



IT'S POSSIBLE to  
LOVE A BANK



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# Key messages

1

Simple, well executed strategy delivering record results

2

Disciplined approach to growth has continued – not compromising quality

3

Proactive management of levers to deliver results – strong improvement in margin, cost to income, risk metrics and ROTE

4

Balance sheet quality and strength evidenced by two credit rating upgrades

5

Potential upside still to be realised in new Retail channels and Business Banking

6

Investec businesses being acquired provide a strong fit with the four strategic pillars of BOQ's strategy

# Proactive margin management

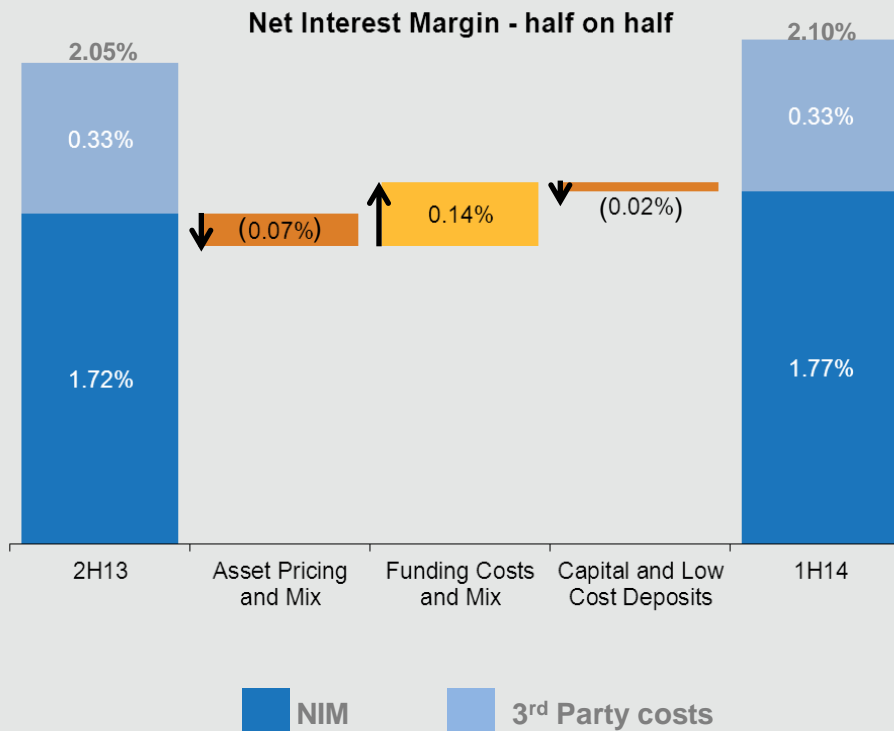
- ▶ Strong 5bps improvement on 2H13

## Tailwinds

- ▶ Rating upgrades reducing wholesale costs and opening up counterparty limits
- ▶ Deposit pricing adjustments with lower lending growth

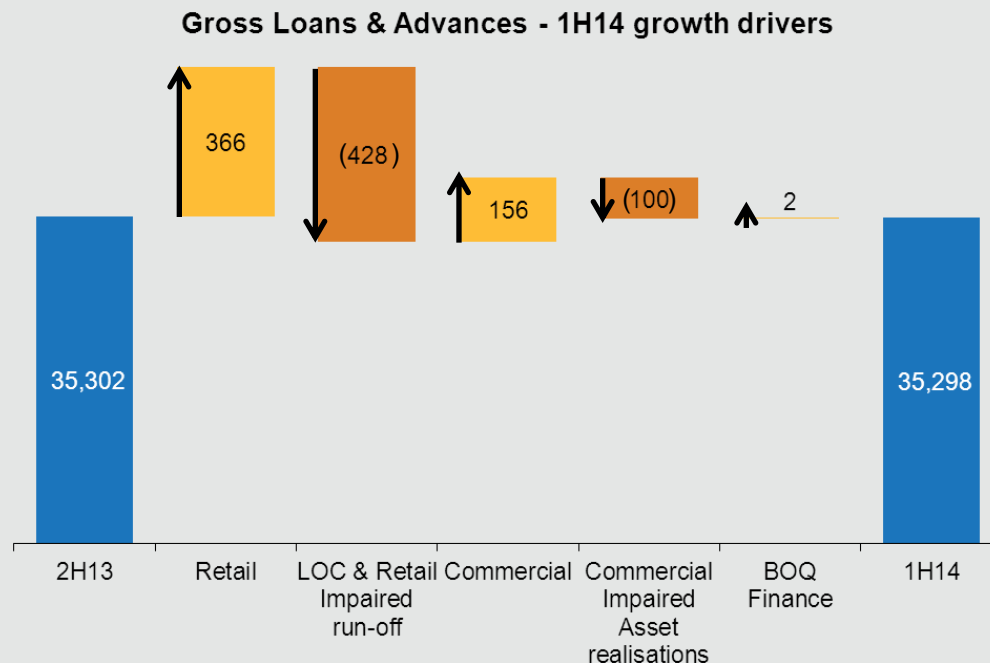
## Headwinds

- ▶ High margin asset run-off (eg. Line of Credit)
- ▶ Lending front-book pricing competition
- ▶ Low interest rate environment



# Run-off & deleveraging restraining growth

- ▶ Focus on improving quality of the book and building a sound platform for growth
- ▶ Line of Credit (LOC) run-off still high as portfolio re-weighting continues – down to \$3.9bn from \$5.2bn in Feb 2012
- ▶ QLD continues to underperform national system growth (0.5x)<sup>1</sup>, but interstate expansion will further reduce impact



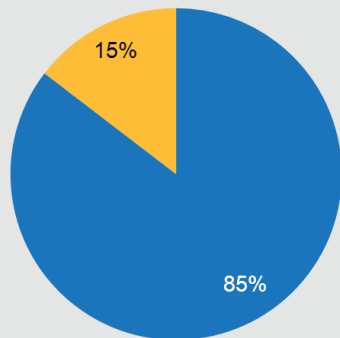
(1) Source: Cannex market share report Feb 2014.

# Multi-channel: improving momentum in Retail channels

## Retail channels: source of lending applications

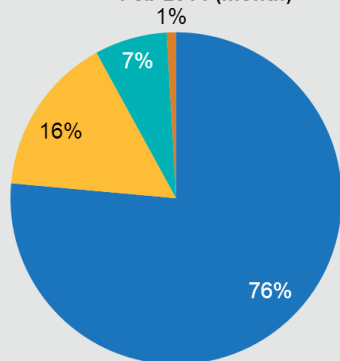
Feb 2013 (month)

Total = \$739m



Feb 2014 (month)

Total = \$764m

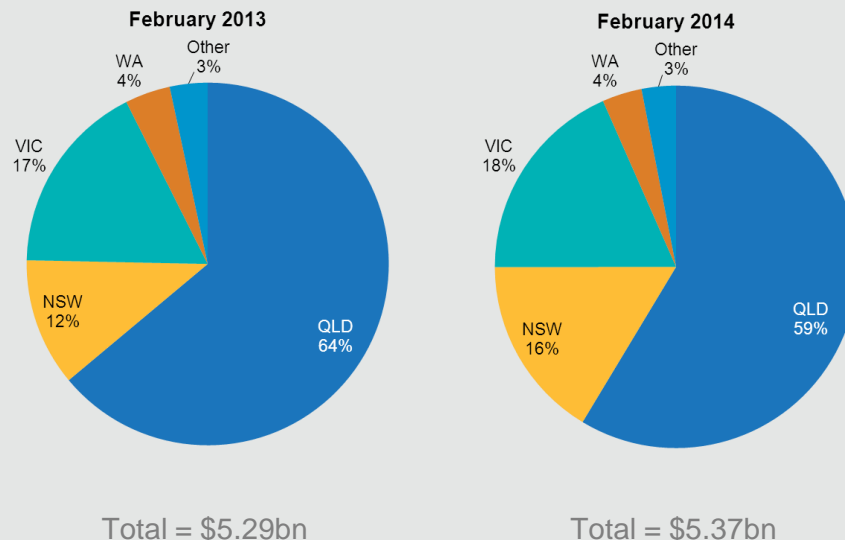


- ▶ ~1,000 brokers now accredited, lending applications flow doubled between 1Q14 and 2Q14
- ▶ Improved corporate branch productivity following restructure & refocus – lending applications up 8% year on year
- ▶ Team of 10 mobile bankers recruited & deployed with application pipeline growing strongly
- ▶ Owner-managed branch (OMB) – 70% of branches posted positive lending growth (excluding legacy run-off)
- ▶ Refreshed website and new mobile apps generating significant new leads

# Risk-Return: focus on profitable growth

- ▶ Targeting growth and expansion in higher margin Business Banking, but not compromising price or risk
- ▶ Sound risk management practices embedded in the lending processes across the business, contributing to quality improvement
- ▶ Actively reduced reliance on high cost retail deposit segments, given lower asset growth

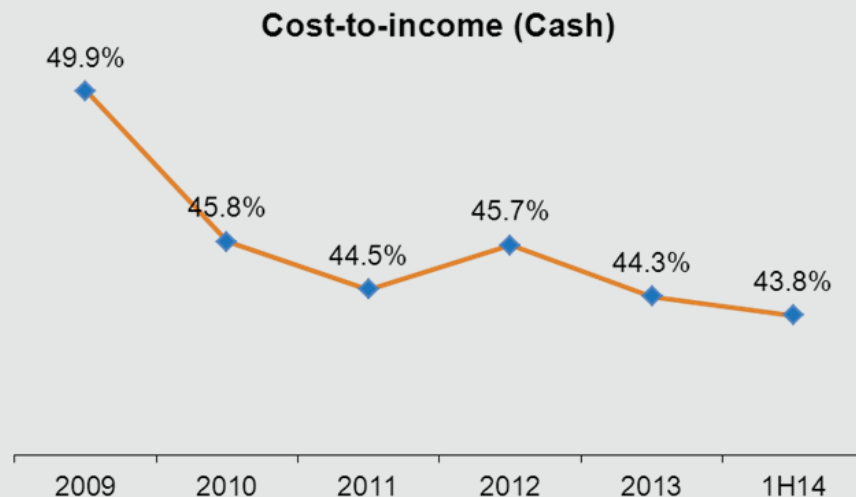
## Commercial loans: diversifying by geography<sup>(1)</sup>



(1) Note this includes commercial loans originated by Retail

# Operational excellence: reinvesting in future growth

- ▶ Reinvestment for growth:
  - ▶ Lending platform – digitisation, straight-through processing
  - ▶ Consolidation of technologies across the group
  - ▶ Front line staffing and capability uplift, particularly in Business Banking
- ▶ Savings harvested in:
  - ▶ Procurement \$3.6m
  - ▶ Property & service rationalisation \$0.8m
  - ▶ Corporate network restructuring \$1.1m



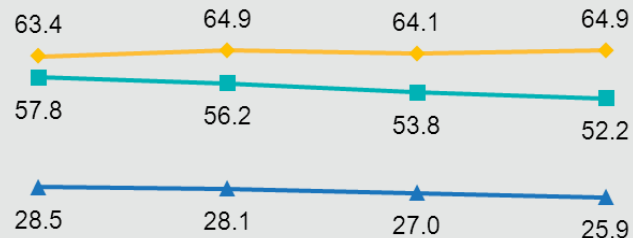
# Talent & culture: driving customer satisfaction

- ▶ Retail customer satisfaction metrics improving
  - ▶ 68% of customers classified as 'high advocates' (scored 8-10/10) – ranked #1 in February 2014 among all major banks from #7 a year ago<sup>(1)</sup>
  
- ▶ Business Banking surveys consistently rank BOQ #1 across a range of engagement metrics
  - ▶ Recently named Best Relationship Bank by AB+F
  
- ▶ BOQ Finance ranks #1 in pre-deal service and #2 in ease of use and product performance against leading primary financiers <sup>(2)</sup>
  
- ▶ Driving culture of customer focus across the organisation and targeting top quartile employee engagement scores

**Net Promoter Scores – February 2014<sup>(1)</sup>**

BOQ	ANZ	CBA	NAB	WBC
+17.5	-7.5	+1.5	+1.6	-10.9

**Business Banking Customer Engagement<sup>(3)</sup>**

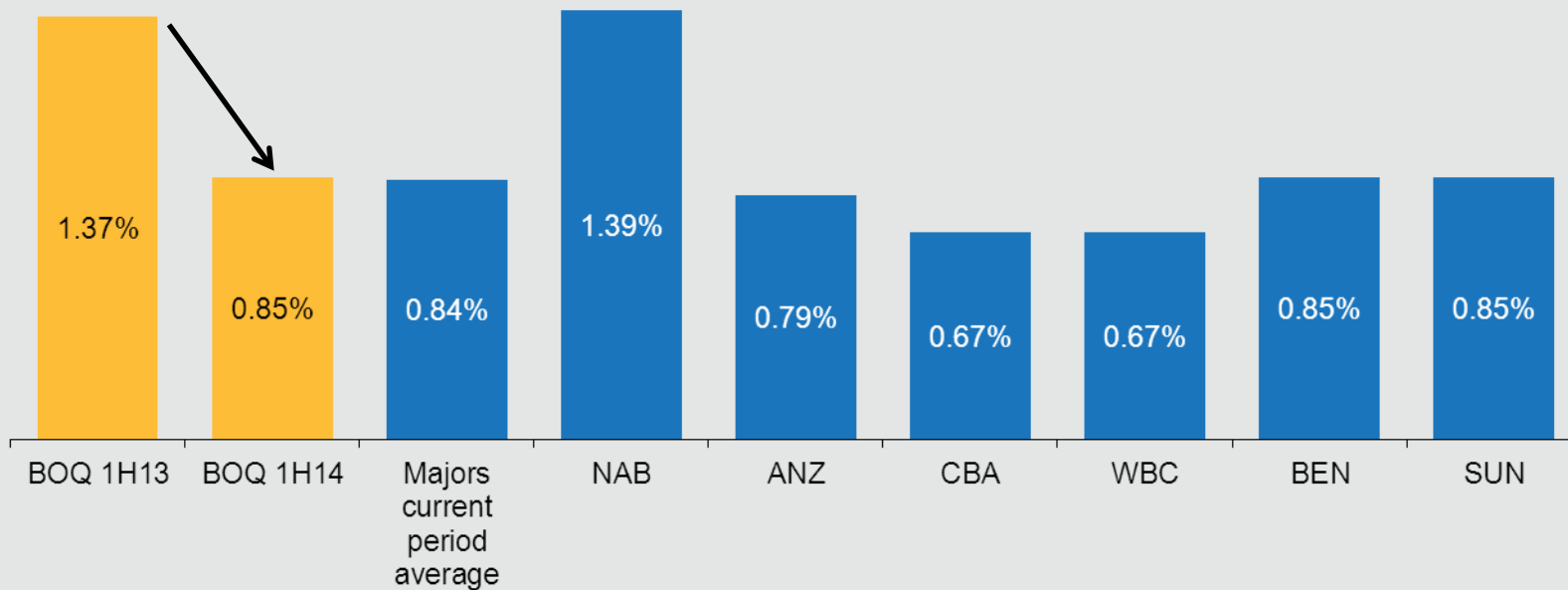


(1) Source: Roy Morgan Research Consumer Single Source, 6 months average - February 2014. Net Promoter Score is a trademark of "Satmetrix Systems, Inc., Bain & Company, and Fred Reichheld"  
 (2) Source: East & Partners Business Banking Index June 2013  
 (3) Source: East & Partners Business Banking Index March 2014



# Impaired levels now in line with peers

Impaired Assets / GLA vs Peers



# Good progress towards management targets

Metrics <sup>(1)</sup>		1H14 Actual	FY15+ Target (from 2H12) <sup>(5)</sup>
<b>BOQ asset growth</b>			
-Retail	✘	0x system	1.2x system
-Business <sup>(2)</sup>	✔	2.4x system	1.5x system
<b>Net Interest Margin</b>	✔	177bps	Low-Mid 160s
<b>Expense growth<sup>(3)</sup></b>	✔	2%	< Inflation
<b>Cost to Income</b>	✔	43.8%	Low 40s
<b>Bad &amp; Doubtful Debts to GLA</b>	✔	26bps	~20bps
<b>Return on Tangible Equity<sup>(4)</sup></b>	✔	13.2%	13%+

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

(1) Cash earnings basis

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

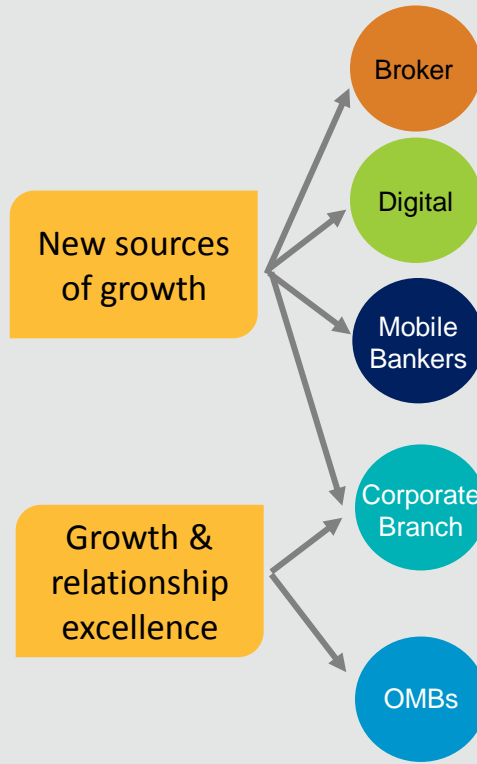
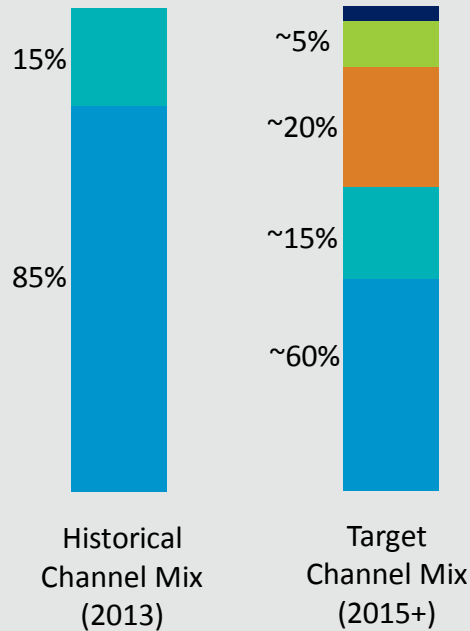
(3) Compound growth rate from 2H12 when the management targets were established

(4) Excluding goodwill and identifiable intangible assets

(5) Excludes Virgin Money Australia

# Opportunities for growth

## Source of origination



- ▶ National roll out and scale up of BDM & processing resource – target to double accredited brokers & aggregators from 1H14 to 2H14
- ▶ Leverage refresh of digital assets to drive online sales and lead generation
- ▶ Doubling of mobile business development resource to build on strong initial pipeline
- ▶ Currently operating at ~30% of OMB productivity – significant growth potential as new talent and productivity initiatives embedded
- ▶ New commission model launched in 1Q15 will increase focus on quality and share of wallet
- ▶ Transformation of back office & increased capability will improve franchisee productivity

# Opportunities for growth

## **Business Banking expansion**

- ▶ Continue to invest in existing metropolitan hubs with planned expansion into regional and rural Victoria / WA over the next 12 months
- ▶ Focus on credit quality, pricing for risk and achieving return hurdles
- ▶ Remain committed to growing a strong, high quality agribusiness portfolio
- ▶ Non interest income opportunities with further investment in financial markets capability and expertise
- ▶ Further push into the SME segment by leveraging unique operating model of the OMB network and recruitment of 3 additional SME specialist lenders (10 in total)

## **Other**

- ▶ Further cost and productivity initiatives including digitisation and process re-engineering
- ▶ BOQ Finance targeting increased penetration into BOQ branch network
- ▶ Virgin Money Australia business build-out strategy progressing – profitability achieved six months early

# Investec businesses are a good strategic fit

## Professional Finance

- ▶ Specialist provider of practice and personal finance to medical, dental and veterinary practitioners (82% of outstanding loans) and accounting and other professionals (18% of outstanding loans)
- ▶ Mortgage originator and manager of off-balance sheet mortgage portfolio (approximately \$1.0bn originated in CY13)
- ▶ c.19,000 customers

**\$2.2bn of total loans<sup>(1)</sup>**

## Asset Finance & Leasing

- ▶ Provider of specialist asset finance and leasing solutions via a mix of vendors, intermediaries and direct client relationships
- ▶ c.14,000 customers

**\$173m of loans on balance sheet<sup>(1)</sup>**

## Deposit Book

- ▶ \$2.7bn deposit book (comprising \$2.3bn retail and \$0.4bn wholesale)
- ▶ Greater than 50% of the retail deposit book is sourced from high net worth individuals and clients of the Professional Finance business
- ▶ c.9,000 customers

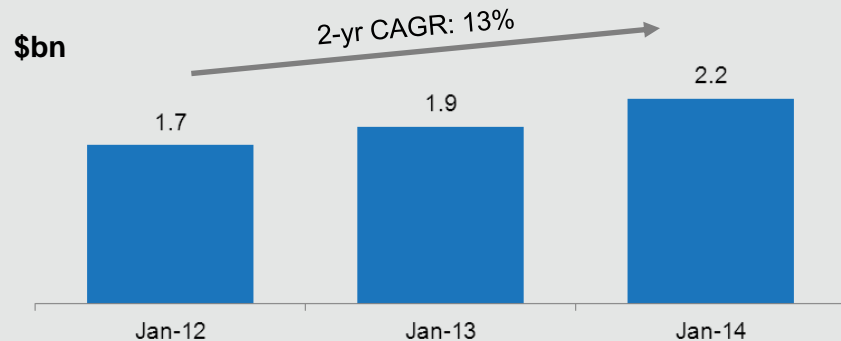
**\$2.7bn deposit book<sup>(1)</sup>**

Note: Following a restructuring of Investec Bank (Australia) Limited to remove certain businesses outside of the scope of the acquisition, BOQ will acquire 100% of the shares in Investec Bank (Australia) Limited which will include the above businesses.

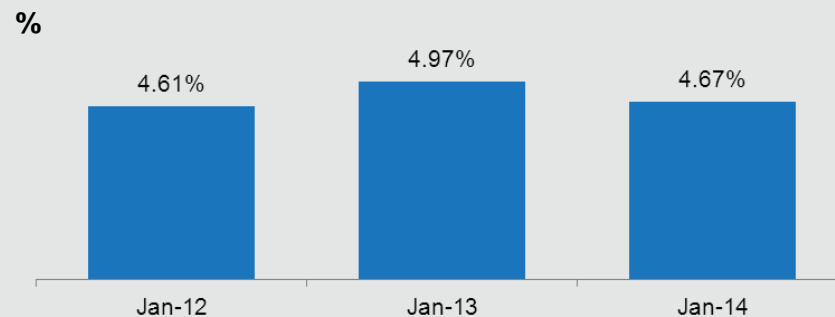
(1) As at 31-Mar-2014.

# Professional Finance – Financial Profile

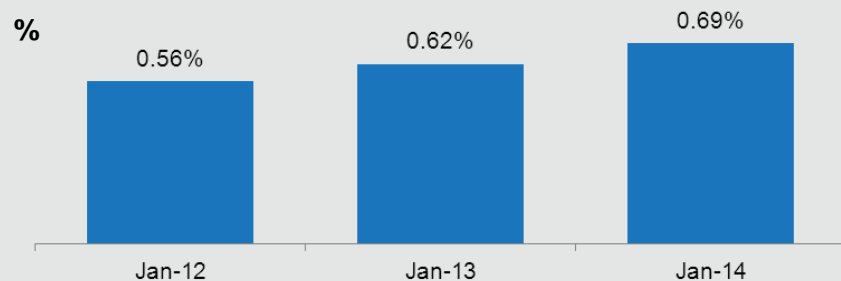
## ▶ Loan Book Growth



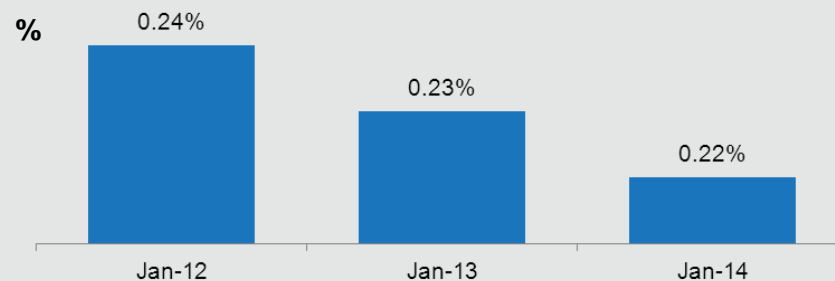
## ▶ Asset Spread<sup>(1)</sup>



## ▶ Non-Interest Income as a % of Gross Lending Assets<sup>(2)</sup>



## ▶ Bad & Doubtful Debts Expense as a % of Gross Lending Assets<sup>(2)</sup>



Source: Acquired Businesses' management.

<sup>1</sup> Spread to swap curve at last repricing date. Source: Bloomberg.

<sup>2</sup> Non-Interest Income and Bad & Doubtful Debts Expense based on 9 months actual to 31-Dec-2013 plus 3 months estimate to 31-Mar-2014. Gross Lending Assets at end of period.

# Summary & outlook

1

Continued focus on execution with disciplined approach to growth, margin, risk management and costs

2

Increasing returns to shareholders off a lower risk, lower volatility platform

3

Further growth potential in Retail distribution and Business Banking expansion, as well as internal productivity and efficiency gains

4

On track to meet key management targets for FY15

5

Investec businesses provide good strategic fit and additional avenue for growth

# 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.





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