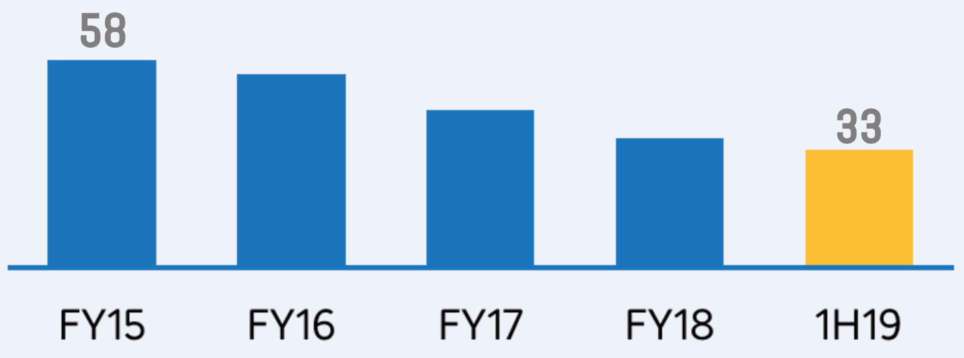
ASSET QUALITY & CAPITAL STRONG

BOQ GROUP

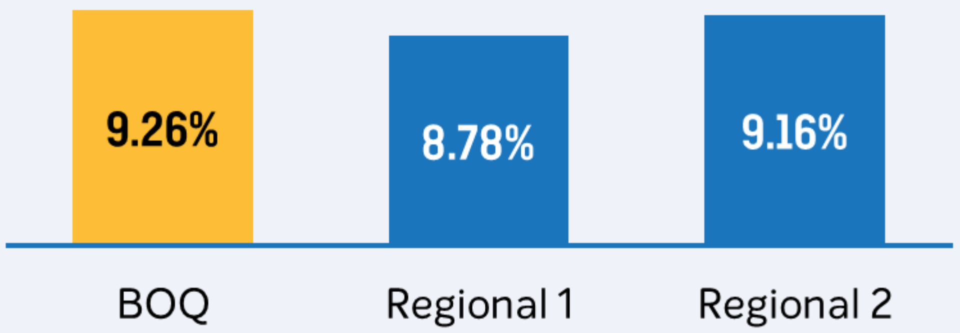
SUMMARY

- Impaired assets continue to reduce, reflecting appropriate risk appetite settings, loan origination practices and ongoing customer management
- Arrears remain at benign levels, comparing favourably with peers
- Capital level remains strong

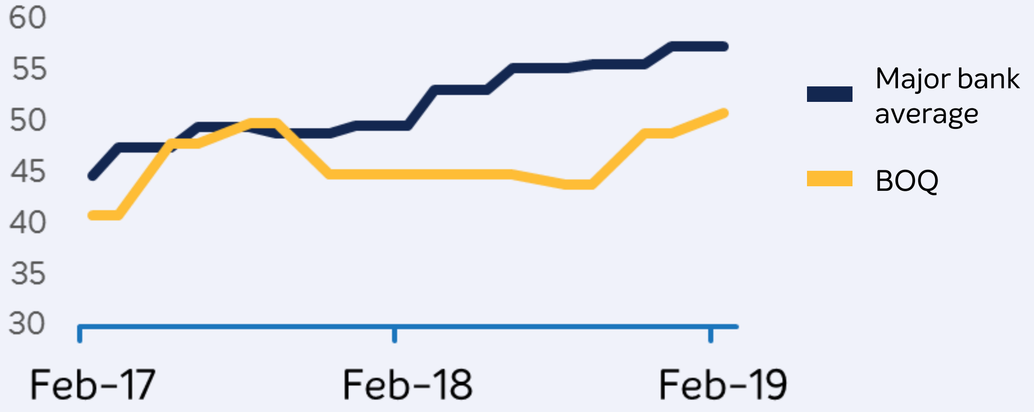
IMPAIRED ASSETS % OF GROSS LOANS (bps)



COMMON EQUITY TIER 1 VS PEERS (%)[1]



90-DAY HOUSING ARREARS (bps)[2]



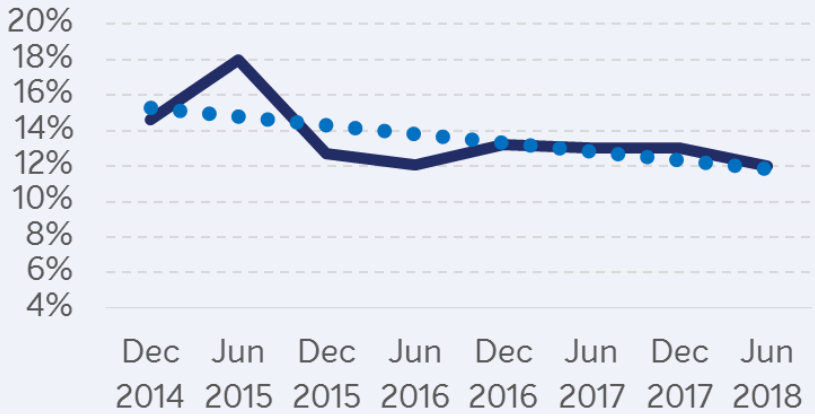
(1) Peer data based on most recent half year disclosures for Bendigo & Adelaide Bank and Suncorp Bank
(2) Peer data based on APRA Pillar 3 Residential Mortgage disclosures for ANZ, CBA, NAB & WBC

CHANGING INDUSTRY LANDSCAPE

SUMMARY

- Returns declining across the sector
- Credit growth slowing, price competition intensifying, economic outlook more uncertain
- Royal Commission completed with industry impact to be long lasting
- Regulatory expectations and costs rising

BANK SECTOR RETURN ON EQUITY(%)[1]



ROYAL COMMISSION OBSERVATIONS

- Clear focus on improving customer outcomes
- Incentive arrangements need to better align with customer interests
- Work for the industry to do to restore trust

RISING REGULATORY EXPECTATIONS

- APRA self-assessments show ADIs have more work to do to manage non-financial risks
- BEAR driving shift to a positive attestation control framework
- All regulators more active

(1) Source: APRA Quarterly ADI Performance Statistics.

FINANCIAL DETAIL

MATT BAXBY
CHIEF FINANCIAL OFFICER

FINANCIAL PERFORMANCE: HALF ON HALF

BOQ GROUP

	1H19	1H19 v 1H18	1H19 v 2H18
Net interest income	$476m	–	(3%) ▼
Non-interest income	$65m	(13%) ▼	(7%) ▼
Total income	**$541m**	**(2%)** ▼	**(3%)** ▼
Operating expenses	($268m)	2% ▲	1% ▲
Underlying profit	**$273m**	**(5%)** ▼	**(7%)** ▼
Loan impairment expense	($30m)	36% ▲	58% ▲
Cash profit before tax	**$243m**	**(9%)** ▼	**(12%)** ▼
Income tax expense	($76m)	(10%) ▼	(12%) ▼
Cash earnings after tax	**$167m**	**(8%)** ▼	**(12%)** ▼
Statutory net profit after tax[(1)]	**$156m**	**(10%)** ▼	**(4%)** ▼
Cash basic earnings per share	41.8c	(10%) ▼	(13%) ▼
Return on average tangible equity	11.4%	(150bps) ▼	(160bps) ▼

(1) Refer to page 19 for a reconciliation of cash earnings to statutory profit

SEGMENT PERFORMANCE: HALF ON HALF

	RETAIL BANKING		BOQ BUSINESS	
	1H19	**1H19 v 1H18**	**1H19**	**1H19 v 1H18**
Net interest income	$215m	(5%)	$261m	4%
Non-interest income	$32m	(3%)	$26m	(13%)
Total income	**$247m**	**(5%)**	**$287m**	**2%**
Operating expenses	($141m)	-	($118m)	5%
Underlying profit	**$106m**	**(11%)**	**$169m**	**-**
Loan impairment expense	($10m)	-	($20m)	67%
Cash profit before tax	**$96m**	**(12%)**	**$149m**	**(5%)**
Income tax expense	($30m)	(12%)	($47m)	(6%)
Cash earnings after tax	**$66m**	**(12%)**	**$102m**	**(5%)**

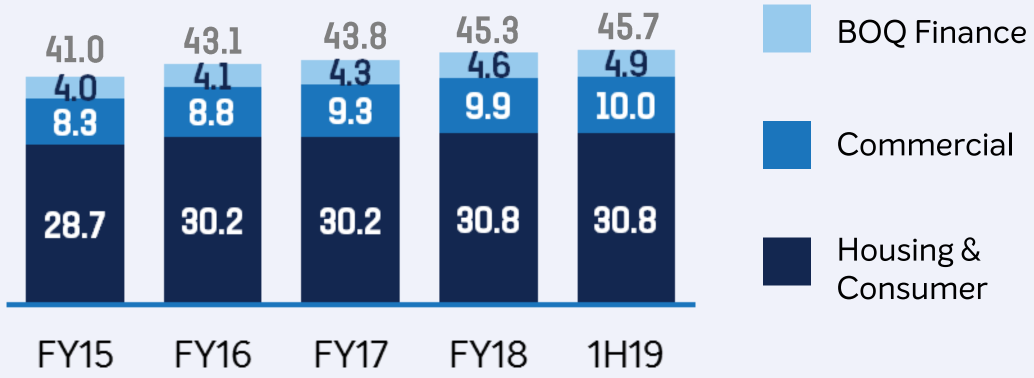
LOAN PORTFOLIO AND GROWTH

BOQ GROUP

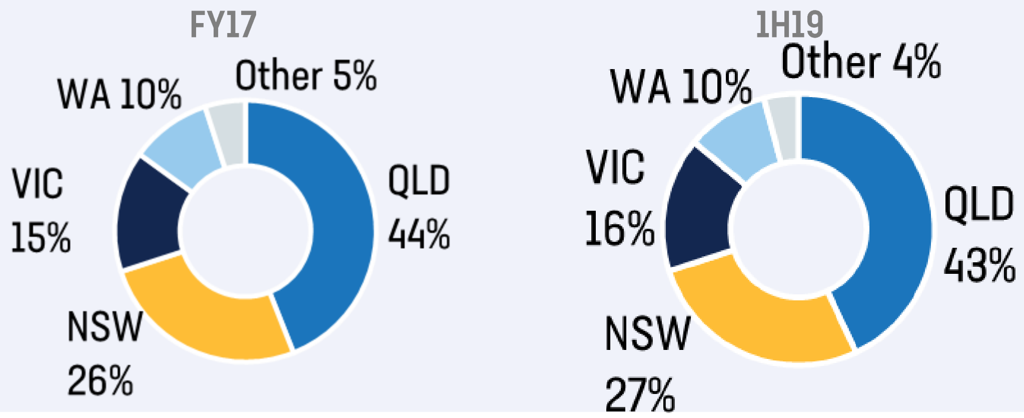
SUMMARY[1]

- Gross loan growth of 2% in a slowing market
- BOQ Finance growth of 13% & Commercial growth of 3%
- Housing growth through Virgin Money and BOQ Specialist, offset by contraction in branch network
- Maintained discipline on credit standards

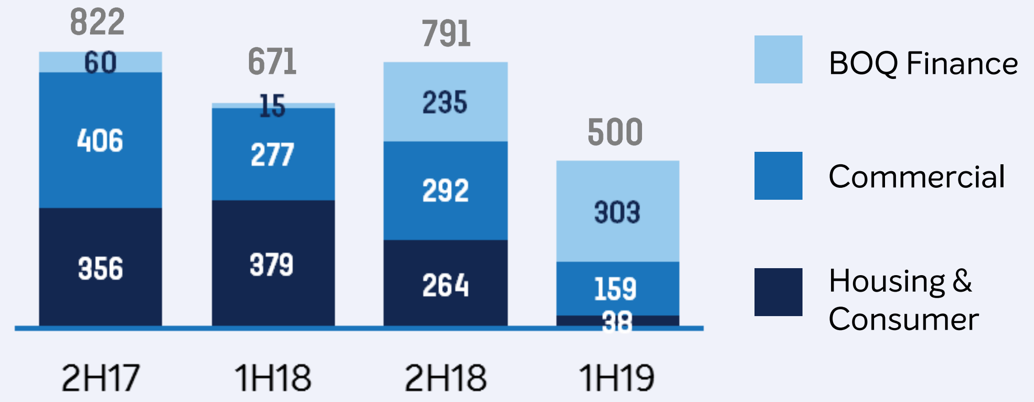
GROSS LOANS & ADVANCES ($B)



TOTAL LENDING GEOGRAPHIC MIX



HALF YEARLY GROWTH COMPOSITION ($M)



(1) Growth rates are on an annualised basis

SEGMENT PERFORMANCE

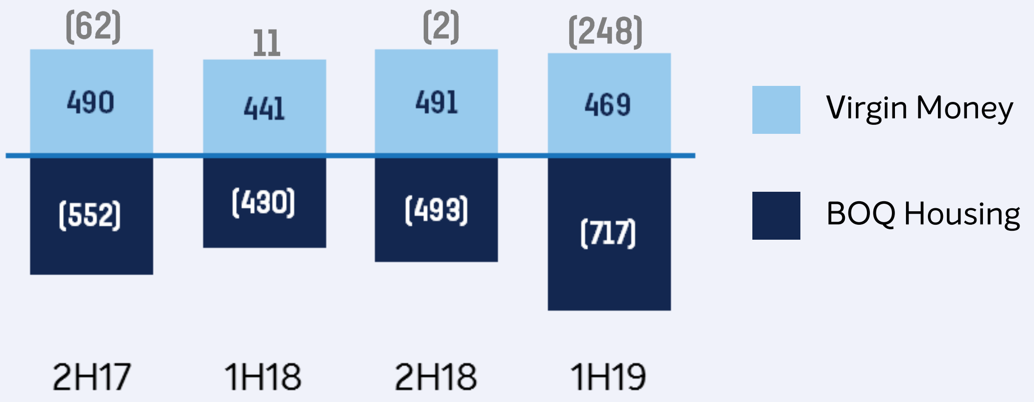
RETAIL BANKING SUMMARY

> Continued strong growth through Virgin Money
> Branches focused on deposit gathering and MFI customer growth
> Risk discipline maintained

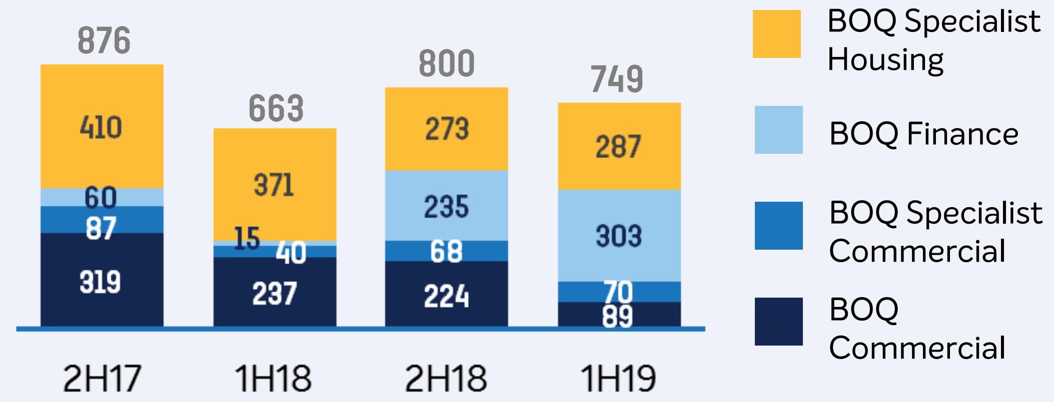
BOQ BUSINESS SUMMARY

> All business lines achieved growth
> BOQ Specialist mortgage growth remains strong
> Niche segment growth of $94m
> BOQ Finance delivered very strong growth through equipment, dealer and structured finance programs

RETAIL HOUSING LOAN GROWTH BY CHANNEL ($M)



BOQ BUSINESS LOAN GROWTH BY CHANNEL ($M)



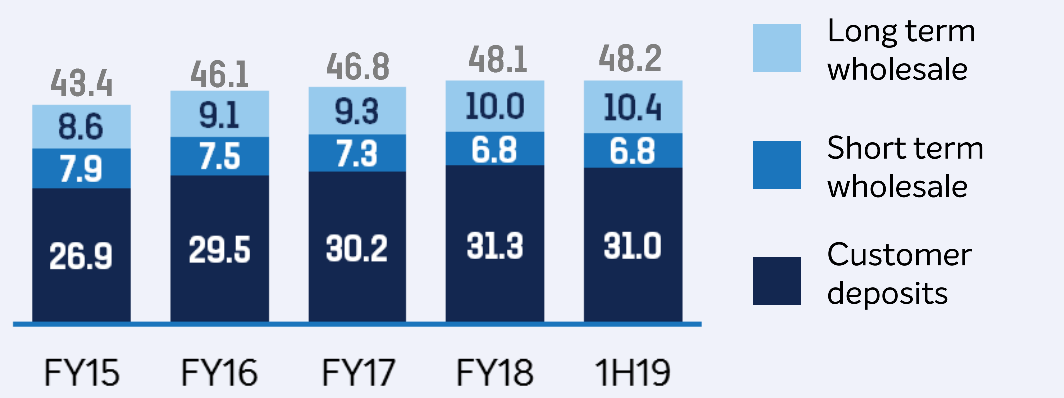
FUNDING MIX

BOQ GROUP

SUMMARY

- Customer deposits contracted, driven by a reduction in higher cost Term deposits
- Deposit to loan ratio of 68%
- Took advantage of more favourable conditions for long term wholesale issuance

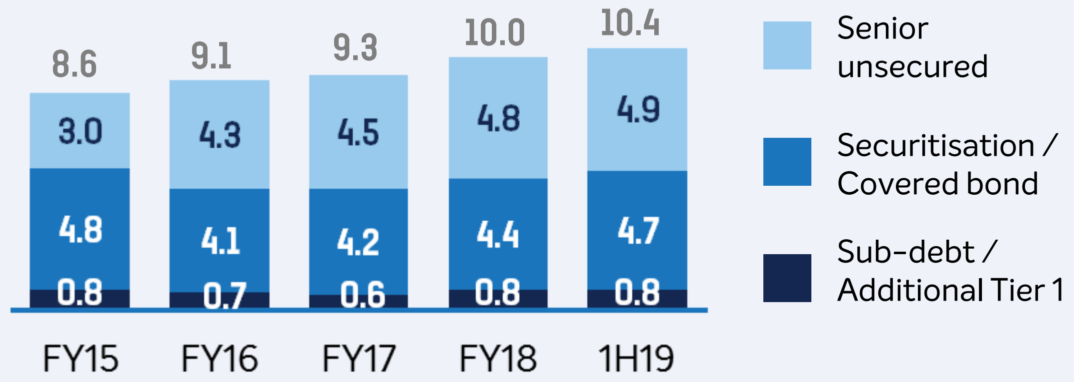
OVERALL FUNDING MIX ($B)



SUCCESSFUL NEW PRODUCT LAUNCHES

- Fast Track Starter and Fast Track Saver Accounts launched in late 2018
- Attractive rates for savings accounts linked to transaction account
- Strong customer acquisition evident since launch
- Particularly good growth in younger customer segments

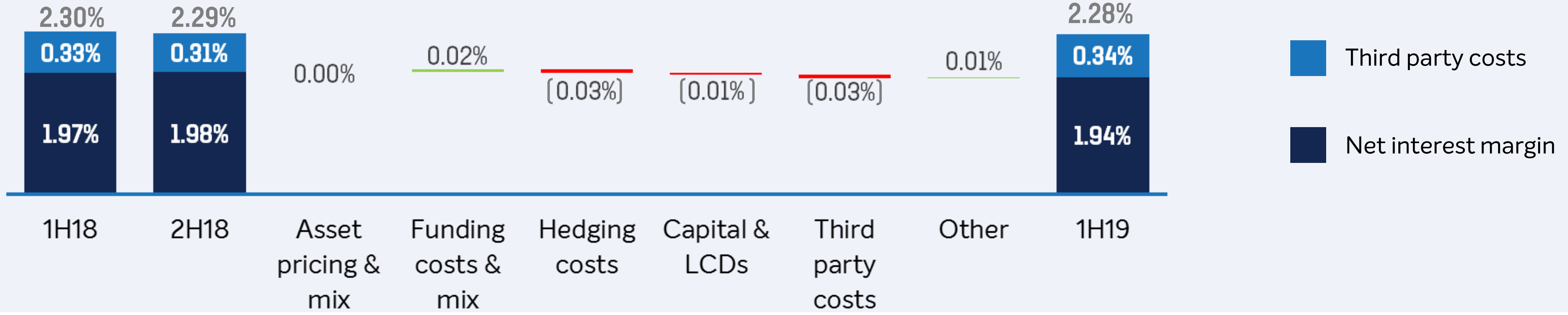
LONG TERM WHOLESALE FUNDING ($B)



NET INTEREST MARGIN

BOQ GROUP

NET INTEREST MARGIN MOVEMENTS 2H18 TO 1H19



1H19 CONSIDERATIONS

> Hedging cost headwind mitigated by improvements driven through funding mix and asset pricing

> Front book vs back book impact ongoing

> Third party costs impacted by weighted average life normalisation and higher mix of third party originations

SUMMARY OF KEY MOVING PARTS[1]

Element	1H18	2H18	1H19
Asset pricing benefits	+4bps	+2bps	+4bps
Front book pricing & mix	(5bps)	(5bps)	(4bps)
Funding costs & mix	+2bps	+4bps	+2bps
Hedging costs	+2bps	(2bps)	(3bps)
Capital & LCDs	(1bp)	–	(1bp)

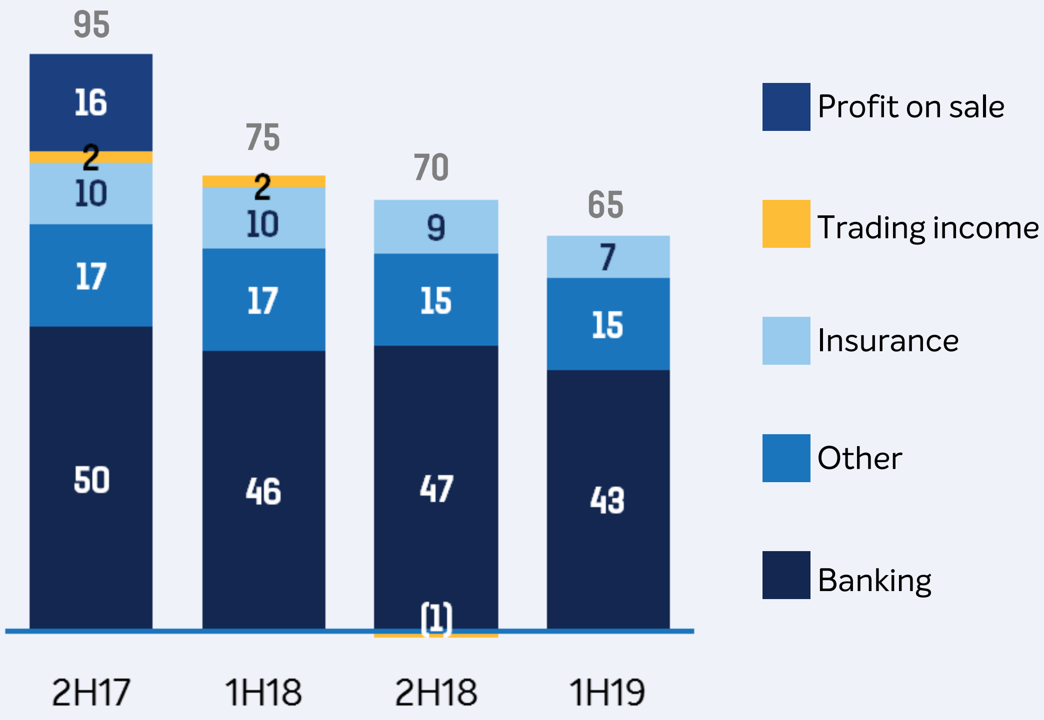
(1) Other moving parts in 1H19 include a –3bps impact related to Third party costs and +1bp impact related to other factors.

NON-INTEREST INCOME

SUMMARY

- Ongoing pressure on banking fees
- Limited opportunities for trading income generation
- Insurance income continues to trend lower
- Improved contribution from Virgin Money and financial markets

NON-INTEREST INCOME BREAKDOWN ($M)



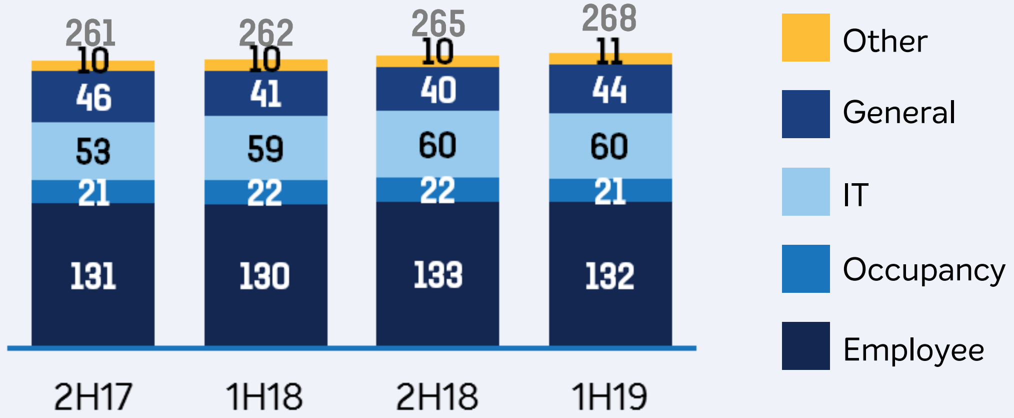
OPERATING EXPENSES

BOQ GROUP

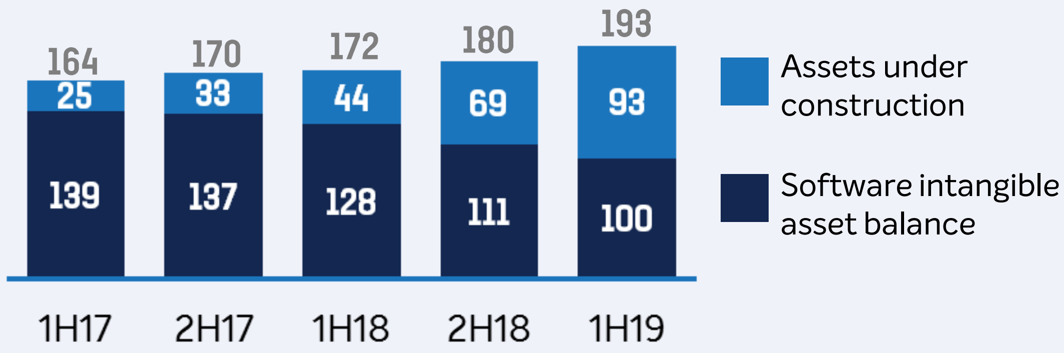
SUMMARY

- Expense growth contained to 2%; CTI 49.5%
- Amortisation expected to increase with ongoing investment
- Rising regulatory & compliance costs expected going forward

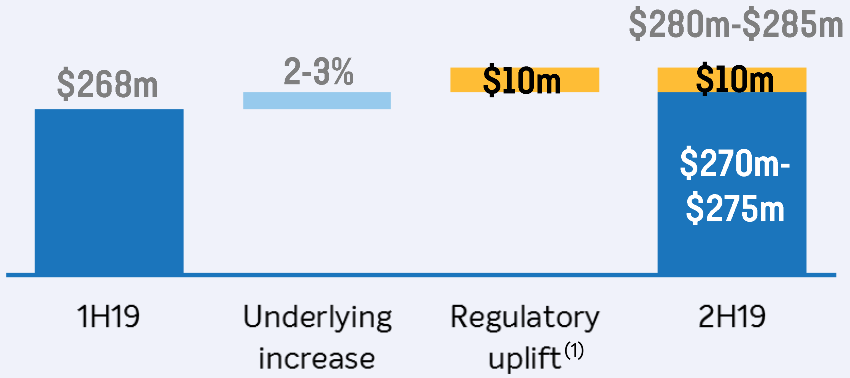
OPERATING EXPENSE BREAKDOWN ($M)



CARRYING VALUE OF INTANGIBLE ASSETS ($M)



2H19 EXPENSE OUTLOOK BEFORE MITIGATION



(1) Uplift in regulatory costs before mitigating actions.

NON-CASH EARNINGS ITEMS

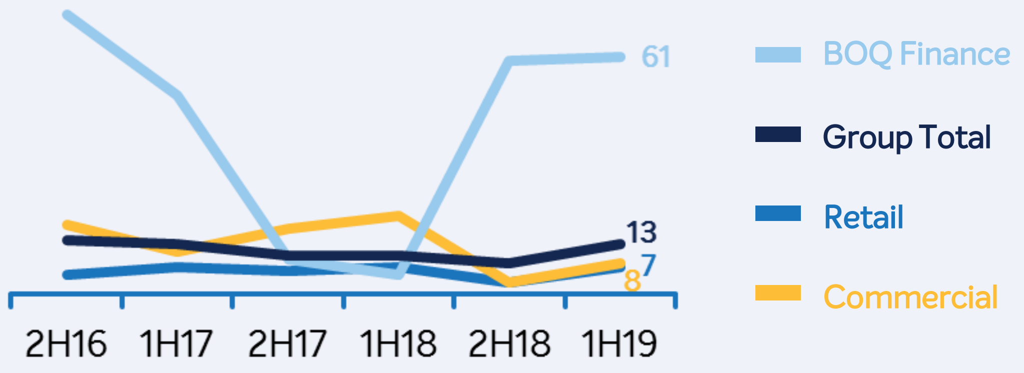
	1H19	2H18	1H18
Cash earnings after tax	**$167m**	**$190m**	**$182m**
Amortisation of acquisition fair value adjustments	($4m)	($2m)	($5m)
Hedge ineffectiveness	($3m)	($2m)	($1m)
Integration / transaction costs	–	($1m)	–
Extraordinary regulatory /compliance	($3m)	($8m)	($1m)
Software changes	–	($11m)	–
Legacy items	($1m)	($4m)	($1m)
Statutory net profit after tax	**$156m**	**$162m**	**$174m**

ASSET QUALITY

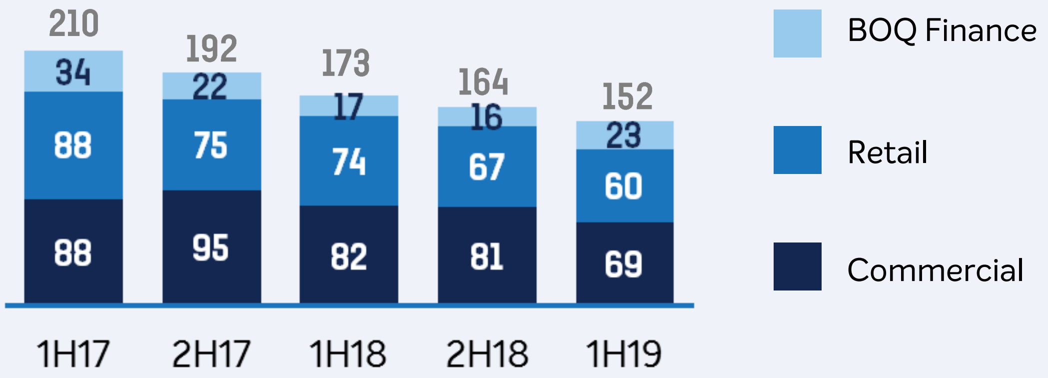
SUMMARY

> Portfolio metrics remain strong
> Further reduction in impaired assets
> Low volume of new impairments
> Application of new Collective Provisioning model has driven higher impairment expense

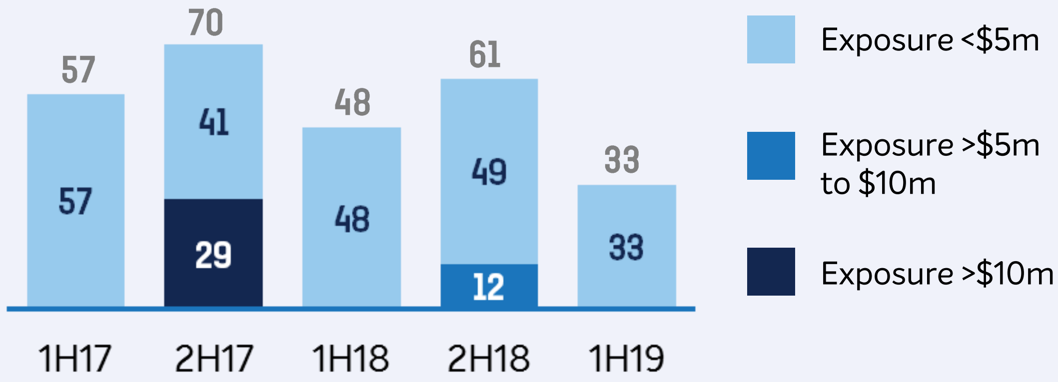
LOAN IMPAIRMENT EXPENSE BY PRODUCT (bps)



IMPAIRED ASSETS ($M)



NEW IMPAIRED ASSETS ($M)

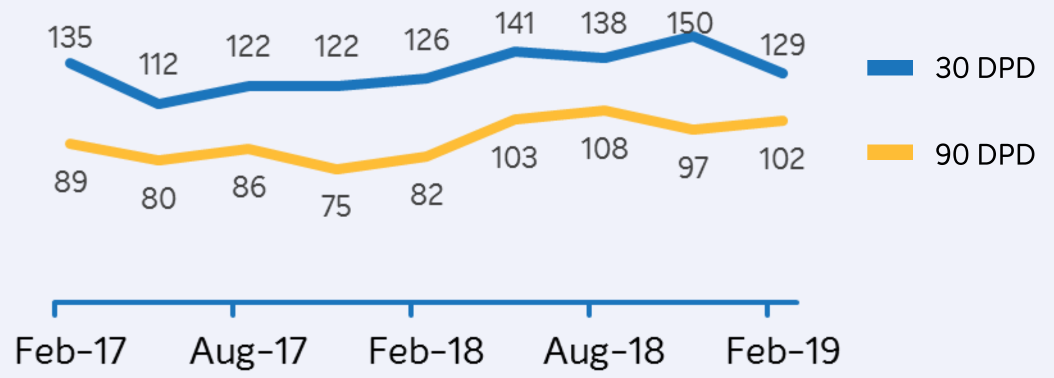


ARREARS

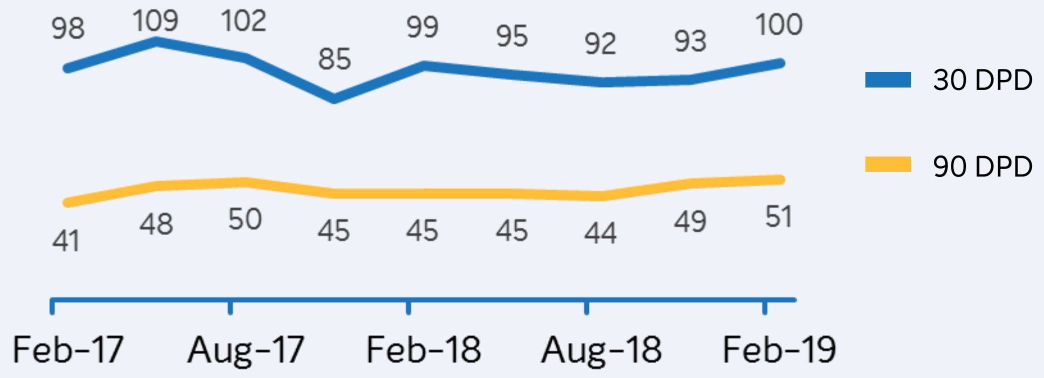
SUMMARY

- Arrears level remain low and steady across all portfolios
- Seasonal uptick on BOQ Finance
- No areas of concern emerging

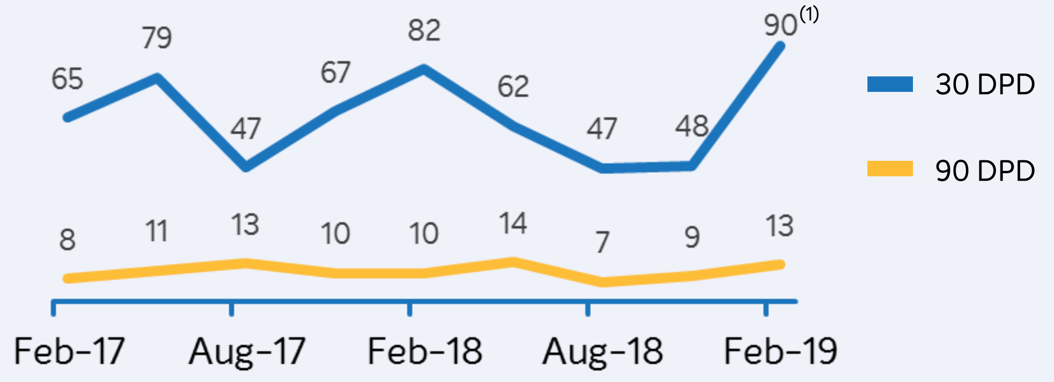
COMMERCIAL ARREARS (bps)



HOUSING ARREARS (bps)



BOQ FINANCE ARREARS (bps)



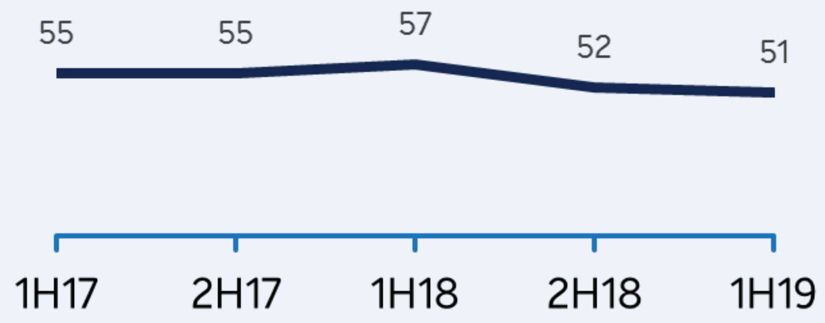
(1) Seasonal uptick which also includes $7m (14 bps), which has subsequently cleared in March 2019.

PROVISION COVERAGE

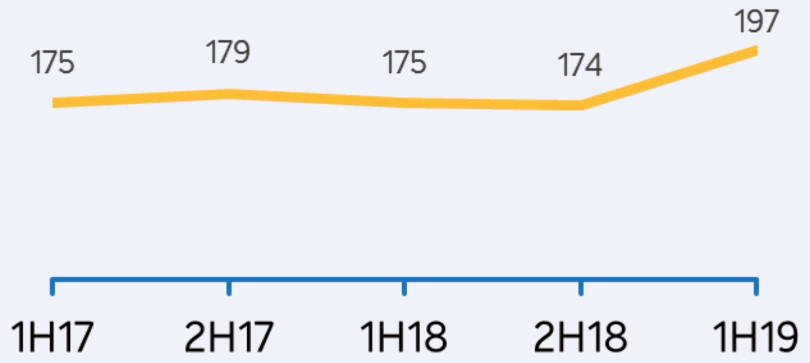
SUMMARY

- Specific Provision reduced by 10%
- Coverage levels remain strong
- Collective Provision increases driven by application of new model under AASB 9

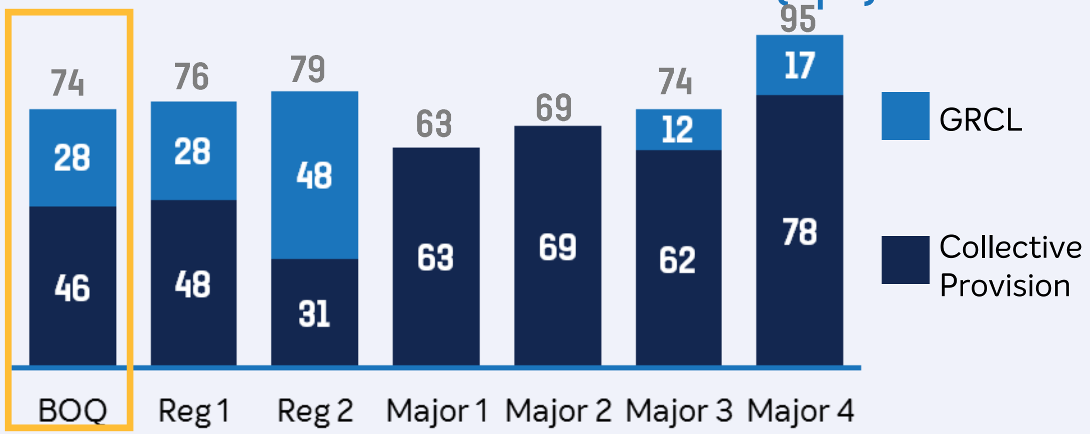
SPECIFIC PROVISIONS / IMPAIRED ASSETS (%)



TOTAL PROVISION & GRCL / IMPAIRED ASSETS (%)



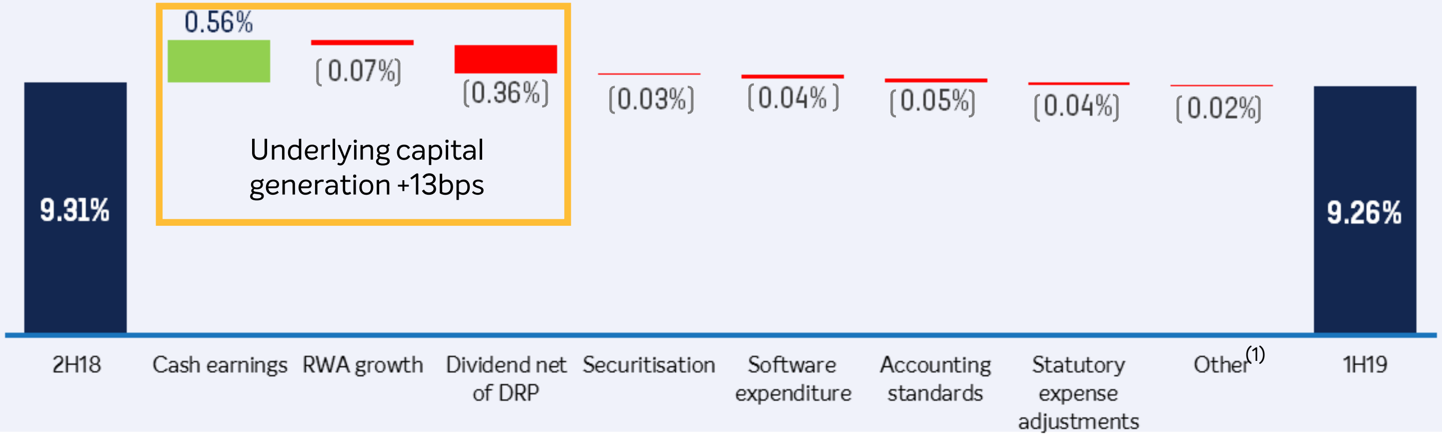
PROVISIONING COVERAGE VS PEERS (bps)[1]



(1) Collective Provision and GRCL as a proportion of Risk-weighted assets.

CAPITAL

COMMON EQUITY TIER 1 MOVEMENTS



SUMMARY

> 9.26% Common Equity Tier 1 ratio

> Underlying capital generation of 13bps

> Mix of asset growth tilted to higher risk-weighted business lines

> Increased investment spend reduced CET1 by 4bps

OUTLOOK

> Remain strongly capitalised

> Increased capitalised investment spend expected to reduce CET1 over 2H19 and FY20

> St Andrew's sale terminated – continue to assess strategic options

(1) Other items included an increase in deferred acquisition costs, non-financial investments and reduced reserve balances , offset by a net reduction in deferred tax assets.

DIVIDEND

- Dividend of 34 cents, a reduction of 4 cents per share
- Prudent approach taken enables adequate capital generation to support RWA growth and investment
- DRP supports higher payout ratio and distribution of franking credits

SUMMARY & OUTLOOK

ANTHONY ROSE
INTERIM CEO

IMMEDIATE PRIORITIES – 6 TO 12 MONTHS

1. Navigating rising regulatory requirements
2. Delivery of foundational 'must do' investments
3. Continue strong niche segment momentum
4. Reinvigorate Retail Bank & leverage Virgin Money success
5. Systematic approach to restoring earnings growth and returns

FOUNDATIONAL INVESTMENTS BEING DELIVERED

BOQ GROUP

April 2019 → **December 2020**

Core infrastructure modernisation

Regulatory uplift (BEAR, COBP, AML/CTF, 3LOD)

Delivered	In progress	
Internet banking upgrade for BOQ Specialist	End-to-end mortgage lending transformation program	
eConveyancing (PEXA)	Online platform for FX & global payments	
Branch bandwidth & telephony upgrade	BOQ Specialist mobile banking app	New Payments Platform
	Enhanced email marketing platform	New internet banking and mobile app for BOQ
Virgin Money credit card app	Contact centre re-platform	Customer engagement platform

Delivered

In progress

PATH TO RESTORING EARNINGS GROWTH & RETURNS

Segment by segment review of return on tangible equity

Retail Banking strategy redevelopment

Business simplification

Capital/resource allocation

Execution roadmap

LEVERAGING VIRGIN MONEY SUCCESS

POWER OF VIRGIN BRAND

- Continues to exceed expectations – strong home loan growth since launch, coupled with continued momentum across other product lines
- Attracts a younger, more affluent and geographically diverse customer base
- Compelling opportunity to accelerate the Virgin Money offering to create next generation digital bank

DELIVERING DIGITAL BANK

- Well progressed with stage 1
- Working with partner to establish a new cloud-based digital banking offering
- On track with key milestones

LEVELLING THE PLAYING FIELD

CURRENT STATE OF PLAY

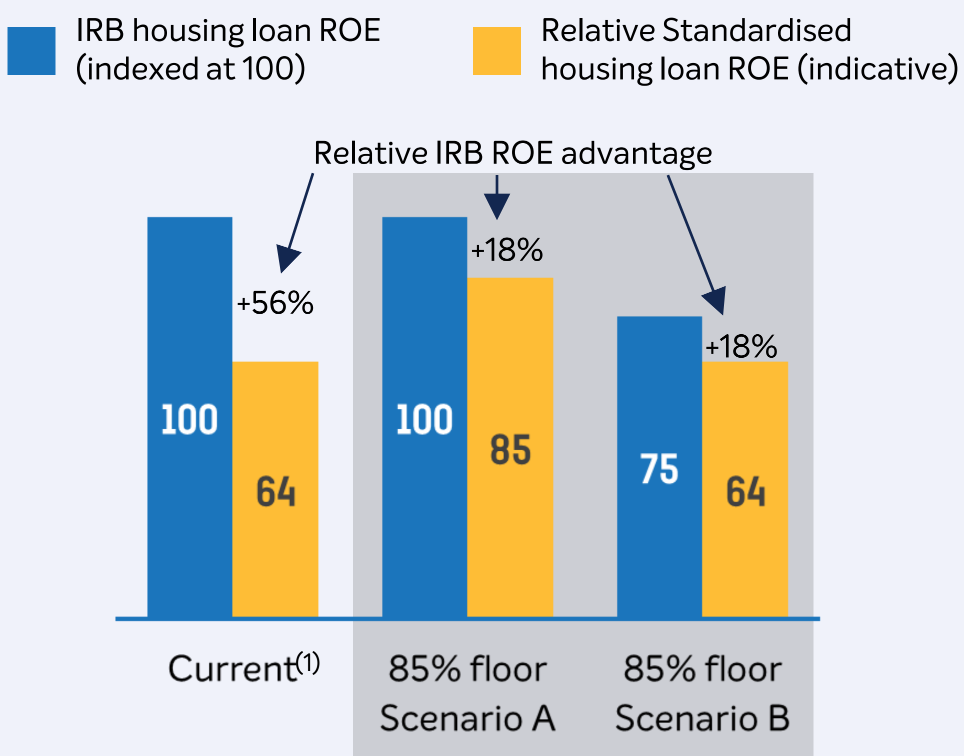
- Standardised banks hold on average 50%+ more capital than IRB banks on housing loans
- This leads to IRB banks generating Return on Equity which is 50%+ higher than Standardised Banks for the same loan

ALIGNED SECOND TIER POSITION

- Collective of second tier banks aligned on pathway to a fairer playing field:

"85% credit risk-weight floor for IRB relative to standardised at an individual loan level"

ILLUSTRATIVE ROE IMPACT OF SHIFT TO 85% FLOOR



- Scenario A assumes standardised risk weights decrease
- Scenario B assumes IRB risk weights increase

(1) Assumes the same profit per loan with current IRB credit risk weighting of 25% and Standardised credit risk weighting of 39%

SUMMARY & OUTLOOK

1 Building on niche strategy success

2 Delivering foundational ‘must do’ investments

3 Established a path to improve long term value creation

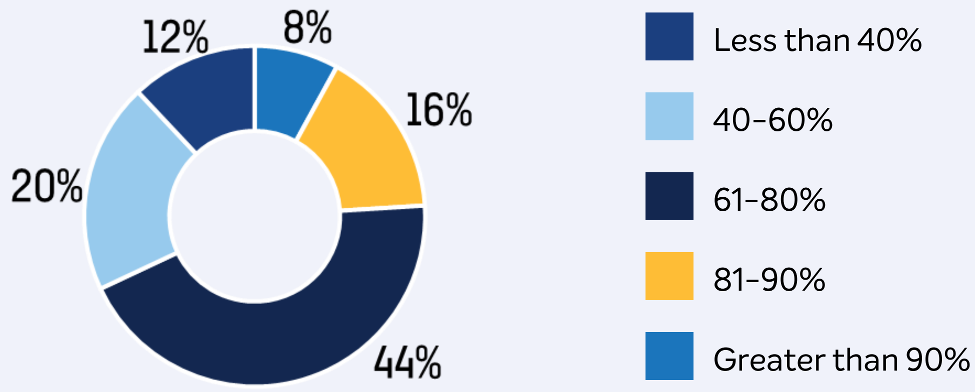
APPENDICES

HOUSING PORTFOLIO

SUMMARY

- > Broker settlements at 30% including VMA
- > Interest only settlements remain low
- > Owner occupied P&I loans represent 51% of portfolio

HOUSING PORTFOLIO LVR BANDS



PORTFOLIO METRICS

Metrics (%)	1H18	2H18	1H19
Owner occupied	59	59	59
Investment	41	41	41
Interest only	32	29	25
Broker originated[1]	13	15	17
Weighted avg LVR	67	67	66
Line of Credit	7	6	6
Avg loan balance	$275k	$280k	$274k
Variable rate	71	74	77
Fixed rate	29	26	23

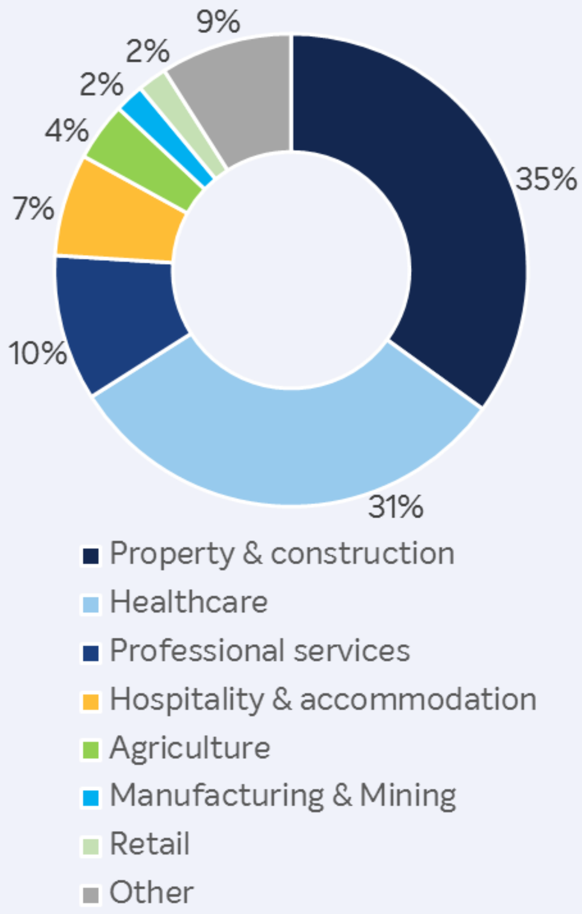
SETTLEMENT METRICS

Metrics (%)	1H18	2H18	1H19
Owner occupied	61	61	61
Investment	39	39	39
Interest only	16	14	16
Broker originated[1]	30	30	30
Weighted avg LVR	68	69	68
Line of Credit	1	1	1
Avg loan balance	$394k	$408k	$408k
Variable rate	72	80	84
Fixed rate	28	20	16

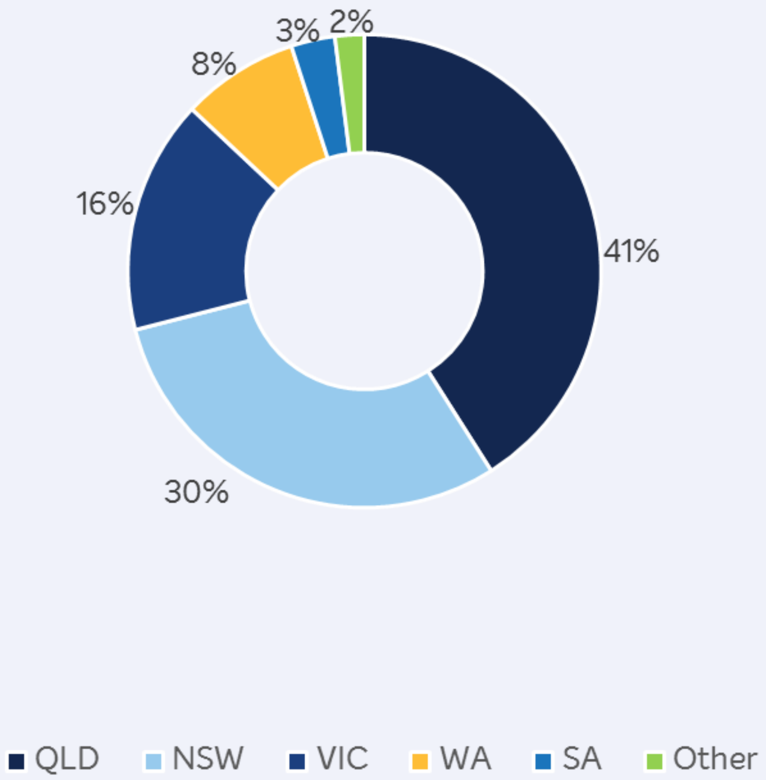
(1) Includes Virgin Money

COMMERCIAL PORTFOLIO

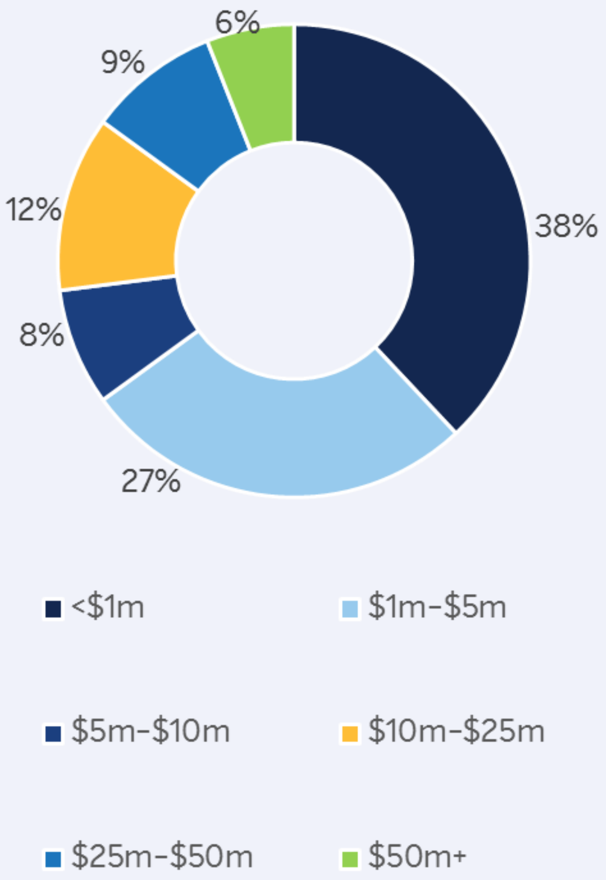
PORTFOLIO BY INDUSTRY



PORTFOLIO BY STATE

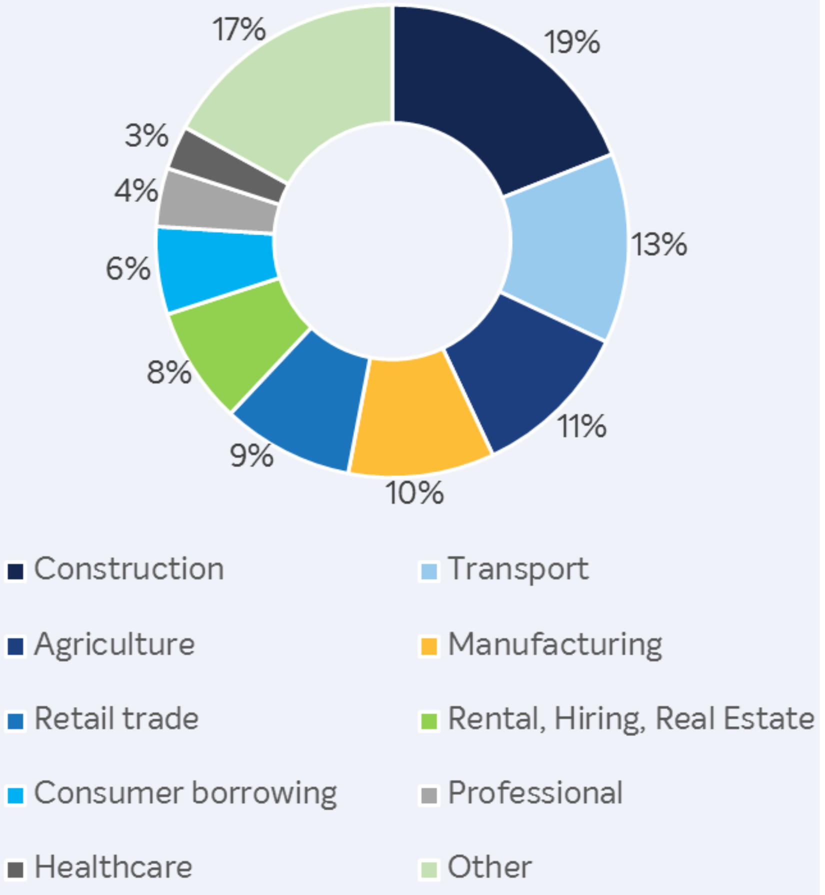


PORTFOLIO BY EXPOSURE SIZE



BOQ FINANCE PORTFOLIO

ASSET BY INDUSTRY



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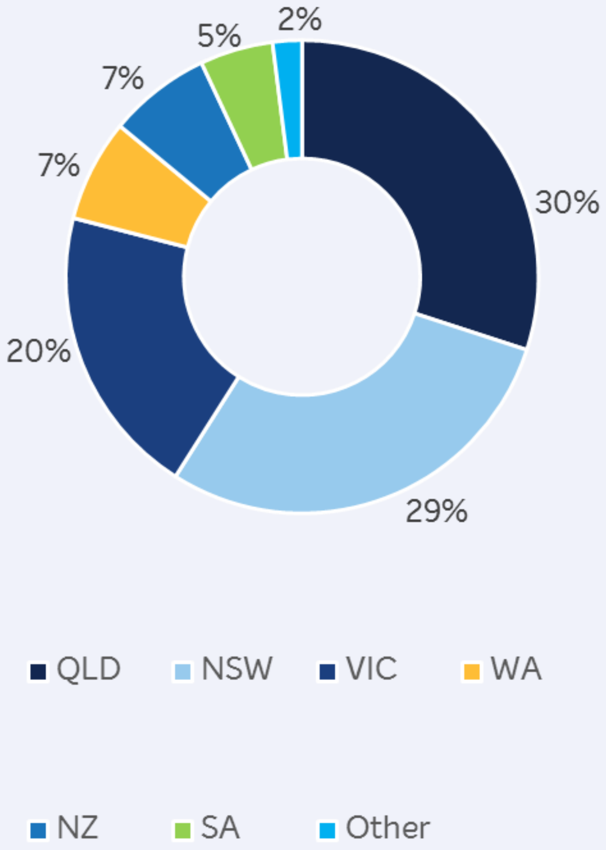
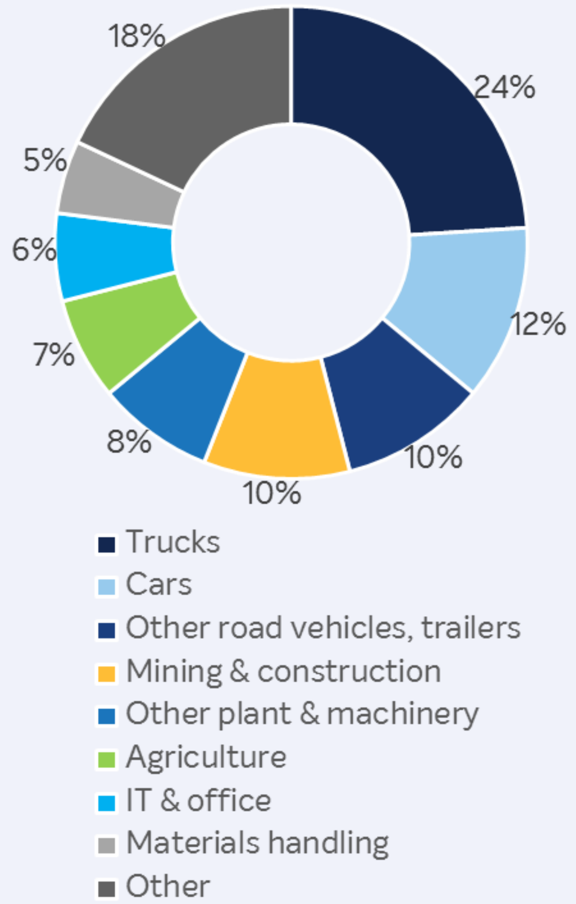


ASSET BY TYPE



LIMITED EXPOSURE TO HIGH RISK SECTORS

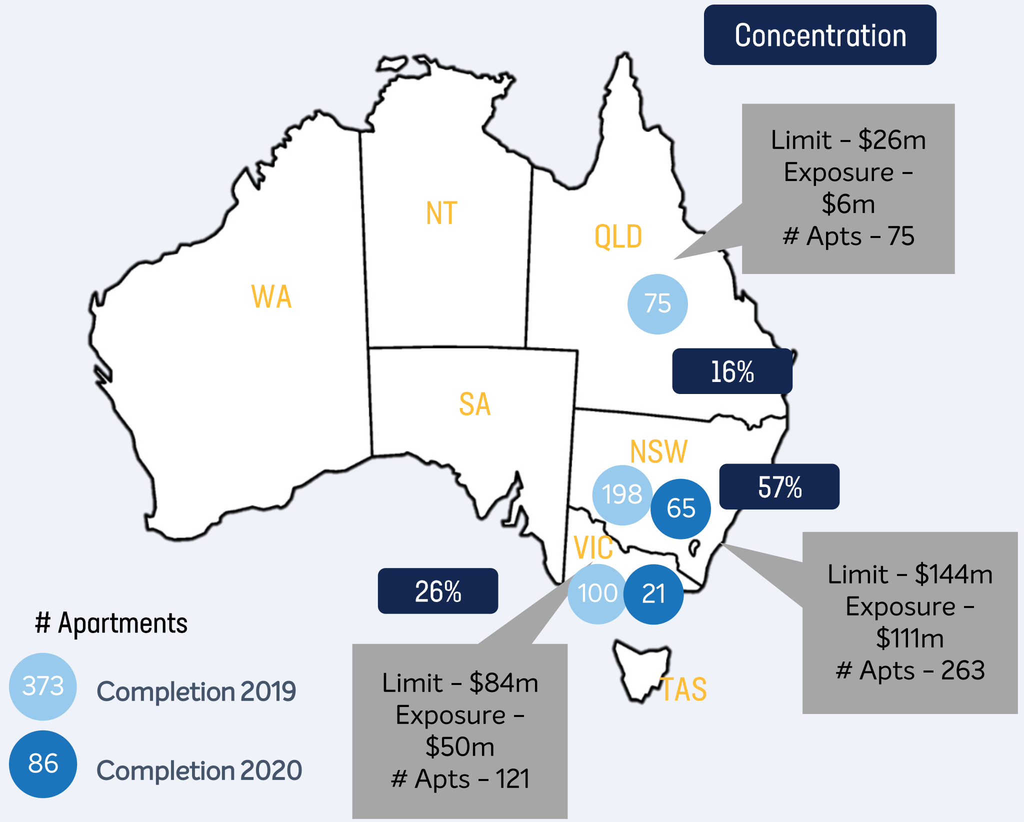
APARTMENT CONSTRUCTION EXPOSURES

> $167m current exposure to residential construction
> 11 developments across 3 states, completing 2019 through 2020
> Well diversified intra-state within NSW and VIC

OTHER HIGH RISK SECTORS

> No material regional housing exposures
> No systemic issues emerging
> Direct mining exposure <$110m

LENDING TO RESIDENTIAL APARTMENT CONSTRUCTION



ABBREVIATIONS

1H: First half of financial year
2H: Second half of financial year
3LOD: Three lines of defence
30DPD: 30 days past due
90DPD: 90 days past due
AASB: Australian Accounting Standards Board
ADI: Authorised Deposit-taking Institution
AML/CTF: Anti-Money Laundering/Counter-Terrorism Financing
APRA: Australian Prudential Regulation Authority
APS: ADI Prudential Standards
Apts: Apartments
ASIC: Australian Securities & Investments Commission
AT1: Additional Tier One
AUSTRAC: Australia's financial intelligence agency
Avg: Average
BDD: Bad & Doubtful Debt Expense
BEAR: Banking Executive Accountability Regime
bps: basis points
CAGR: Compound annual growth rate
CET1: Common Equity Tier 1
COBP: Code of Banking Practice
cps: Cents per share
CTI: Cost-to-income ratio
DPD: Days past due
DRP: Dividend Reinvestment Plan
DTA: Deferred tax asset
EPS: Earnings per share
FY: Financial year
GLA: Gross Loans & Advances
GRCL: General Reserve for Credit Losses
IRB: Internal Ratings-Based approach to credit risk
LCD: Low cost deposit
LOC: Line of Credit
LVR: Loan to valuation ratio
MFI: Main Financial Institution
NIM: Net Interest Margin
OMB: Owner Managed Branch
P&I: Principal & interest
PCP: Prior corresponding period
ROE: Return on equity
ROTE: Return on tangible equity
RWA: Risk-weighted assets
SME: Small and Medium Enterprises
TD: Term deposit
VMA: Virgin Money Australia

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