

# ▶ Bank of Queensland

## Half year results

28 February 2013



Your own personal bank

# 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.

# Agenda

▶ **Result overview and strategy update**

---

**Stuart Grimshaw**  
Managing Director and CEO

▶ **Financial detail**

---

**Anthony Rose**  
Chief Financial Officer

▶ **Summary**

---

**Stuart Grimshaw**  
Managing Director and CEO

▶ **Result overview and  
strategy update**

**Stuart Grimshaw**

Managing Director and CEO



Your own personal bank

# Overview

- ▶ We have delivered a solid 1H13 result, with cash earnings up 16%, and are on track to achieve FY13 management targets
- ▶ We are delivering on our strategy: multi-channel optimisation; risk/return balance; operational excellence; and talent, capability & culture
- ▶ Our costs are under control, down 3% in a low revenue growth environment
- ▶ Asset quality is improving with impaired assets down 9%, and arrears stabilising
- ▶ Our returns to shareholders are improving with an increase in first half dividend from 26 cents to 28 cents
- ▶ Residential property market improving, although economic and business conditions remain mixed

Unless otherwise stated, all financial comparisons in this document refer to the prior half (to 31 August 2012) as the prior comparative period (to 29 February 2012) included a number of significant items resulting in a loss.

# Key metrics

	1H13	2H12	Change 1H13 v 2H12		1H12
Underlying profit before tax (Cash) <sup>(1)</sup>	\$230.7m	\$221.6m	▲	4%	\$221.9m
Cash earnings (loss) after tax	\$119.9m	\$103.0m	▲	16%	(\$72.4m)
Statutory net profit (loss) after tax	\$100.5m	\$73.5m	▲	37%	(\$90.6m)
Cash EPS (basic)	37.9¢	37.3¢	▲	2%	(32.3¢)
Ordinary dividend	28¢	26¢	▲	8%	26¢
Loan growth <sup>(2)</sup> (pcp)	3%	3%	-	-	4%
Retail deposit growth (pcp)	9%	10%	▼	10%	10%
Net interest margin (Cash)	1.66%	1.64%	▲	1%	1.68%
Cost-to-income ratio (Cash)	44.7%	46.4%	▼	4%	45.0%
Return on average equity (Cash)	9.2%	8.2%	▲	12%	(6.4%)

(1) Profit before loan impairment expense

(2) Loans under management net of specific provision

# Key management targets

Metrics <sup>(1)</sup>		1H13 Actual	FY13 Target	FY15+ Target
<b>BOQ asset growth<sup>(2)</sup></b>				
- Retail	✘	0.8x system	1.0x system	1.2x system
- Business <sup>(3)</sup>	✔	BOQ +6.1% System -0.6%	1.0x system	1.5x system
<b>Net Interest Margin</b>	✔	166bps	Low-Mid 160s	Low-Mid 160s
<b>Expense growth</b>	✔	-3% YTD	< Inflation	< Inflation
<b>Cost to Income</b>	✔	44.7%	45%	Low 40s
<b>Bad &amp; Doubtful Debts to GLA<sup>(2)</sup></b>	✔	34bps	28-34bps	~20bps
<b>Return on Tangible Equity<sup>(4)</sup></b>	✔	11.6%	~10%	13%+

**These are internal management targets and are not forecasts or projections**

(1) Cash earnings basis

(2) 6-month annualised growth rates

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

(4) Excluding goodwill and other intangibles



Your own personal bank



# Delivering on strategic focus

## 1. Multi-channel optimisation

- ▶ First broker applications taken in WA
- ▶ Acquisition of Virgin Money Australia delivers online customer acquisition capability
- ▶ Continued investment in Business Banking capability by geography and industry

## 2. Risk/Return balance

- ▶ Targeted client acquisition and improved cross sales into financial markets, leasing and transaction banking in Business Banking
- ▶ Wealth Strategy being implemented
- ▶ Scorecard balancing lending, deposits, cross sales and compliance to be introduced to Owners Managers in coming months

## 3. Operational excellence

- ▶ IT operating model being refined
- ▶ Operational Excellence program generating savings which are being reinvested in the business
- ▶ Continued review of the Commercial and Retail end to end lending processes
- ▶ CRM pilot in branch network realising expected benefits

## 4. Talent, capability & culture

- ▶ Layers below executive team refreshed
- ▶ Diversity targets on track with female senior manager representation up from 11% to 21%
- ▶ Cultural change underway, to be underpinned by 2H13 brand re-positioning



# ▶ Financial detail

**Anthony Rose**

Chief Financial Officer



Your own personal bank

# Financial performance summary

- ▶ Cash earnings of \$119.9m
- ▶ Net interest income growth of 3%, day count adjusted
- ▶ Expenses reduced through efficiency and effectiveness program while investing in front line capabilities
- ▶ Reduction in impairment expense, reflecting continued focus on asset quality

	1H13	2H12	Change 1H13 v 2H12	1H12
Net Interest Income	\$334.9m	\$330.4m	▲ 1%	\$326.0m
Non interest income	\$82.5m	\$83.2m	▼ 1%	\$77.3m
Total income	\$417.4m	\$413.6m	▲ 1%	\$403.3m
Expenses	\$186.7m	\$192.0m	▼ 3%	\$181.4m
Cash underlying profit before tax	\$230.7m	\$221.6m	▲ 4%	\$221.9m
Impairment expense	\$59.5m	\$73.3m	▼ 19%	\$327.7m
Cash operating profit (loss) before tax	\$171.2m	\$148.3m	▲ 15%	(\$105.8m)
Income tax expense/(benefit)	\$51.3m	\$45.3m	▲ 13%	(\$33.4m)
Cash earnings profit (loss) after tax	\$119.9m	\$103.0m	▲ 16%	(\$72.4m)
Statutory profit (loss) after tax	\$100.5m	\$73.5m	▲ 37%	(\$90.6m)

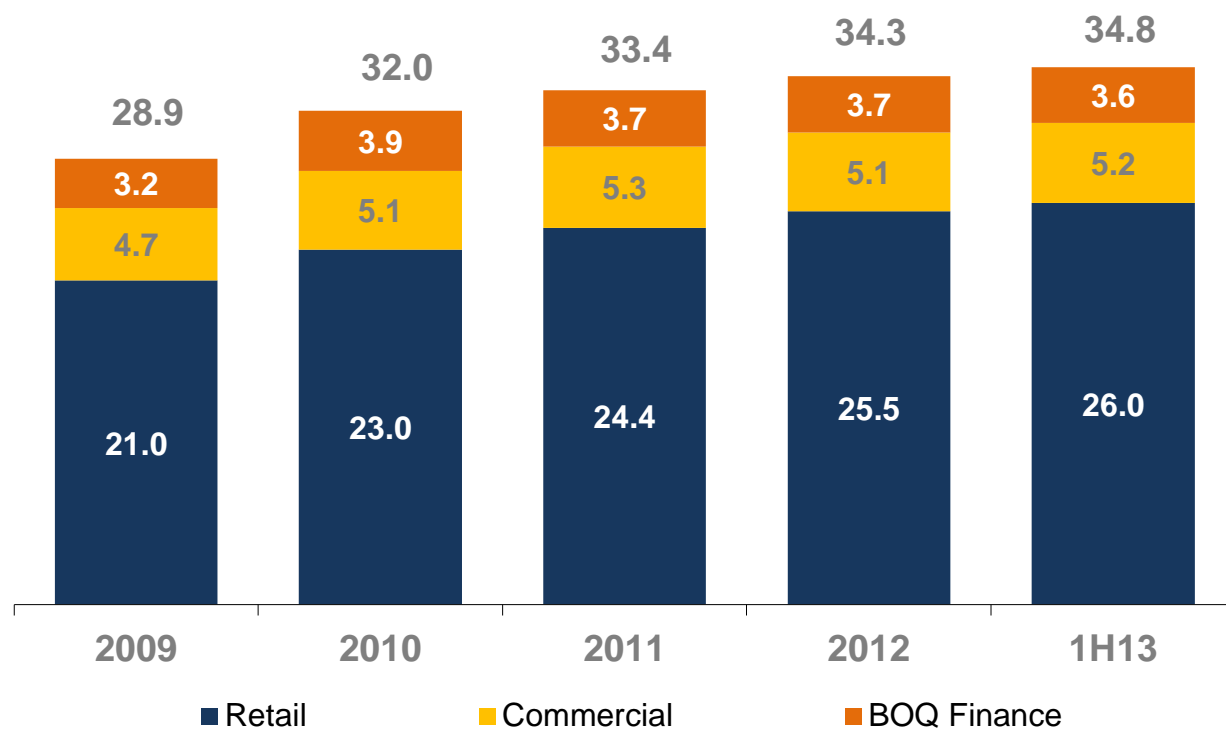
Numbers are on a cash earnings basis



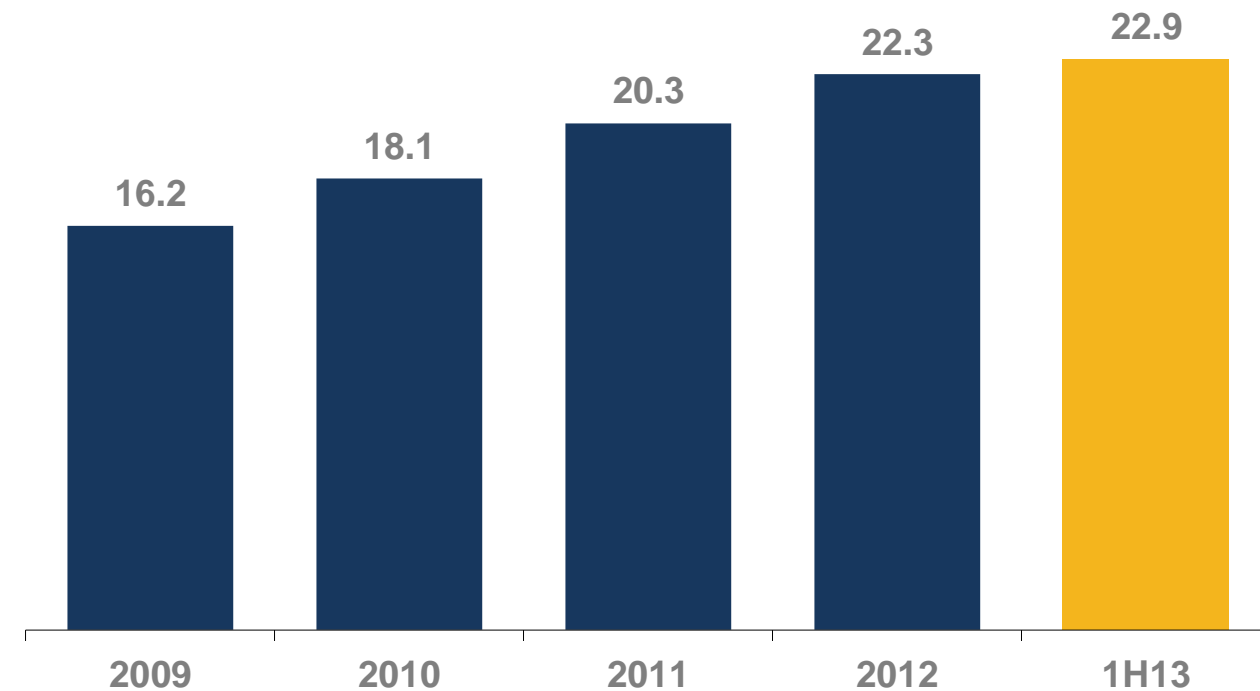
# Lending and deposit growth

- ▶ Annualised growth of 3% in loans under management and 6% in retail deposits for the half
- ▶ Growth in lending (1.2x system) in target segments whilst managing exit of weak and impaired assets
- ▶ Growth in retail deposits fully funding growth in lending, and reaching 60% of total funding

Loans under management (\$b) <sup>(1)</sup>



Retail deposits (\$b)

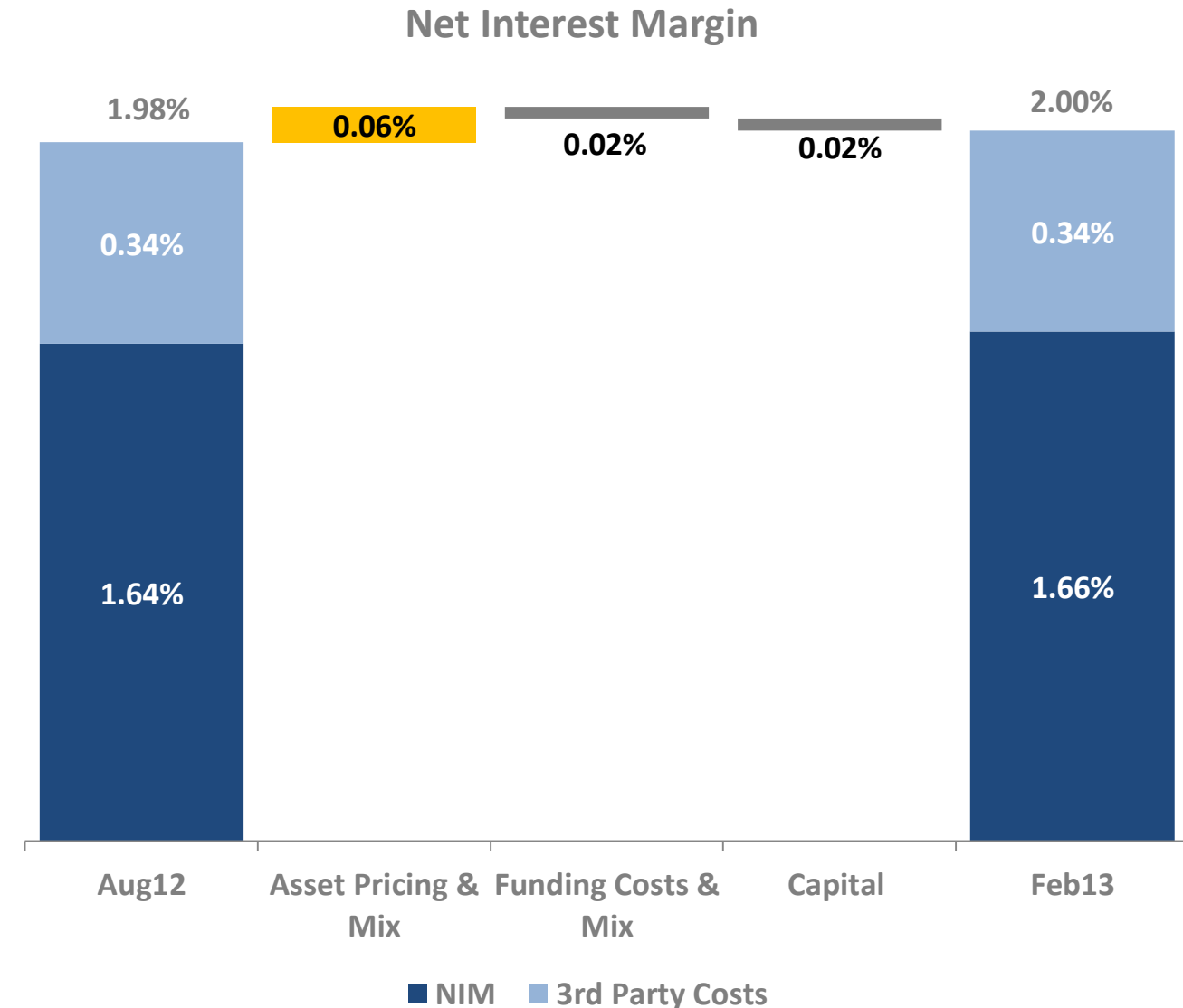


(1) Loans under management net of specific provisions.



# Net Interest Margin

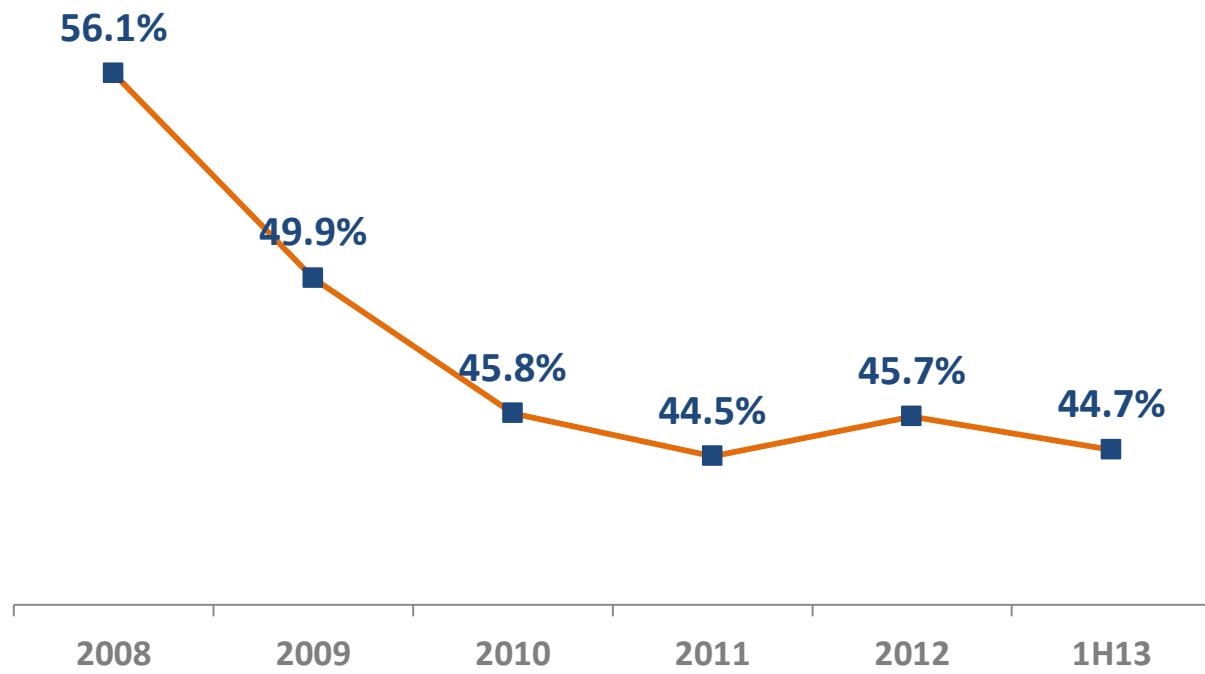
- ▶ Improvement of 2bps benefiting from asset repricing
- ▶ Deposit pricing managed to reflect lower lending growth
- ▶ CPS impact of ~1bp reduction in 1H13



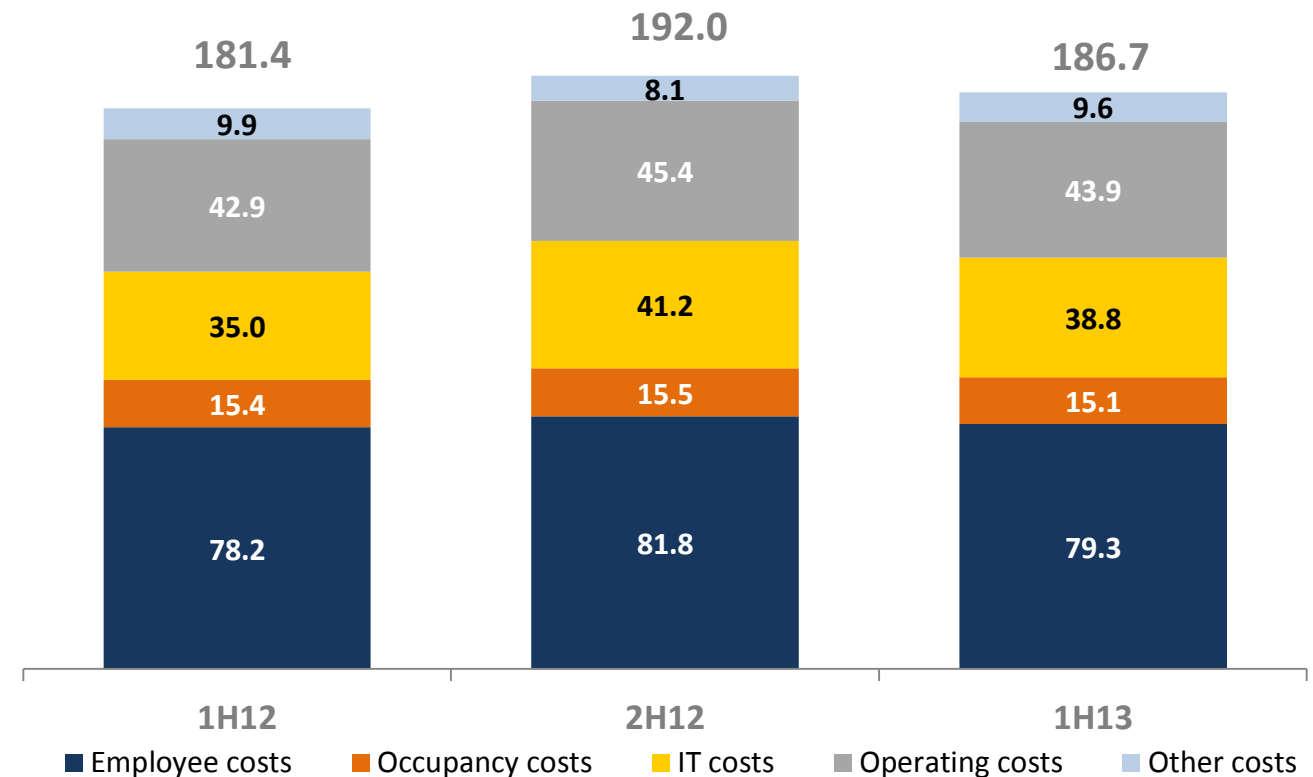
# Cost-to-income

- ▶ Expense management discipline with successful implementation of efficiency and effectiveness program reducing duplication and providing savings in support functions
- ▶ Investment in front line sales capabilities (eg Agribusiness, CRM system) absorbed

Cost-to-income (Cash)



Expense composition (\$m) <sup>(1)</sup>

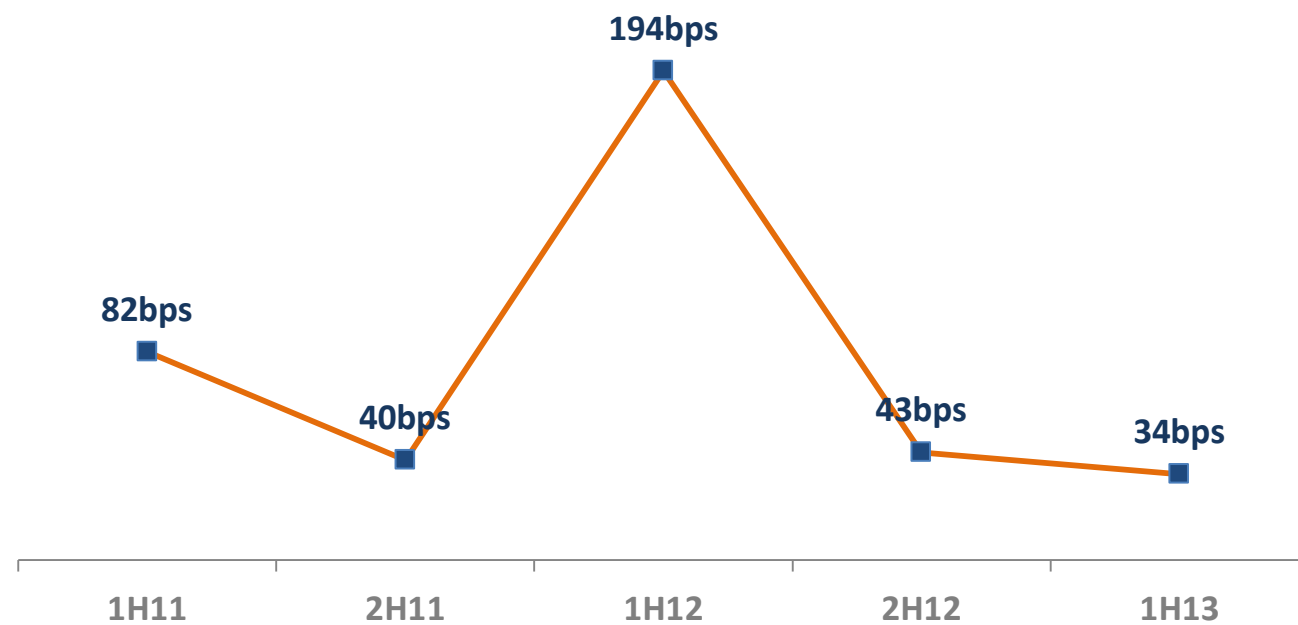


(1) Cash earnings basis



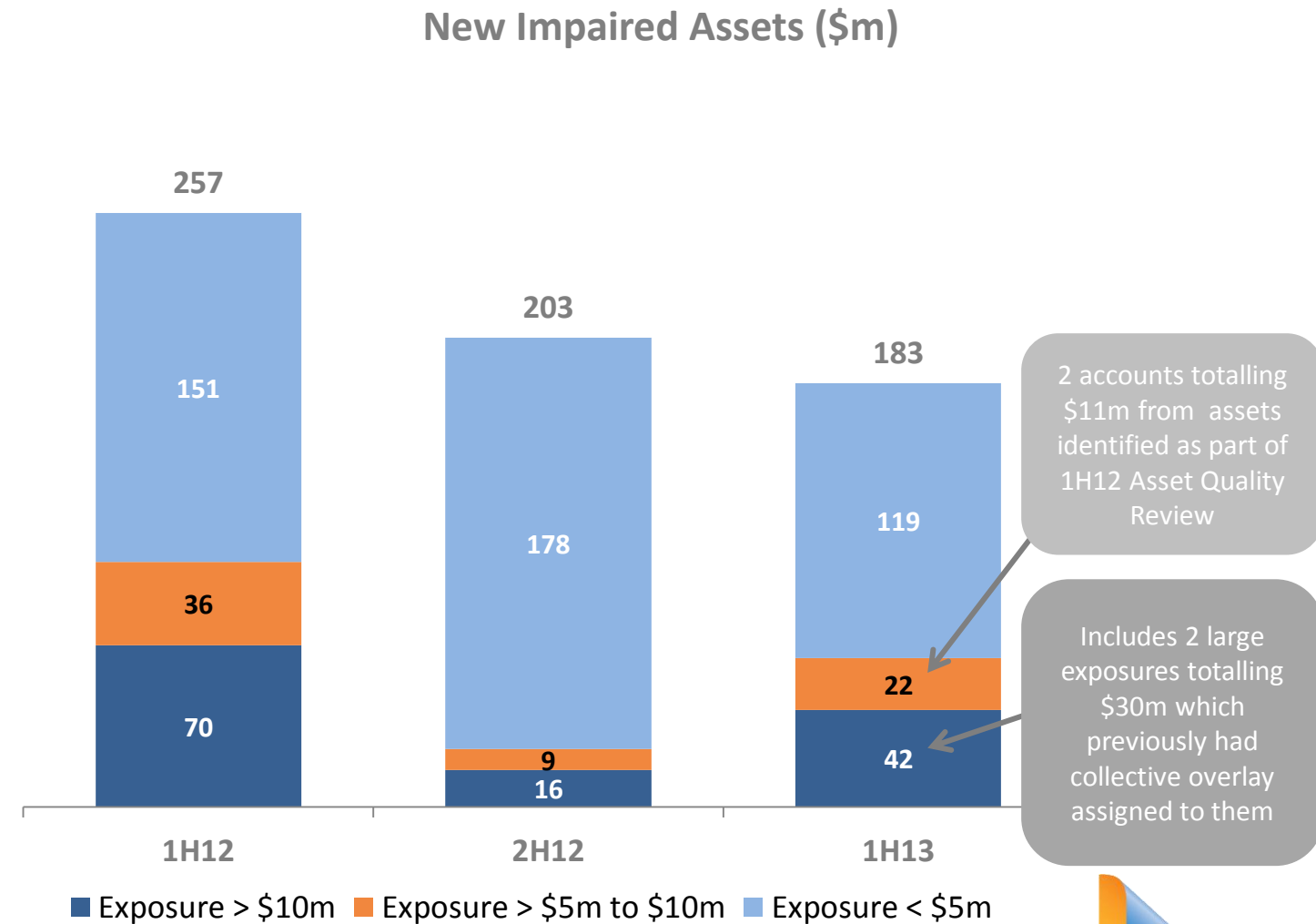
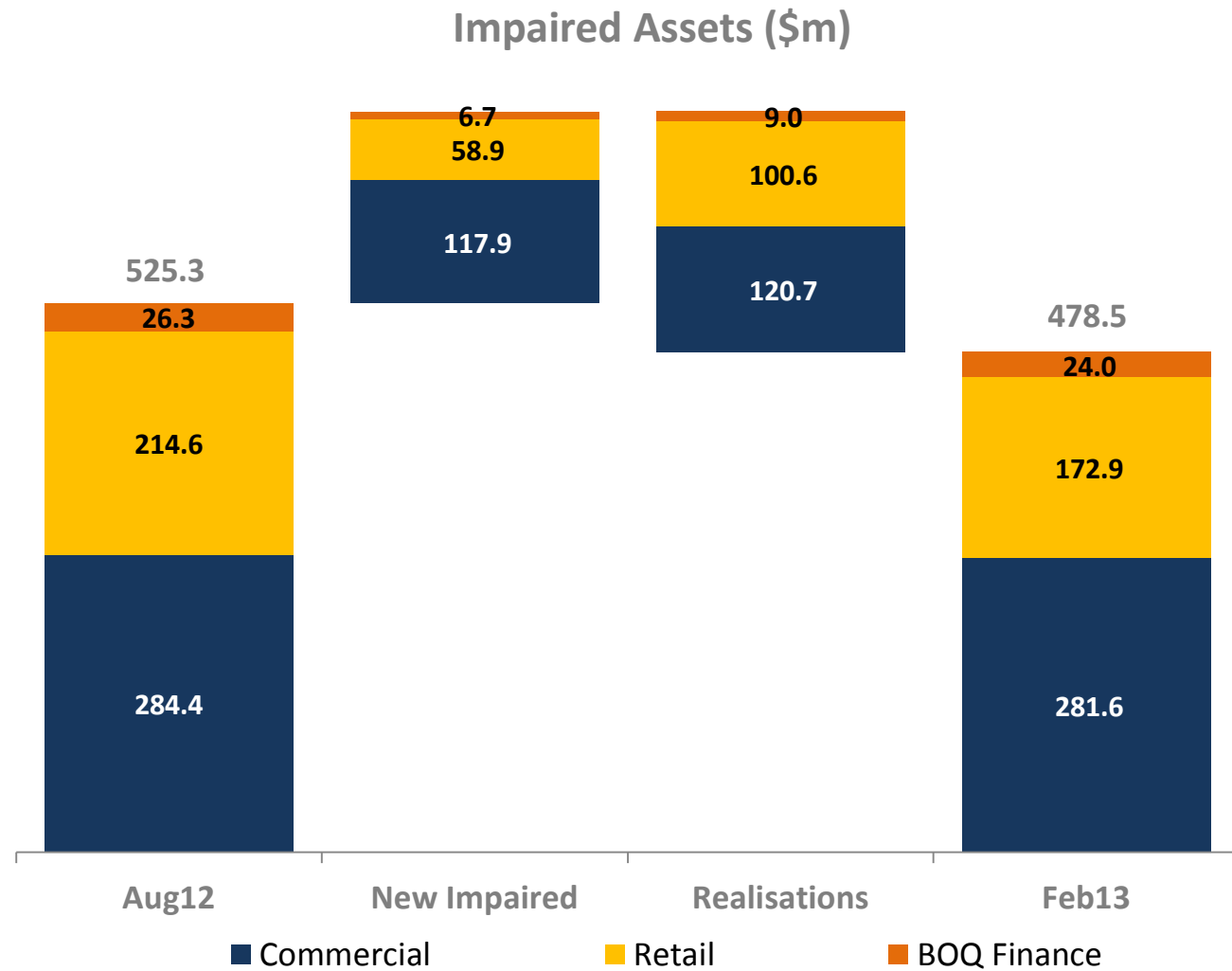
# Impairment Expense reducing

Annualised impairment charge to gross loans (bps)



- ▶ Impairment charges continue to stabilise following the 1H 2012 Asset Quality Review
- ▶ New risk appetite, credit policies and management processes continuing to improve the profile

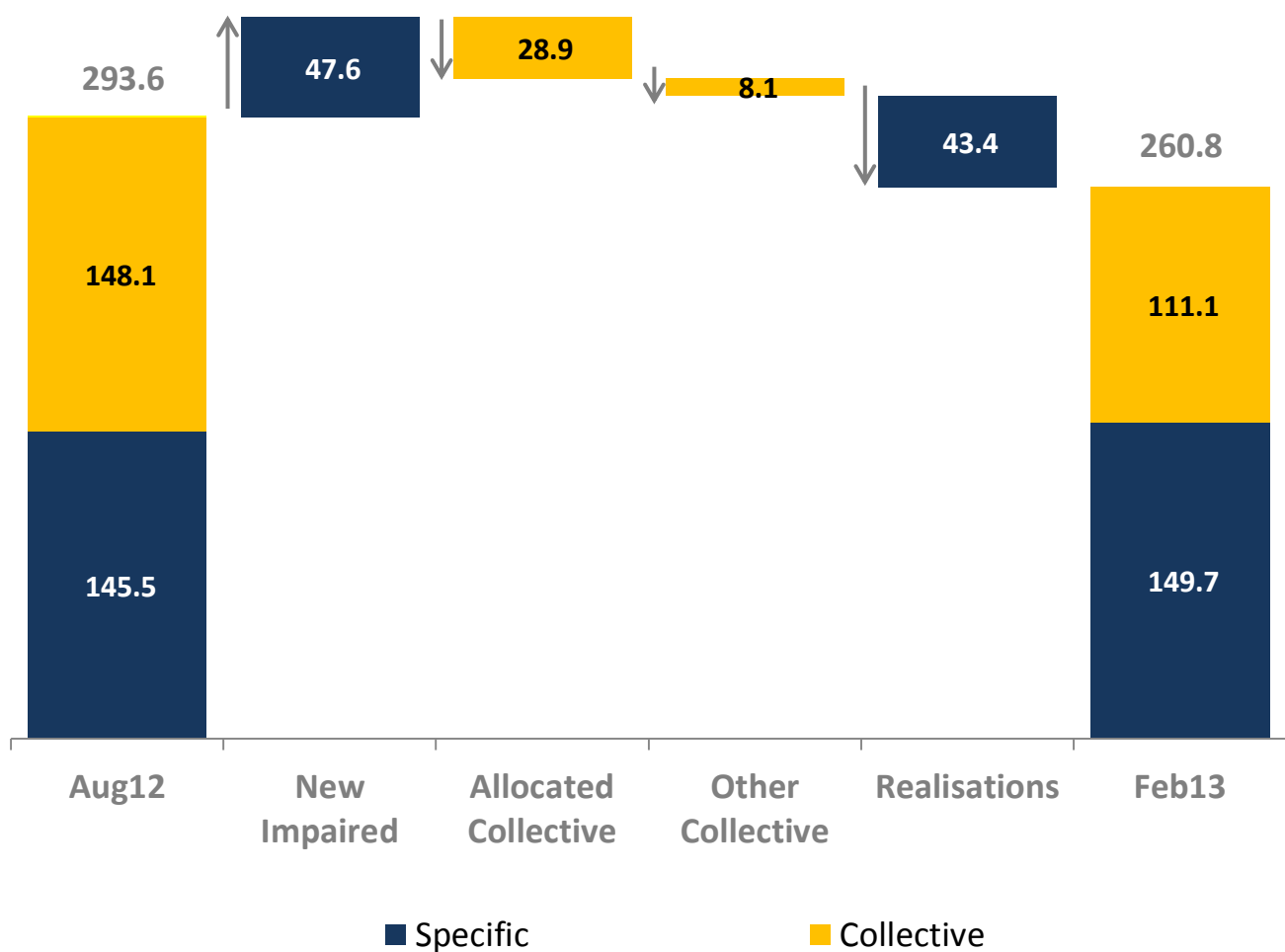
# Impaired assets fall



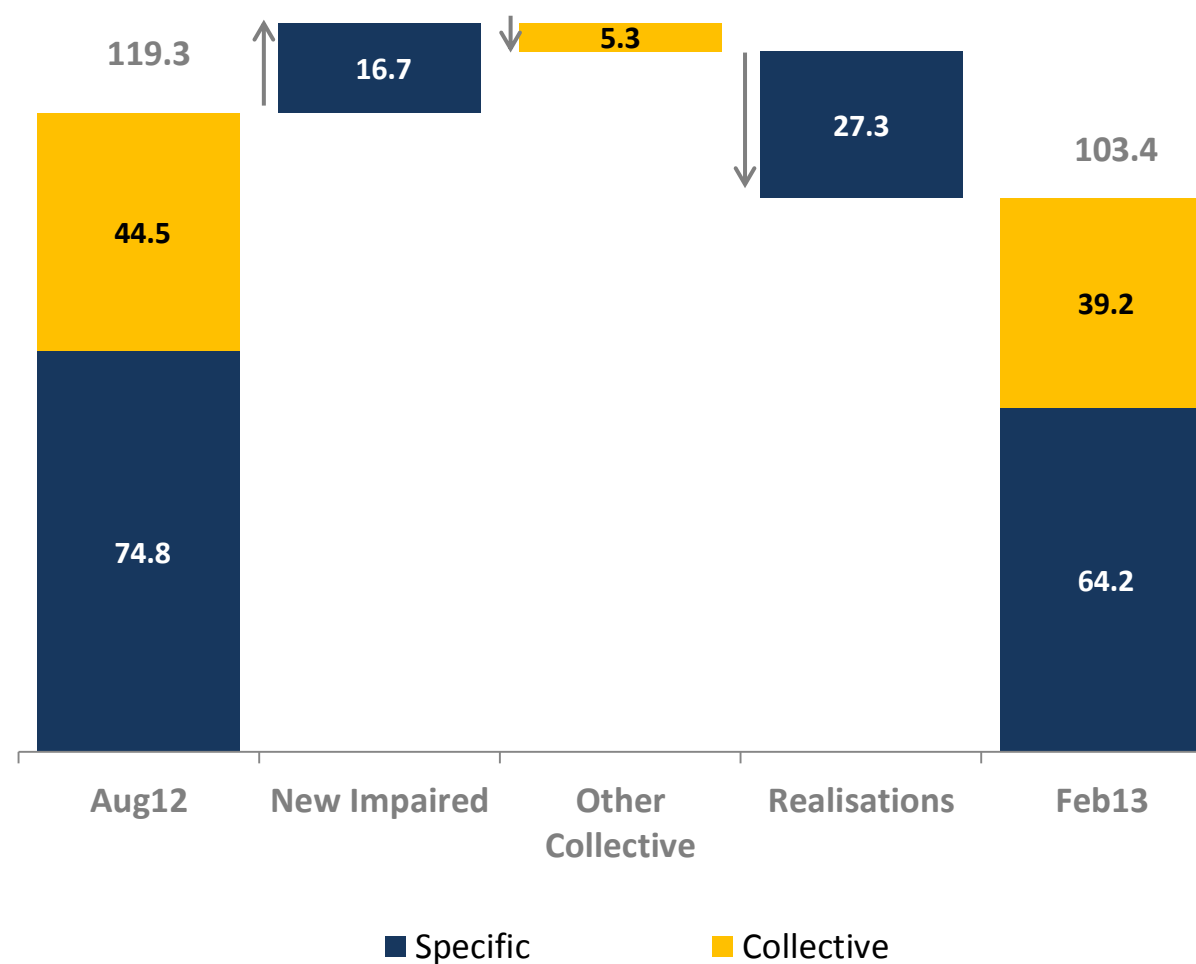


# Provisioning

Commercial and BOQF provisions (\$m)

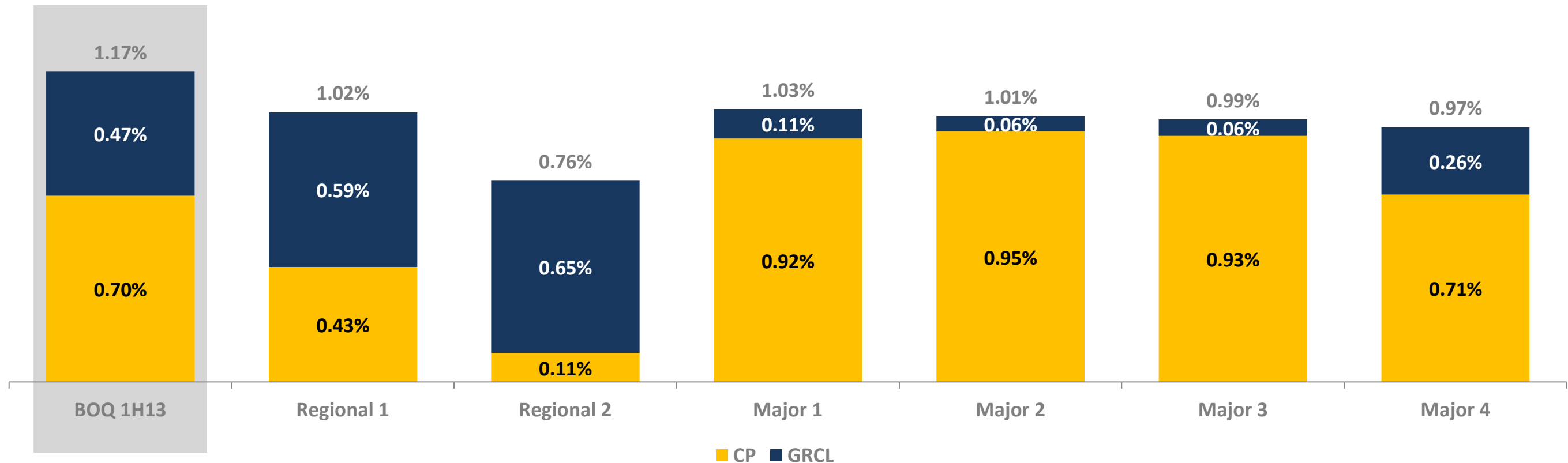


Retail provisions (\$m)



# Provisioning coverage relative to market

Collective Provision & General Reserve for Credit Losses<sup>(1)</sup> / RWA v Peers

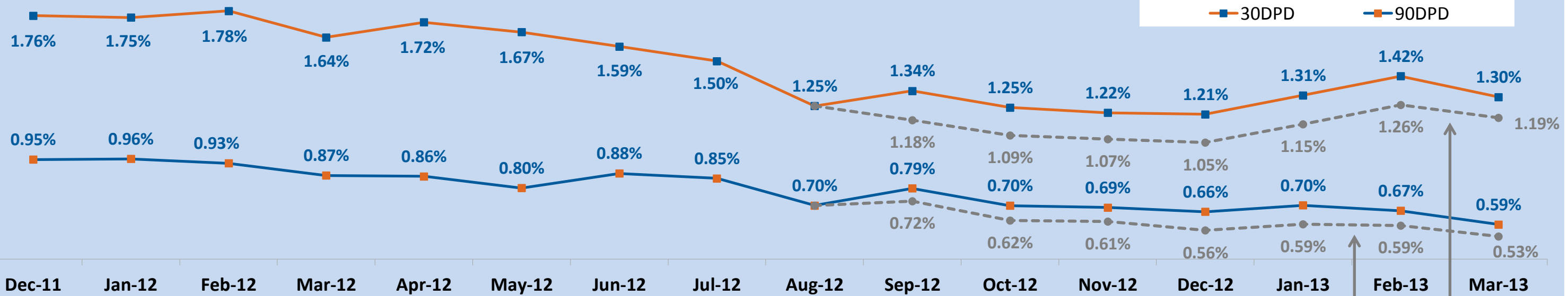


(1) Grossed up for tax effect

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.



# Housing arrears



Portfolio metrics	1H13	2H12	1H12
Portfolio size (\$b)	21.2	20.3	19.4
Impaired (\$m)	104.5	123.9	88.6
Impaired %	0.49%	0.61%	0.46%
Specific provisions (\$m)	40.2	41.3	27.6
Collective provisions (\$m)	25.0	26.0	37.9
Total provision coverage	0.31%	0.33%	0.34%

Excluding effect of hardship accounts<sup>(1)</sup>

(1) 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.



# Large Exposures

- ▶ Change in underlying portfolio with the exit of impaired assets
- ▶ Targeting of new business and sectors progressing

Top 10 Exposures February 2012			Top 10 Exposures February 2013		
Connection	Feb-12	Status	Connection	Feb-13	Status
Diversified	117.8	PERFORMING	Diversified	117.8	PERFORMING
Property – QLD	98.4	WATCHLIST	Property – NSW/VIC	70.0	PERFORMING
Property – VIC	62.1	IMPAIRED	Financial services (Receivables)	58.6	PERFORMING
Property – QLD	50.6	IMPAIRED	Diversified	50.0	PERFORMING
Property – QLD	39.7	PERFORMING	Financial services (Receivables)	50.0	PERFORMING
Diversified	37.6	PERFORMING	Property – QLD	42.7	PERFORMING
Property – QLD	34.0	IMPAIRED	Diversified	42.1	PERFORMING
Property – QLD	33.7	PERFORMING	Diversified	34.6	PERFORMING
Property – QLD	32.6	PERFORMING	Property – QLD	34.6	PERFORMING
Property – VIC	31.6	PERFORMING	Property – NSW	32.0	PERFORMING

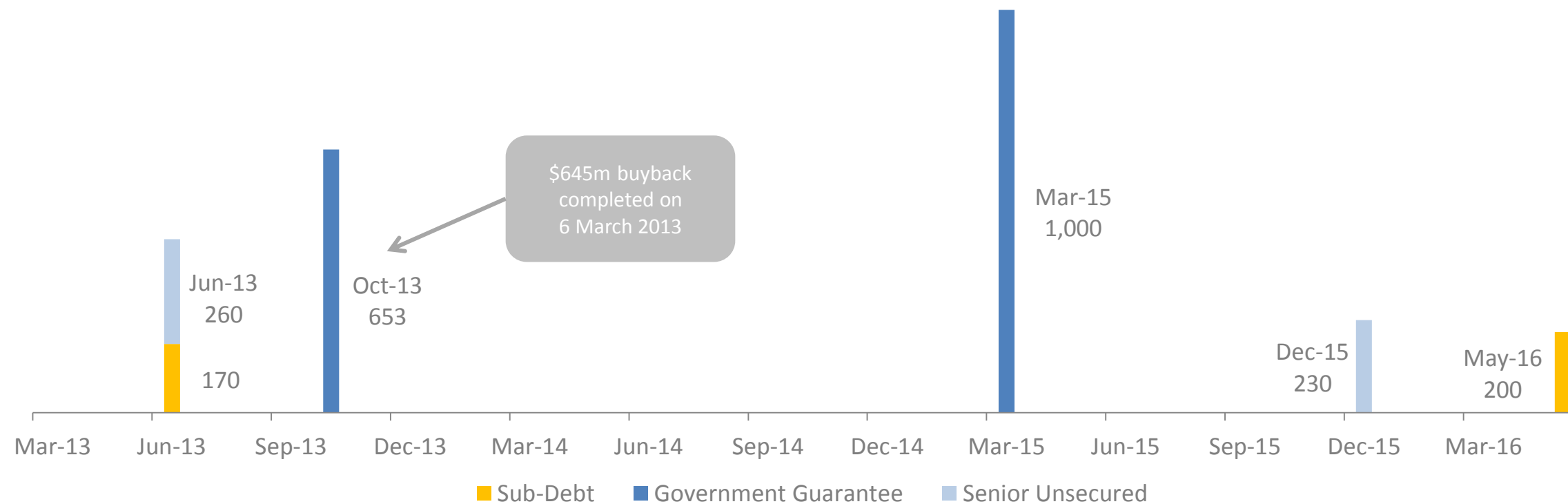
EXISTING BUSINESS  
NEW BUSINESS



# Wholesale debt maturity profile

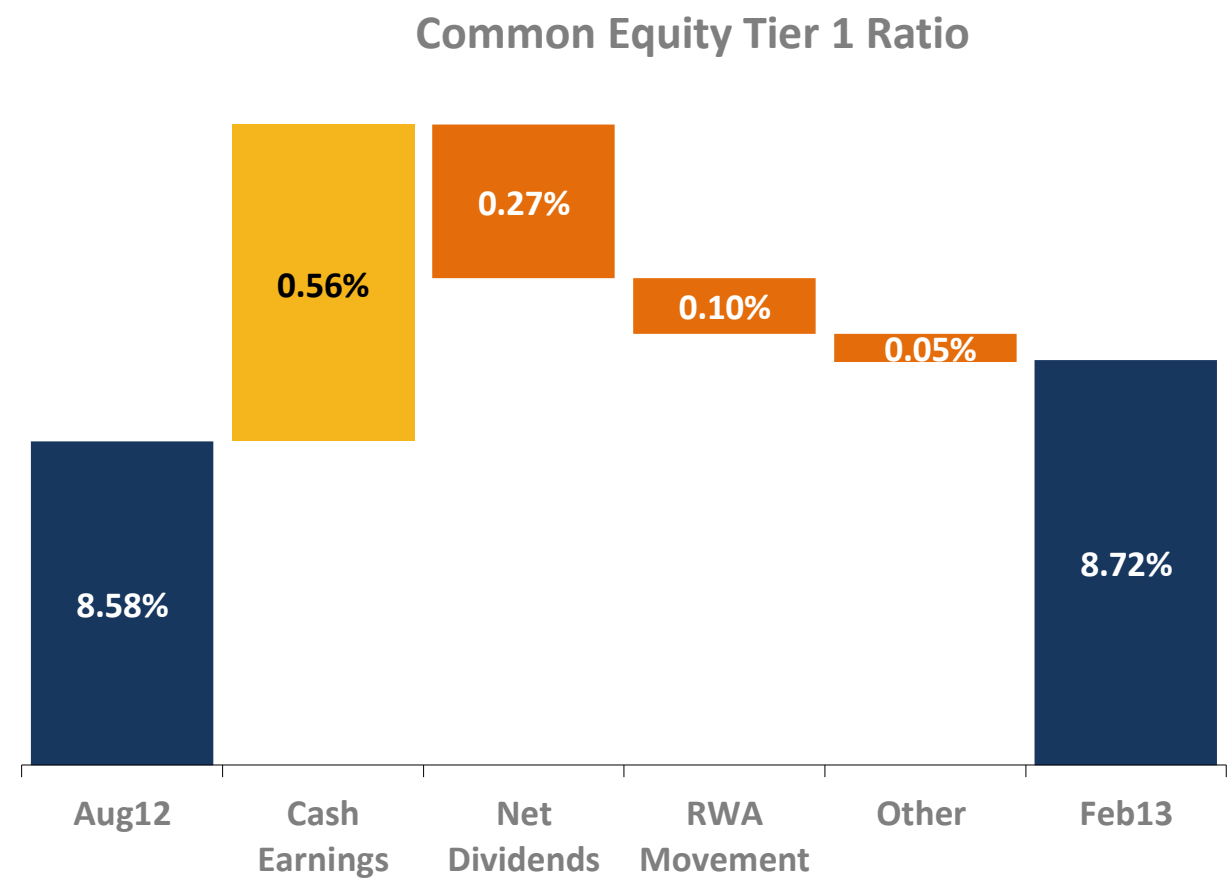
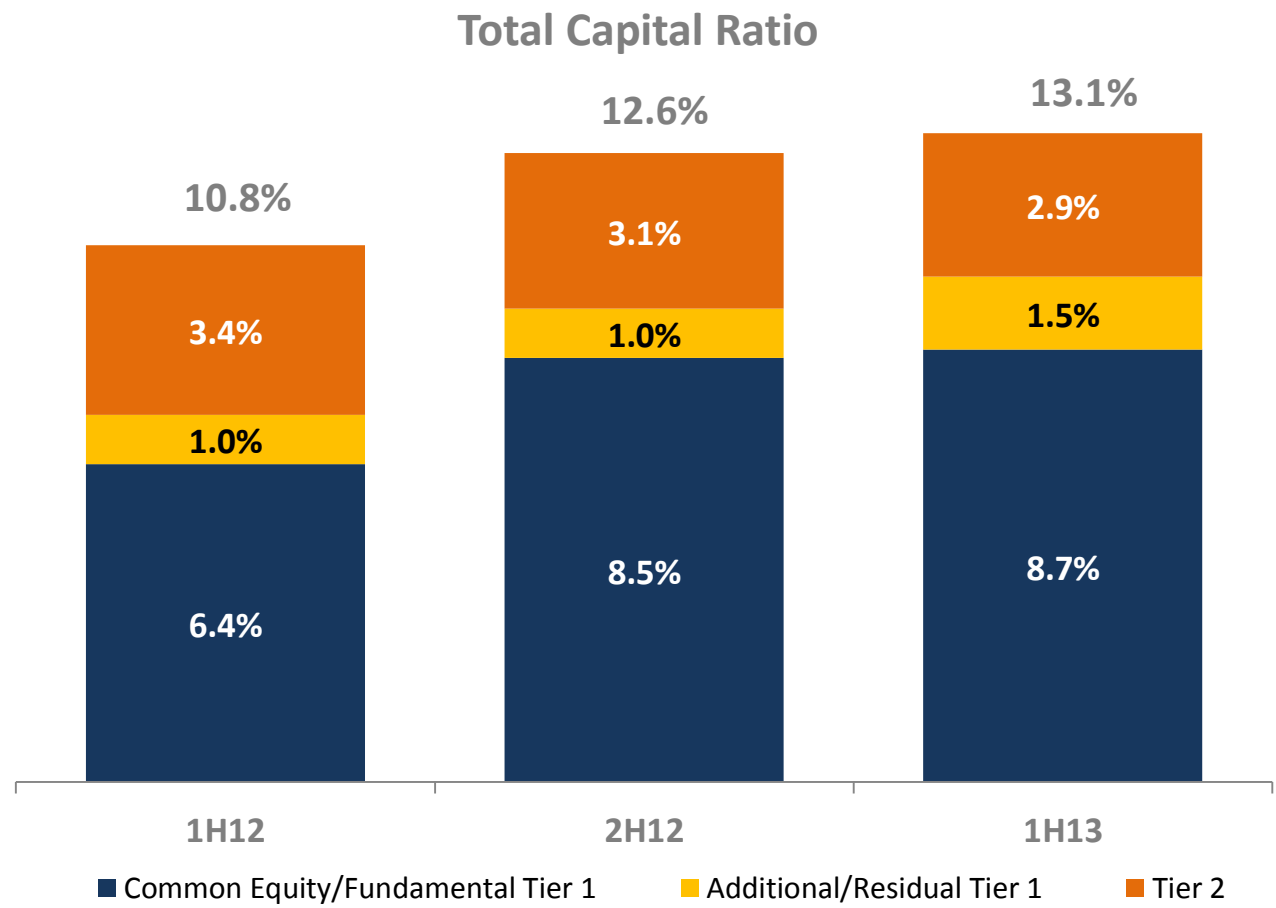
- ▶ October 2013 GG deal bought back in March
- ▶ No significant maturity towers until 2015
- ▶ Improved funding markets provide potential opportunity to manage down remaining GG tower

Major maturities (\$m)



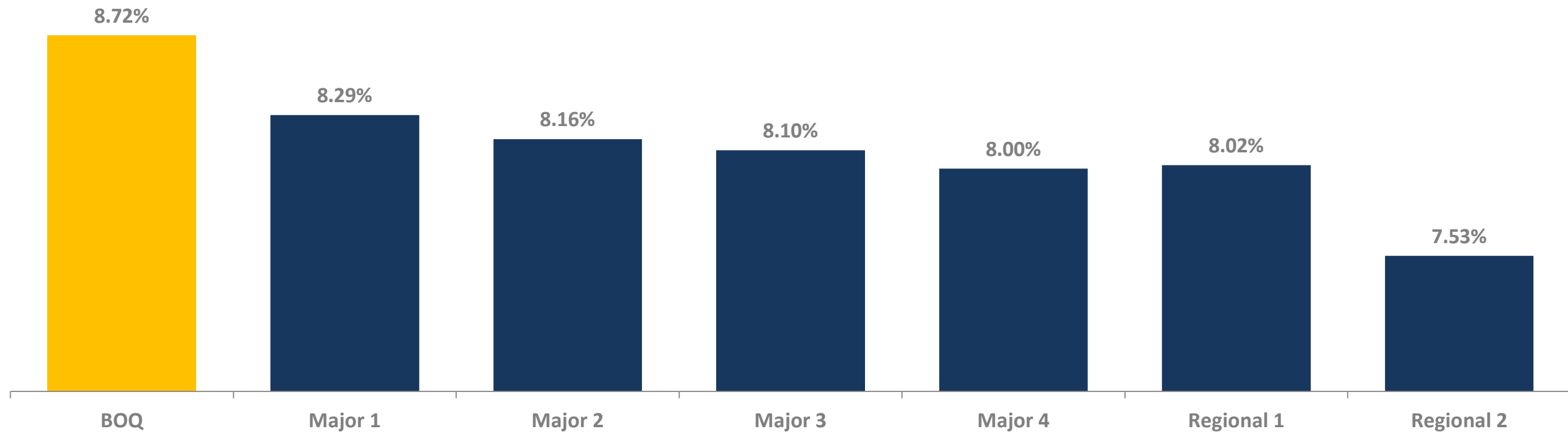
# Capital position

- ▶ Continued capital strength with Total Capital at 13.1% and Common Equity Tier 1 at 8.7%
- ▶ Internal capital generation supporting dividend growth
- ▶ Successful issue of \$300m in Convertible Preference Shares



# Strong Capitalisation v Peers

Common Equity Tier 1 Ratio



Where Basel III common equity Tier 1 capital ratio was not available, the Core Tier 1 ratio was used.



Your own personal bank



# ▶ Summary

**Stuart Grimshaw**

Managing Director and CEO



Your own personal bank

# Summary and outlook

- ▶ Solid first half profit with cash earnings up 16%
- ▶ Asset quality continues to improve with impaired assets trending downwards, a result of the Bank's new loan origination strategies and risk appetite framework
- ▶ Strong cost management and operational efficiency focus to continue
- ▶ Strategy implementation on track with return to mortgage broker channel, targeted Business Banking expansion and balanced scorecard for Owner Managers developed
- ▶ Returns to shareholders improving with an increase in first half dividend from 26 to 28 cents
- ▶ Economic and business conditions mixed although signs of residential property market improvement in SE Queensland
- ▶ On track to meet key management targets for FY13



# ▶ Appendices

**Additional Information**



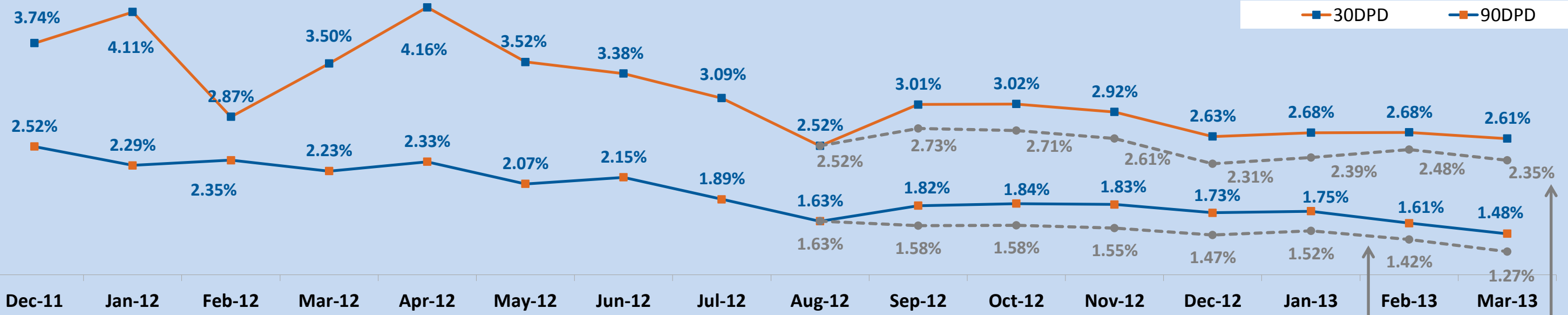
Your own personal bank

# Significant items

- ▶ Asset impairment driven by decision to enhance customer platforms
- ▶ Legacy issues provided for adequately

	1H13	2H12	Change 1H13 v 2H12	1H12
Cash earnings / (loss) after tax	\$119.9m	\$103.0m	▲ \$16.9m	(\$72.4m)
Amortisation of customer contracts	(\$4.9m)	(\$4.9m)	No change	(\$5.6m)
Amortisation of fair value adjustments	(\$1.0m)	(\$2.0m)	▼ \$1.0m	(\$1.9m)
Hedge ineffectiveness	(\$0.7m)	(\$0.3m)	▲ (\$0.4m)	(\$3.0m)
Integration / due diligence costs	(\$0.3m)	\$0.1m	▲ (\$0.4m)	(\$1.1m)
Asset impairment	-	-	n/a	(\$6.6m)
Government guarantee break fee	-	(\$2.2m)	n/a	-
Legacy items	(\$1.5m)	(\$14.9m)	▼ \$13.4m	-
Restructuring costs	(\$11.0m)	(\$5.3m)	▲ (\$5.7m)	-
Statutory profit (loss) after tax	\$100.5m	\$73.5m	▲ \$27.0m	(\$90.6m)

# Lines of Credit arrears

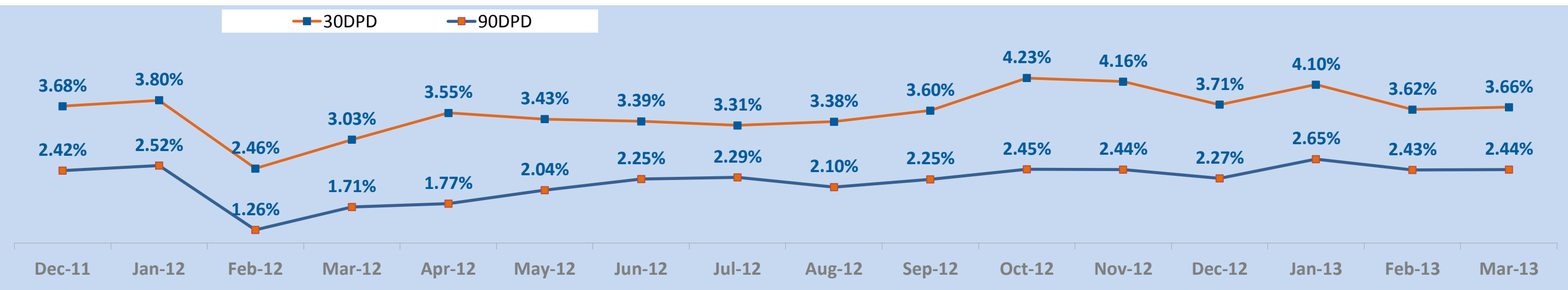


Excluding effect of hardship accounts<sup>(1)</sup>

Portfolio metrics	1H13	2H12	1H12
Portfolio size (\$b)	4.6	5.0	5.2
Impaired (\$m)	67.4	89.5	45.5
Impaired %	1.47%	1.78%	0.87%
Specific provisions (\$m)	23.3	32.7	19.1
Collective provisions (\$m)	9.7	14.1	22.8
Total provision coverage	0.72%	0.93%	0.80%

(1) 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.

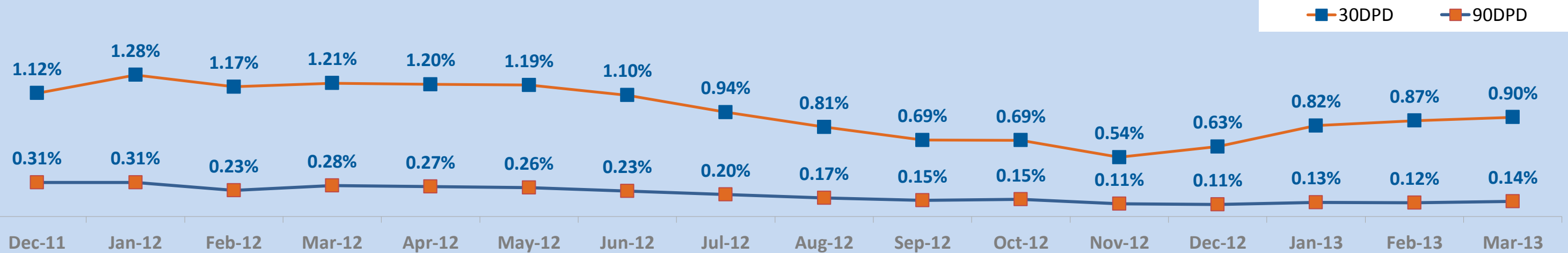
# Commercial



Portfolio metrics	1H13	2H12	1H12
Portfolio size (\$b)	5.3	5.1	5.3
Impaired (\$m)	281.6	284.4	424.2
Impaired %	5.36%	5.58%	8.04%
Specific provisions (\$m)	133.7	127.9	187.9
Collective provisions (\$m)	83.7	121.2	156.6
Total provision coverage	4.14%	4.89%	6.53%



# Leasing arrears



Portfolio metrics	1H13	2H12	1H12
Portfolio size (\$b)	3.7	3.7	3.7
Impaired (\$m)	24.0	26.3	19.7
Impaired %	0.65%	0.72%	0.53%
Specific provisions (\$m)	16.0	17.6	13.9
Collective provisions (\$m)	27.4	26.9	20.3
Total provision coverage	1.18%	1.22%	0.92%





Your own personal bank