



BOQ

FY16 RESULTS PRESENTATION

6 OCTOBER 2016

FOR THE YEAR ENDED 31 AUGUST 2016



RESULTS OVERVIEW

JON SUTTON
Managing Director & CEO

FINANCIAL DETAIL

ANTHONY ROSE
Chief Financial Officer

SUMMARY & OUTLOOK

JON SUTTON
Managing Director & CEO

STRATEGY REMAINS UNCHANGED




Vision ...

♥ Our dream is to create AUSTRALIA'S MOST LOVED BANK ♥

Strategy ...

Focus on niche segments that value a more intimate customer relationship

Target
segments ...

Retail banking		Business banking	
	<ul style="list-style-type: none">▪ Aussie Achievers▪ Today's Families		<ul style="list-style-type: none">▪ SME▪ Mid-market▪ Property
	<ul style="list-style-type: none">▪ Leading Lifestyles▪ Metro-techs		 <ul style="list-style-type: none">▪ Medical & Dental▪ Agribusiness▪ Retirement living
		<ul style="list-style-type: none">▪ Hospitality & Tourism▪ Asset-Intensive▪ Franchising	

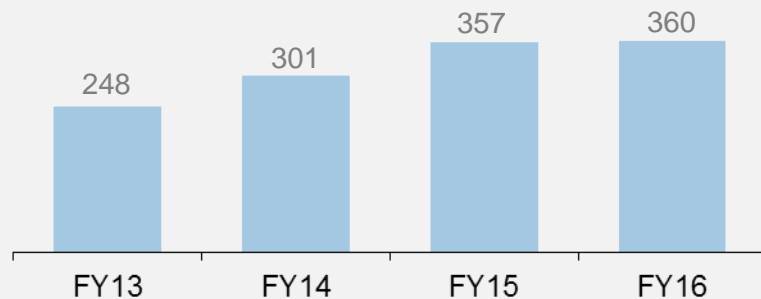
Strategic
pillars ...

Customer in charge	Grow the right way	There's always a better way	Loved like no other
Making it easier for our customers to deal with us in the way they prefer	Getting the right balance between risk and return	Having efficient systems and processes	Improving our talent, capability and culture

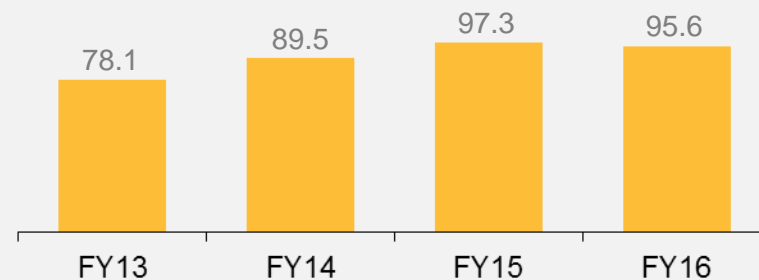
- 1 Increased profit in a changing operating environment
- 2 Niche specialist businesses delivering strong results
- 3 Strong asset quality
- 4 Significant focus on productivity and deposits
- 5 Progressing well with execution of strategy

KEY ELEMENTS OF THE RESULT

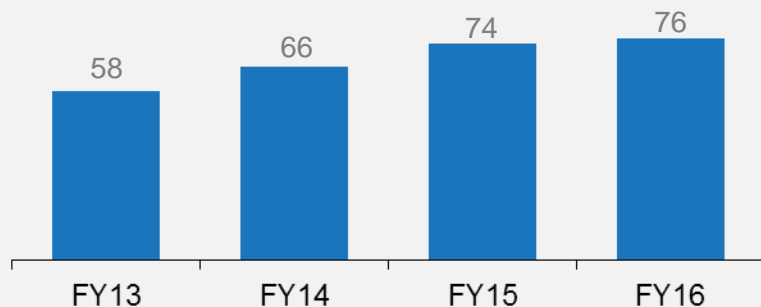
CASH EARNINGS AFTER TAX (\$M)



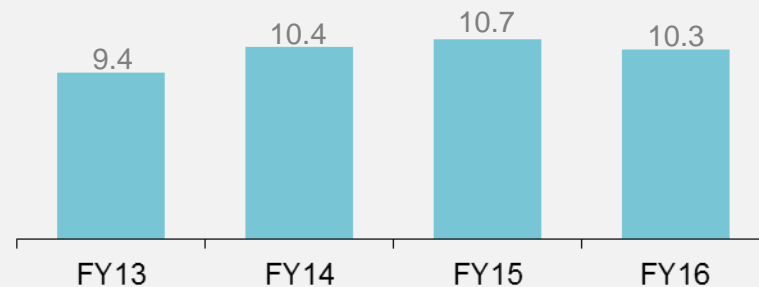
EARNINGS PER SHARE (CENTS)



DIVIDENDS PER SHARE (CENTS)

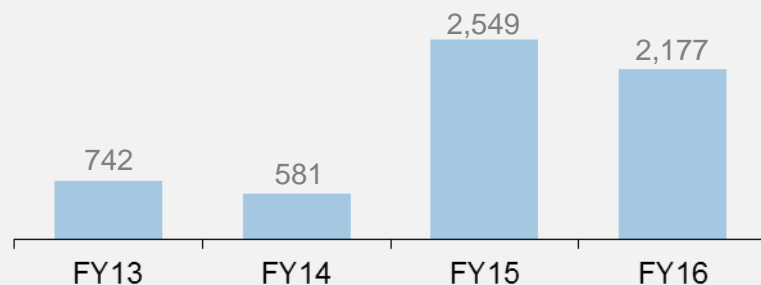


RETURN ON EQUITY (%)

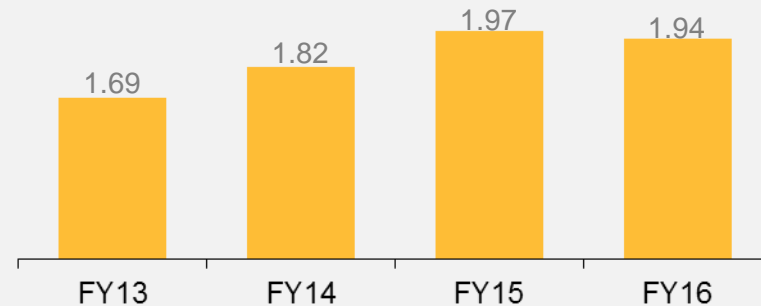


DRIVERS OF THE RESULT

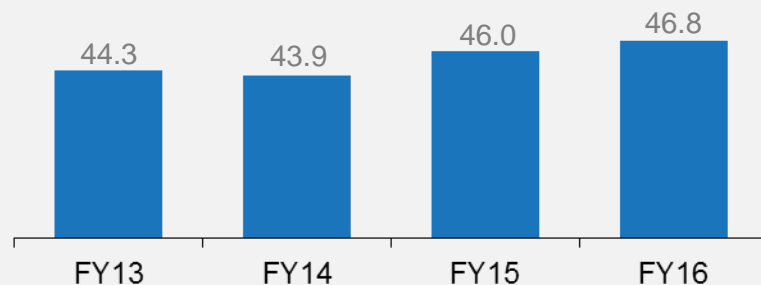
LENDING GROWTH (\$M)⁽¹⁾



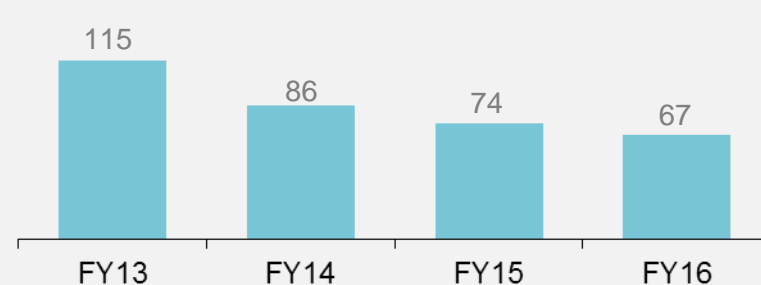
NET INTEREST MARGIN (%)



COST TO INCOME RATIO (%)



LOAN IMPAIRMENT EXPENSE (\$M)



(1) FY14 excludes the addition of the BOQ Specialist portfolio

NICHE STRATEGY DELIVERING RESULTS

BOQ SPECIALIST

- Commercial loan book growth 13%
 - High margin business
 - Benign loss experience continues
- Housing loan book growth of \$1.5bn
 - High quality residential loan portfolio



BUSINESS BANKING SEGMENT GROWTH

- Bankers and credit teams aligned to target segments
- Growing above system – total niche business segment growth of \$500m in FY16 or 16%

BOQ FINANCE

- Portfolio growth of 3% in a flat market
- Focus on higher margin business
- Impairment expense within expected range



VIRGIN MONEY

- Mortgage product launched in May with ~800 brokers now accredited
- Next evolution to be deposit products
- Growth in credit card book & insurance products demonstrate power of the brand

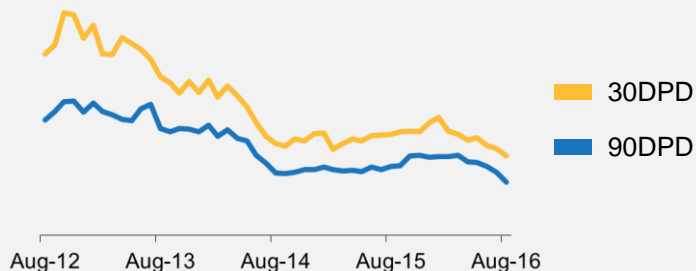


IMPROVING ASSET QUALITY HAS BUILT RESILIENCE

SUMMARY

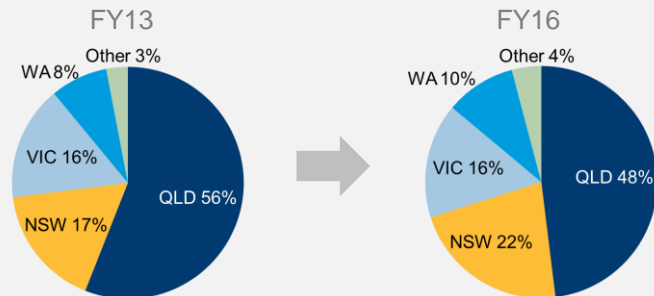
- The business is now much better placed to operate sustainably through the inevitable economic cycles
- 65% of housing loans written from FY13 onwards, under more conservative risk settings
- Limited exposure to apartment development hotspots
- Sound risk management has meant no significant impact to overall portfolio from mining and regional QLD downturn

COMMERCIAL LOAN ARREARS⁽¹⁾

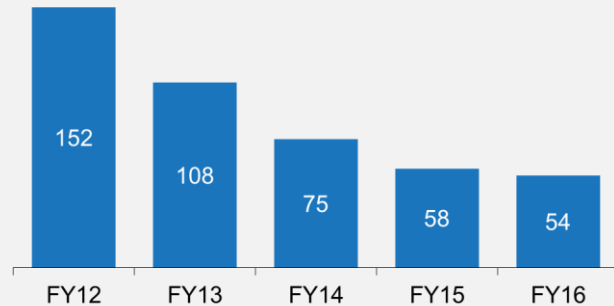


(1) Excludes BOQ Specialist
(2) Includes BOQ Specialist from FY14

GEOGRAPHIC DIVERSITY – GROSS LOANS



IMPAIRED ASSETS % OF GROSS LOANS (bps)⁽²⁾

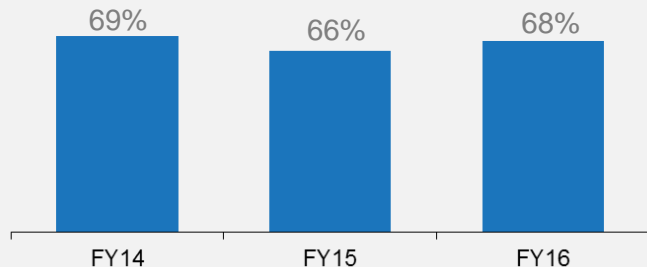


ADAPTING FOCUS TO FIT THE OPERATING ENVIRONMENT

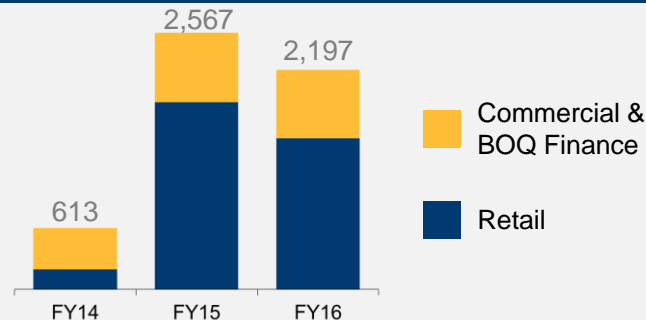
SUMMARY

- Revenue under pressure across the sector – lower credit growth and ‘lower for longer’ interest rate environment
- Net Interest Margin impacted by market dynamics post-May RBA cut: lower yield curve and higher TD spreads
- Prioritised margin over growth in 2H16
- Retail network increased emphasis on deposit growth in 2H16

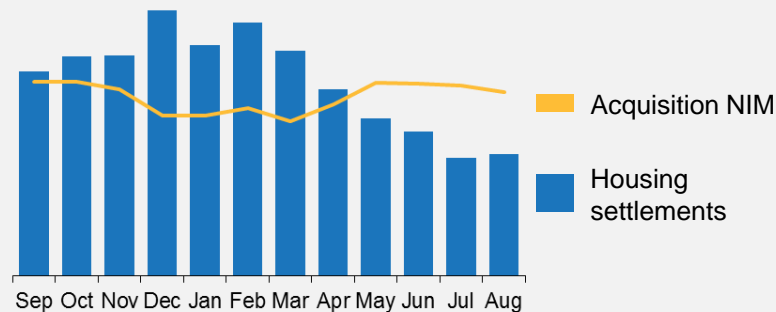
DEPOSITS TO LOAN RATIO



ASSET GROWTH COMPOSITION⁽¹⁾



HOUSING SETTLEMENTS VS ACQUISITION NIM

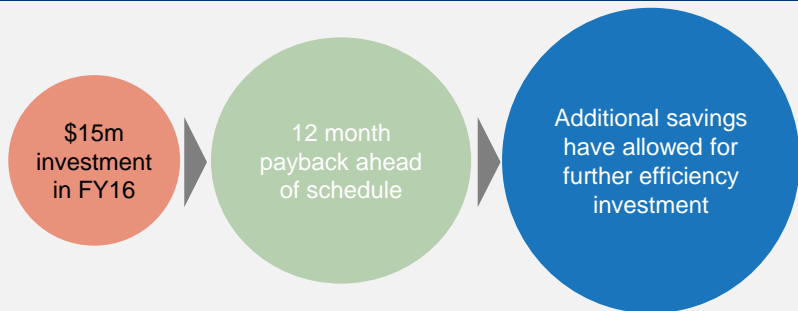


(1) Excludes Consumer lending

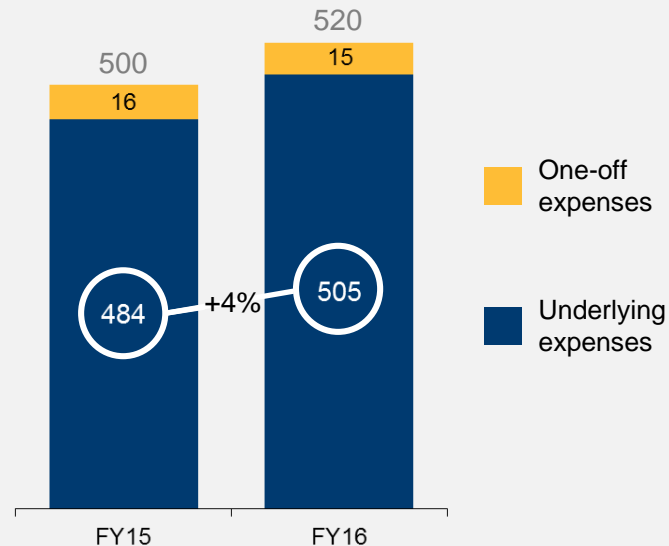
SUMMARY

- Elevated importance and focus on productivity and efficiency programs
- Additional efficiency initiatives underway within current expense profile
- 4% underlying expense growth in FY16; targeting 1% underlying growth in FY17

\$15M INVESTMENT PAYBACK ON TRACK



TIGHT UNDERLYING EXPENSE MANAGEMENT



FY16 SCORECARD: STRATEGIC PRIORITIES

Strategic pillar	FY16 priorities	FY16 progress
Customer in charge	<ol style="list-style-type: none"> 1. Expand BOQ accredited brokers to 4,000 2. Roll out Virgin Money mortgage product 3. Digital enablement 4. Ongoing branch network optimisation 	
Grow the right way	<ol style="list-style-type: none"> 1. Continue to increase customer deposits 2. Maintain discipline in pricing and credit quality 3. Grow specialist niches 	
There's always a better way	<ol style="list-style-type: none"> 1. Roll out new Lending origination system 2. Utilising data analytics 3. Continue to invest in risk foundations 	
Loved like no other	<ol style="list-style-type: none"> 1. Instil sales and service culture 2. Invest in leadership and talent 3. Build diversity 	

Legend:



Achieved



Achieved & ongoing



In progress



FINANCIAL OVERVIEW

ANTHONY ROSE
Chief Financial Officer

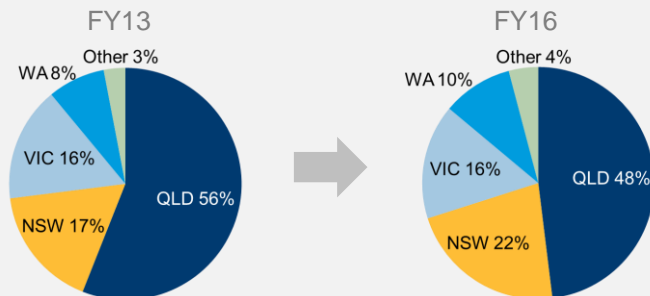


	FY16	FY16 v FY15
Net interest income	\$937m	3% ▲
Non interest income	\$173m	(4%) ▼
Total income	\$1,110m	2% ▲
Operating expenses	(\$520m)	4% ▲
Underlying profit	\$590m	1% ▲
Loan impairment expense	(\$67m)	(9%) ▼
Profit before tax	\$523m	2% ▲
Income tax expense	(\$163m)	4% ▲
Cash earnings after tax	\$360m	1% ▲
Cash basic earnings per share	95.6c	(2%) ▼
Return on average tangible equity	13.8%	(60bps) ▼

SUMMARY

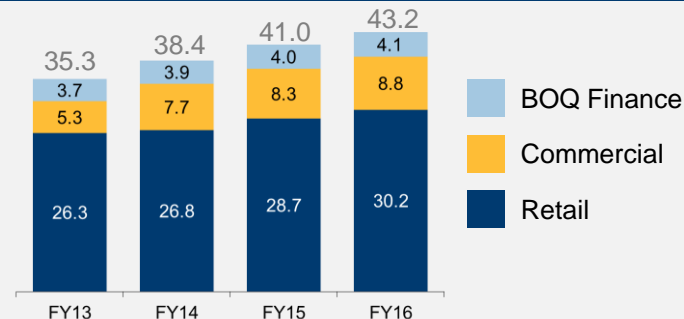
- Total lending up 5% on FY15
- Geographic mix improving – down to 48% QLD
- Strong 1H16 growth in Housing
- Prioritised margin over growth in 2H16 due to funding conditions and price competition
- Focus on growing higher margin segments in 2H16

TOTAL LENDING GEOGRAPHIC MIX

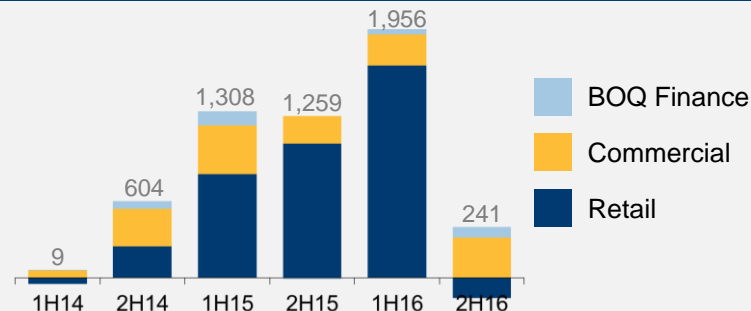


(1) Excludes Consumer lending

GROSS LOANS AND ADVANCES (\$B)



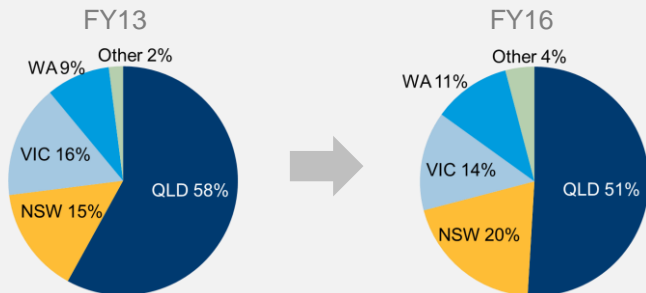
HALF YEARLY LENDING GROWTH COMPOSITION (\$M)⁽¹⁾



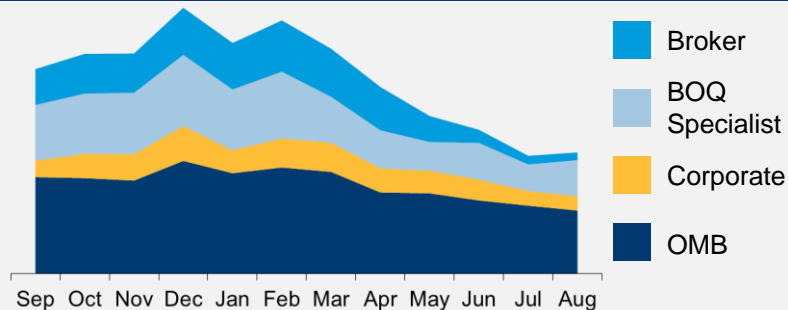
SUMMARY

- BOQ Specialist delivered strong contribution
- Branch network remains consistent source of settlements
- Industry wide increase in refinancing activity
- Broker solid growth in 1H16 but slowed significantly in 2H16 with less competitive new business pricing

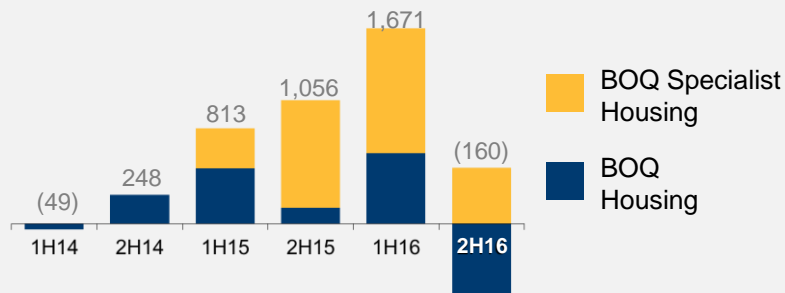
HOUSING LOAN GEOGRAPHIC MIX



MONTHLY HOUSING LOAN SETTLEMENTS



HOUSING LOAN GROWTH (\$M)



SUMMARY

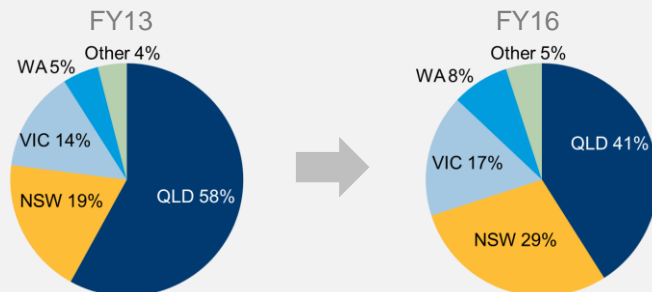
- Solid contribution from Business Banking niche segments
- BOQ Specialist & BOQ Finance performing well
- Lower quality business running off, being replaced by higher quality business

BUSINESS BANKING NICHE SEGMENTS

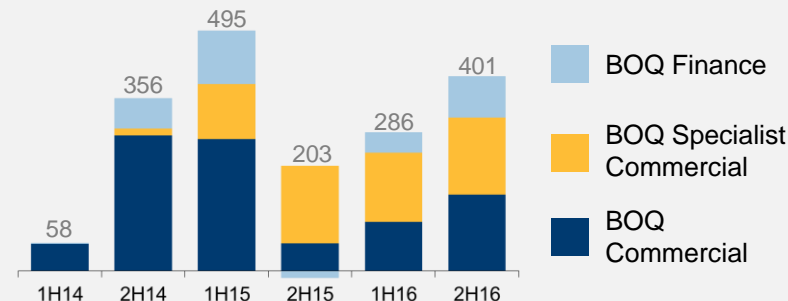
Retirement
living growth
of 150% to
~\$300m

Medical & Dental
growth of 13%
to \$2.7bn

COMMERCIAL LOAN GEOGRAPHIC MIX



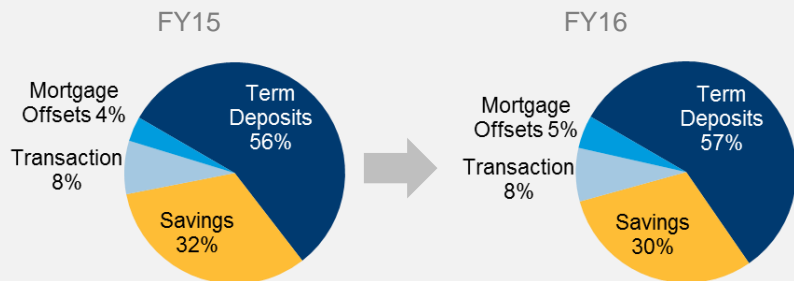
COMMERCIAL LENDING & LEASING GROWTH (\$M)



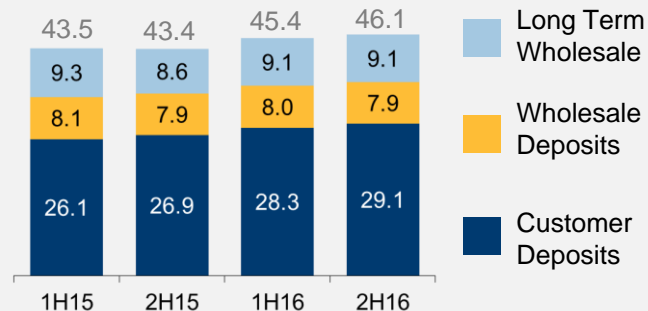
SUMMARY

- \$2.2bn in lending growth funded by deposits with transaction account growth of \$320m
- Limited wholesale market issuance required to meet upcoming maturities
- Deposit to Loan ratio 68%

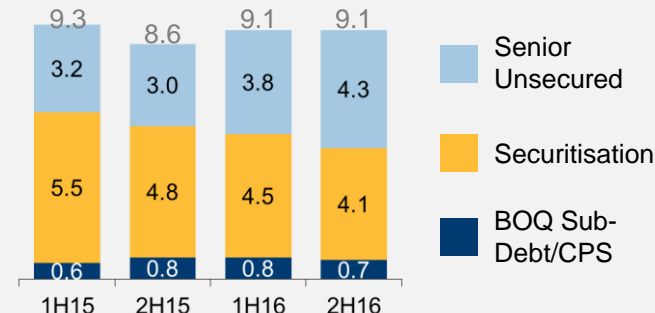
CUSTOMER DEPOSIT MIX



OVERALL FUNDING MIX (\$B)



LONG TERM WHOLESALE FUNDING (\$B)

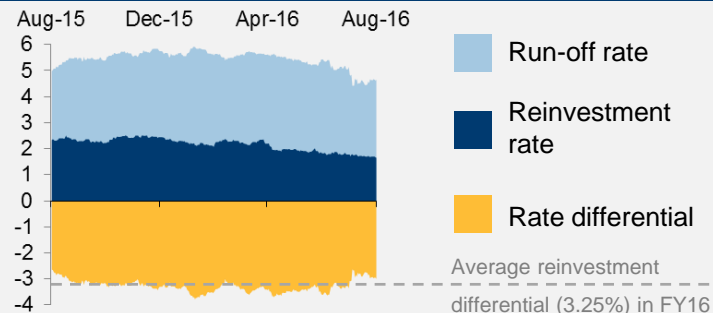


CHALLENGING ENVIRONMENT FOR NET INTEREST MARGIN

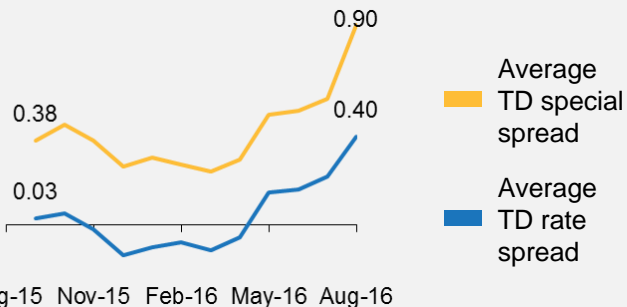
5YR SWAP (%): 10YEAR VIEW⁽¹⁾



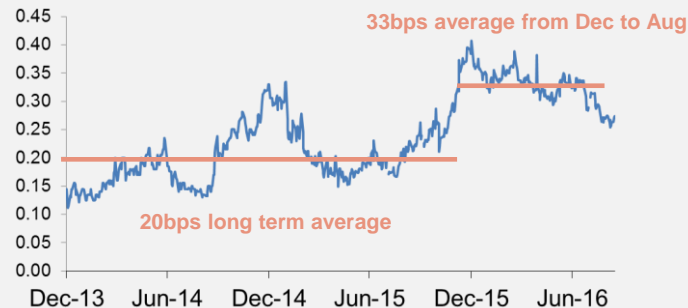
ROLLING 5YR SWAP RATE DIFFERENTIAL (%)⁽¹⁾



INDUSTRY TERM DEPOSIT SPREADS (%)⁽²⁾



90-DAY BILL SPREAD TO OVERNIGHT INDEX SWAP (%)⁽³⁾



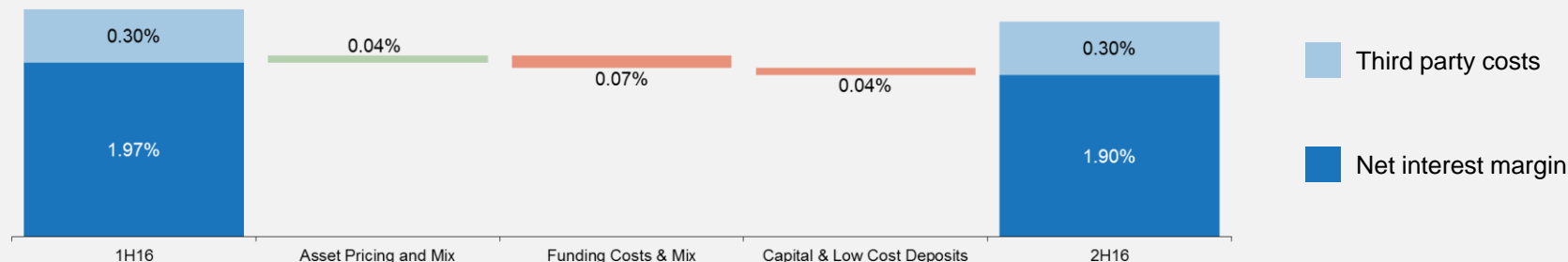
(1) Source: Bloomberg

(2) Spreads above 3-mth bank accepted bills, using average industry term deposit rates. Source: RBA

(3) Source: RBA

MOVEMENT IN NET INTEREST MARGIN

NET INTEREST MARGIN MOVEMENTS 1H16 TO 2H16



2H16 IMPACTS

- Front book vs back book housing impact ongoing
- Hedging costs have remained elevated, albeit down from peak
- Capital & Low Cost Deposits – returns on replicating portfolio impacted by lower yield curve
- Retail Term Deposit, Negotiated Term Deposit, Middle market and ST wholesale spreads have widened

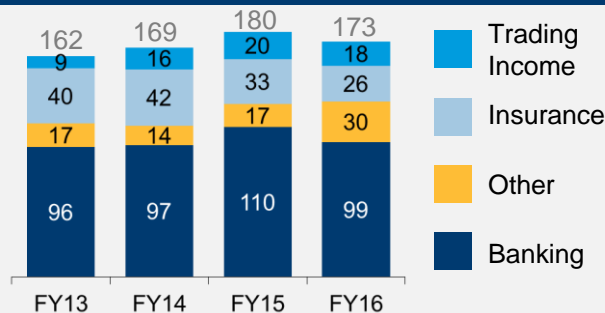
SUMMARY OF KEY MOVING PARTS

Element	1H16	2H16	change
Asset pricing benefits	+6bps	+9bps	+3bps
Front book pricing & mix	(4bps)	(5bps)	(1bp)
Funding costs & mix	+2bps	(4bps)	(6bps)
Hedging costs	(2bps)	(3bps)	(1bp)
Capital & LCDs	(3bps)	(4bps)	(1bp)

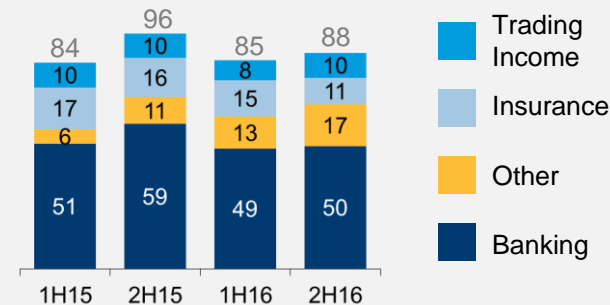
SUMMARY

- Good performance in BOQ Finance equipment sales assisted 'Other' income
- Customer shift to lower fee products such as Clear Path mortgage product
- Change in interchange fee arrangements reduced result by \$4m
- St Andrew's Insurance transitioning to new agreement and product mix as expected; claims levels in line with expectations

NON INTEREST INCOME BREAKDOWN (\$M): FULL YEAR



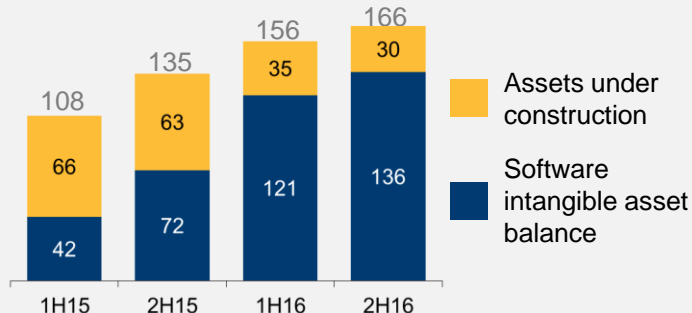
NON INTEREST INCOME BREAKDOWN (\$M): HALF YEAR



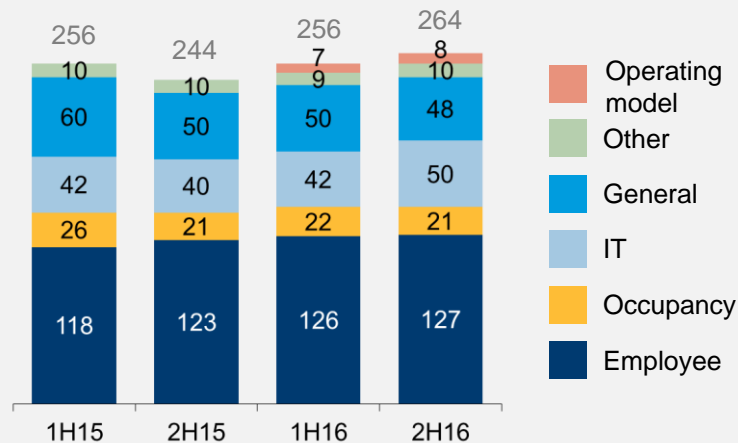
SUMMARY

- Underlying expense growth of 4% in FY16, including planned step-up in amortisation
- Cost to Income ratio up to 46.8%; 45.5% ex one-offs
- Virgin Money mortgage roll-out added \$3m in 2H16, expected to add \$9m in FY17
- Targeting 1% underlying expense growth in FY17, including further amortisation uplift on FY16

CARRYING VALUE OF INTANGIBLE ASSETS (\$M)



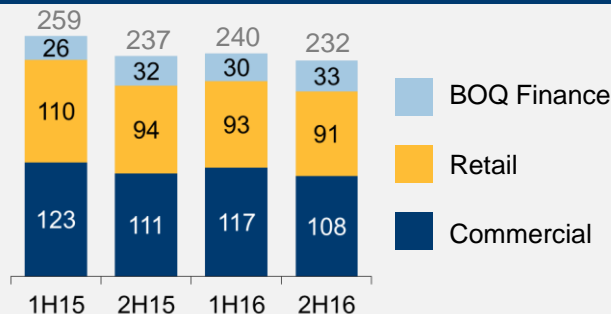
OPERATING EXPENSE BREAKDOWN (\$M)



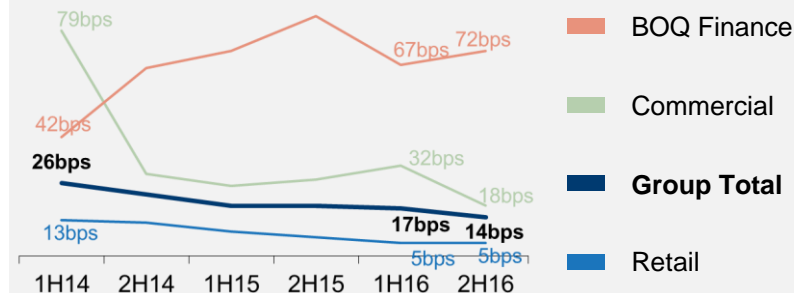
SUMMARY

- Continued improvement in asset quality
- Commercial portfolio performance in 2H16 particularly pleasing; no new impaired assets >\$5m
- Retail portfolio benefiting from mix impact of new BOQ Specialist housing loans

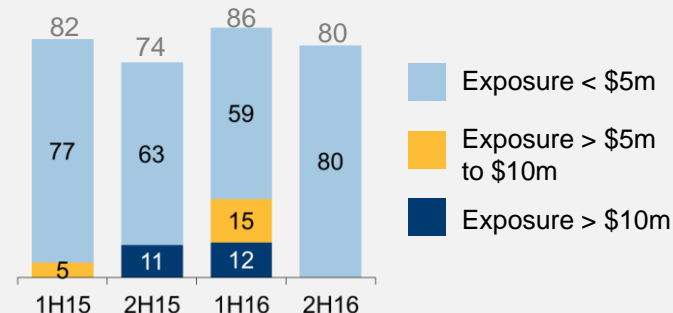
IMPAIRED ASSETS (\$M)



LOAN IMPAIRMENT EXPENSE BY PRODUCT (BPS)



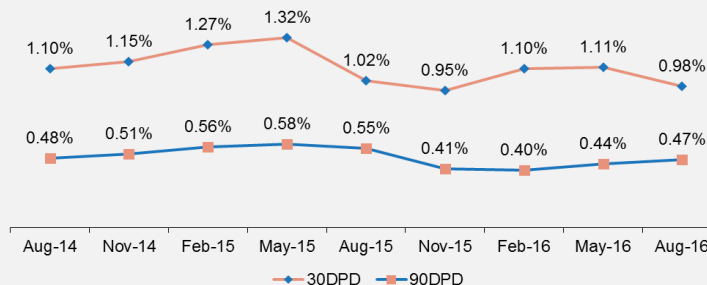
NEW IMPAIRED ASSETS (\$M)



SUMMARY

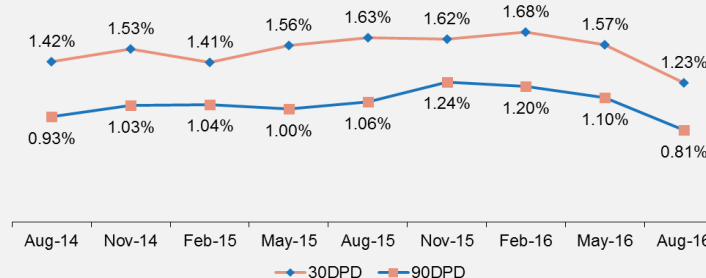
- Improving trends across all portfolios
- BOQ Specialist growth contributing to improvement
- BOQ Finance impacted by QLD & WA downturn in particular

HOUSING ARREARS⁽¹⁾⁽²⁾

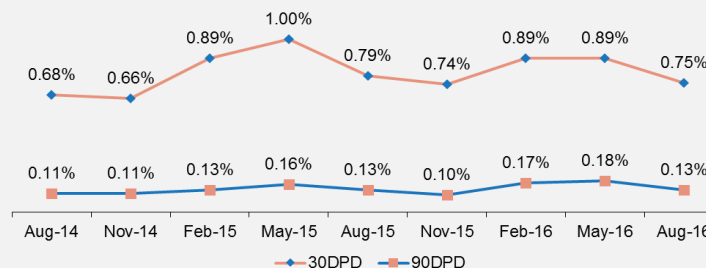


- (1) Includes BOQ Specialist
(2) Housing excluding Lines of Credit

COMMERCIAL ARREARS⁽¹⁾



BOQ FINANCE ARREARS

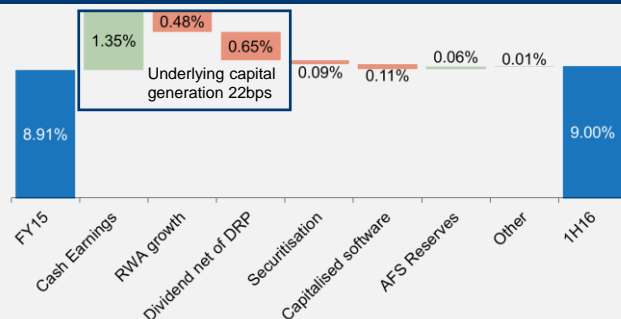


STRONG CAPITAL POSITION MAINTAINED

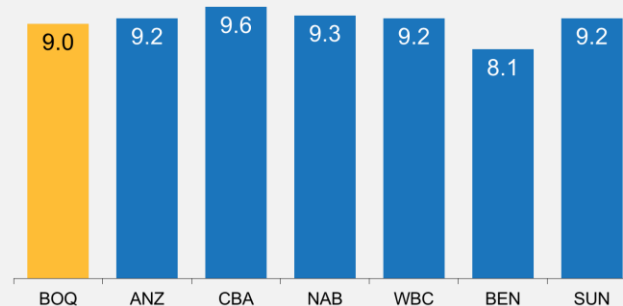
SUMMARY

- Capital position compares well against peers, particularly given BOQ's more conservative risk weightings
- Basel 4 should level the playing field further; Potential upside in SME risk weights
- Good progress made towards advanced accreditation if size of the prize warrants accelerating that step

COMMON EQUITY TIER 1 RATIO MOVEMENTS



PEER CET1 COMPARISON⁽¹⁾



OPPORTUNITIES FROM BASEL 4

Lower risk weights for SME & Leasing books

Increases BOQ's CET1 ratio and improves returns on SME lending

Capital floor for advanced banks

>70% capital floor would help close the gap between advanced & standardised

(1) Based on most recent Pro-forma CET1 figures published by peers

PROGRESS TOWARDS ADVANCED ACCREDITATION

Initiatives in place

Credit risk	Credit policy framework Credit models Collective Provision/GRCL Lending origination systems	Application for Advanced
Operational risk	Operating model & framework Governance framework implementation Incident management system	
Market risk	Asset Liability Management (ALM) System Policy review & governance framework Integration of Funds Transfer Pricing (FTP) into ALM	
Enterprise management	Risk appetite statements Compliance gateways & Risk KPIs	



SUMMARY & OUTLOOK

JON SUTTON
Managing Director & CEO



Economic

- Low interest rates and low unemployment supporting economic growth
- QLD benefiting from tourism
- Mining investment downturn impacting some regions

Industry

- Lower credit growth
- ROE impacted by lower for longer interest rates
- Conduct and culture focus
- Rapidly changing customer expectations

Regulatory

- Revised standardised approach
- Capital floor for advanced banks
- Staged approach to advanced accreditation
- Net Stable Funding Ratio

Vision ...

♥ Our dream is to create AUSTRALIA'S MOST LOVED BANK ♥

Strategy ...

Focus on niche segments that value a more intimate customer relationship

FY17 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. Expansion of mortgage aggregators for Virgin Money 2. Enhance digital customer experience 3. Ongoing branch network optimisation 	<ol style="list-style-type: none"> 1. Optimise deposit pricing using data analytics 2. Develop specialist niche capability in franchising and hospitality 3. Focus investment in high margin businesses 	<ol style="list-style-type: none"> 1. Complete roll out of new origination & leasing systems 2. Deliver return on investment in efficiency programs 3. Implement centralised mortgage hub 	<ol style="list-style-type: none"> 1. Invest in leadership and talent 2. Build gender diversity towards 50% in senior management by 2020 3. Complete ethics training roll-out

Outcomes ...

Outperform sector EPS growth

- 1 Subdued revenue growth across the industry to persist
- 2 Focus on growing in high margin segments
- 3 Maintain risk discipline
- 4 Deliver additional efficiency program benefits
- 5 Continue with execution of strategy



BOQ

FY16 RESULTS PRESENTATION

6 OCTOBER 2016

FOR THE YEAR ENDED 31 AUGUST 2016





APPENDICES



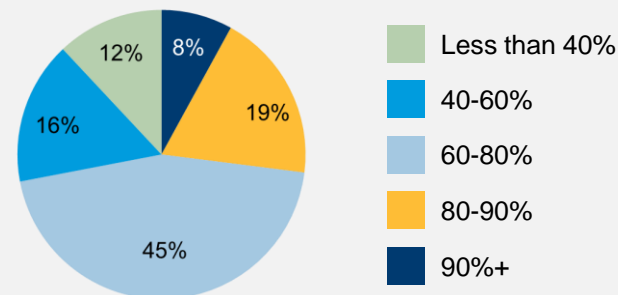
SUMMARY

- Quality continues to improve under revised risk appetite
- Higher proportion of fixed rate lending in FY16
- Line of credit portfolio continues to reduce

PORTFOLIO METRICS

Metrics (%)	2H15	1H16	2H16
Owner occupied	58	57	58
Investment	42	43	42
Broker originated	6	7	8
Weighted avg LVR	65	62	63
Line of Credit	11	10	9
Avg loan balance	\$258k	\$258k	\$262k
Variable rate	81	77	75
Fixed rate	19	23	25

HOUSING PORTFOLIO LVR BANDS



SETTLEMENT METRICS

Metrics (%)	2H15	1H16	2H16
Owner occupied	63	56	59
Investment	37	44	41
Broker originated	14	19	15
Weighted avg LVR	68	68	67
Line of Credit	4	3	3
Avg loan balance	\$354k	\$356k	\$376k
Variable rate	75	56	69
Fixed rate	25	41	31

MINIMAL EXPOSURE TO HIGH RISK SECTORS

Apartment construction exposures⁽¹⁾

- \$215m current exposure to residential construction
- 30 developments across 3 states, majority completing 2016 through 2017
- Highest concentration in VIC and NSW, well diversified intra-state

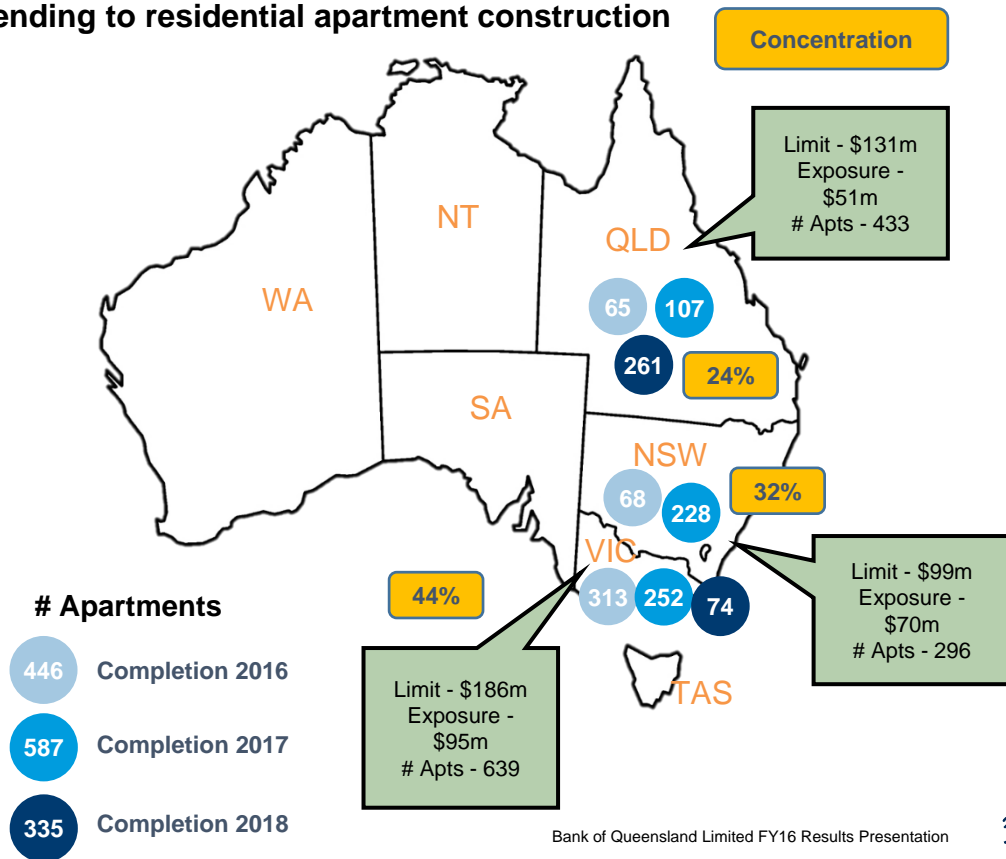
Regional Housing exposures

- No material regional housing exposures

Regional Commercial & Leasing exposures

- No systemic issues emerging
- Direct mining industry exposure ~\$110m

Lending to residential apartment construction



(1) Projects over \$5m. Data as at 30 September 2016

1H: First half of financial year
2H: Second half of financial year
30DPD: 30 days past due
90DPD: 90 days past due
AFS: Available for sale
ALM: Asset & Liability Management
APRA: Australian Prudential Regulation Authority
Apts: Apartments
Avg: Average
BDD: Bad & Doubtful Debt Expense
bps: basis points
CET1: Common Equity Tier 1
cps: Cents per share
CPS: Convertible Preference Shares
CTI: Cost-to-income ratio
DRP: Dividend Reinvestment Plan
EPS: Earnings per share

FTP: Funds transfer pricing
FY: Financial year
GLA: Gross Loans & Advances
GRCL: General Reserve for Credit Losses
KPI: Key performance indicator
LCD: Low cost deposit
LOC: Line of Credit
LVR: Loan to valuation ratio
NIM: Net Interest Margin
OMB: Owner Managed Branch
RBA: Reserve Bank of Australia
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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