



BOQ

1H17 RESULTS PRESENTATION

30 MARCH 2017

FOR THE HALF-YEAR ENDED 28 FEBRUARY 2017



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

RESULTS OVERVIEW

JON SUTTON
Managing Director & CEO

FINANCIAL DETAIL

ANTHONY ROSE
Chief Financial Officer

SUMMARY & OUTLOOK

JON SUTTON
Managing Director & CEO

Ladies and gentlemen, welcome to BOQ's half year financial result for 2017. My name is Tanny Mangos and I am the General Manager Corporate Affairs and Investor Relations.

Thank you for joining us today , in the room, on the phones and also by webcast.

For today's presentation, Managing Director and CEO Jon Sutton will provide an overview of the result. Chief Financial Officer Anthony Rose will run through the numbers and then Jon Sutton will return to discuss priorities and the outlook for the period ahead. This will be followed by the opportunity for analysts and investors to ask questions.

I'll now hand over to Jon.

- 1 Earnings down, improved outlook for second half
- 2 Niche business segments continue to perform well
- 3 Further improvement in asset quality
- 4 Delivering on expense management targets
- 5 Strong capital and funding position provides opportunity for growth

Thank you Tanny and good morning.

Before I begin, our thoughts are with our fellow Queenslanders who have been affected by Cyclone Debbie. Our team nationally and particularly in our home state of Queensland is working to support our customers during this difficult time.

I'll now begin with an overview of the result.

Our first half earnings declined on the prior corresponding period.

This was largely driven by revenue headwinds from a lower Net Interest Margin during an intensely competitive market.

Pleasingly, the outlook for the second half looks more favourable with lending application volumes having picked up strongly in recent months across all channels. Margin headwinds are also abating.

Our niche business segments continue to deliver. In the business bank, BOQ Specialist and BOQ Finance performed strongly. We have also seen good growth across our target niche commercial segments of retirement living, hospitality, franchising and agribusiness.

Furthermore, we continue to make good progress with our mortgage channel diversification strategy. In particular, BOQ Specialist mortgages grew strongly and we have achieved better than expected early take up of the new Virgin Money home loan product.

A key highlight of this result is the further improvement in our asset quality metrics which reflects our dedicated approach to risk management. Additionally, the significant amount of work undertaken to advance our risk management capability provides a pathway to Advanced Accreditation. Although there are pockets of weakness across the economy, we are not seeing any signs of deterioration in our loan portfolio.

In a low revenue environment we have remained focused on tightly managing our expenses. We are on track to deliver the 1 per cent underlying expense growth target announced at our full year 2016 results. With a number of efficiency initiatives underway across the group, we are stepping up this focus and see further opportunities.

Our capital and funding position remains strong on every measure. We are well placed for any regulatory changes and have the flexibility to capitalise on the positive structural changes that emerged during the half.

KEY ELEMENTS OF THE RESULT



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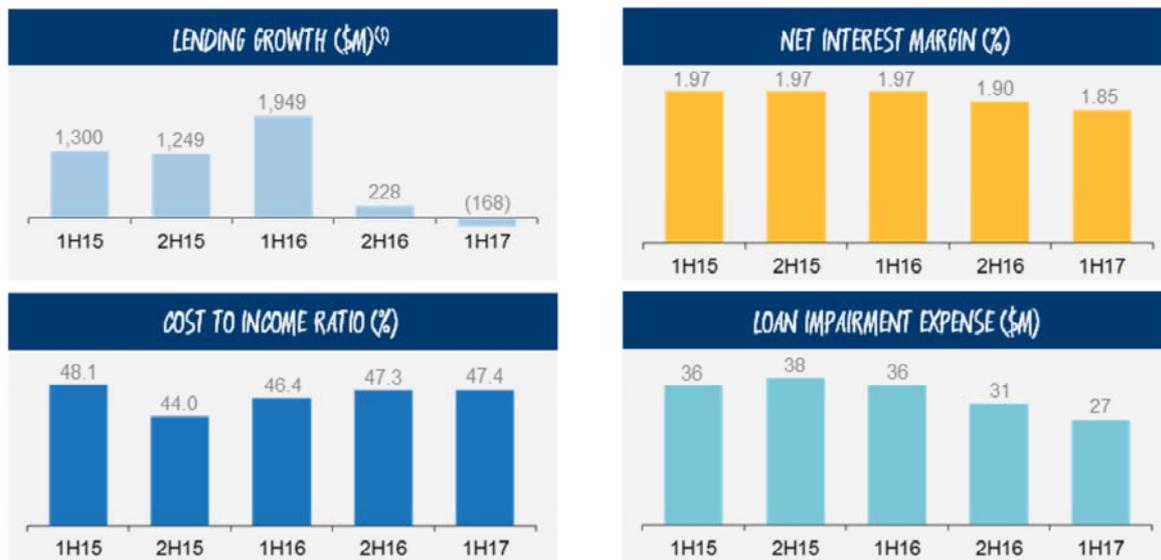
I will now run through the key elements of this result on slide 4.

Cash earnings of 175 million dollars was down 2 per cent on the prior corresponding period, with a 2 per cent decrease in headline expenses offset by 4 per cent decline in revenue.

Cash earnings per share of 45.5 cents was down 5 per cent. Return on equity decreased 70 basis points to 9.8 per cent which is a reflection of our elevated level of capital and lower interest rate environment.

The dividend has been maintained at 38 cents per share.

DRIVERS OF THE RESULT



(1) 1H17 includes BOOF Cashflow Finance Pty Ltd (formerly Centreport Alliance Premium Funding Pty Ltd) acquired in December 2016

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Let's look at some of the drivers of the result on slide 5.

In the first half, our loan book decreased by 168 million dollars. Our disciplined approach to pricing and actions taken to remain within the APRA investor lending cap contributed to the contraction of the loan book. It is well reported how competition in the mortgage market was intense during this period. We prioritised margin and credit quality over growth in this half.

We expect balance sheet growth to resume in the second half. The pipeline of mortgage applications in the past six weeks has increased substantially across all channels. Furthermore we are not currently constrained by the APRA investor lending cap.

Net Interest Margin reduced by 5 basis points over the half. This was largely driven by the highly competitive pricing environment for mortgages and the widening of term deposit funding costs. Anthony will address the details of the movement in his section.

The Net Interest Margin outlook for the second half is stronger. Term deposit spreads have improved in recent months and front and back book pricing for mortgages is more favourable.

Cost to Income Ratio was 47.4 per cent which was impacted by the decline in revenue during the half.

Loan impairment expense has reduced 25 per cent to 27 million dollars in what remains a benign credit environment. This is a reflection of the improvement we have seen across the portfolio and our disciplined approach to risk management.

NICHE STRATEGY DELIVERING RESULTS

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BOQ SPECIALIST

- Commercial loan book growth 8% annualised
 - Benign loss experience continues
- Housing loan book growth of \$394m (27% annualised)
 - High quality residential loan portfolio



BOQ FINANCE

- 1H17 annualised organic growth of 1%
- Improving mix of higher margin business
- Impairment expense below expected range
- Premium funding acquisition successfully integrated



BUSINESS BANKING NICHE SEGMENT GROWTH

- Target sectors of Health & retirement living, hospitality & tourism, agribusiness and franchising
- Strong growth in niche business segments at 15% annualised
- Continuing to add further resources, attract new clients and diversify by geography

VIRGIN MONEY

- Mortgage product launched in May 2016 with 2,677 brokers accredited by end of 1H17
- Application volumes well ahead of plan; growth of \$200m in 1H17
- 87% of portfolio written in NSW & VIC



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Our niche strategy on slide 6 has continued to deliver positive results.

BOQ Specialist remains an outstanding performer. In this half, 1,300 new clients were added while the commercial and housing loan books grew by 8 per cent and 27 per cent respectively on an annualised basis.

In BOQ Finance we have been focusing on using data analytics to better define segment profitability. Growth was achieved with an improved mix of higher margin business.

The premium funding business acquired from Centrepont Alliance during the half has been successfully integrated and rebranded under BOQ Finance. From day one, this acquisition has been earnings accretive.

Our niche business banking segments have experienced annualised growth of 15 per cent across our target sectors. We are adding further resources to build our capability in our niche sectors. We have also been successful in attracting new clients and our business is more geographically diverse.

The new Virgin Reward Me home loan product has gained traction with customers and mortgage brokers. Application volumes have been ahead of our expectations, with 2,677 brokers currently accredited. With 200 million dollars in loan growth during the half, this book is weighted towards Sydney and Melbourne. The momentum in application volumes has continued in March with the loan portfolio now over 250 million dollars.

This channel is attracting a younger, urban and more digital-savvy customer.

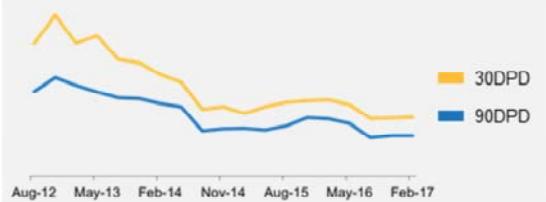
ASSET QUALITY REMAINS SOUND



SUMMARY

- Strong focus on meeting responsible lending obligations and prudential practice guide standards
- 100% validation of mortgages
- BOQ Specialist and Virgin Money mortgages providing further diversification
- Continued run-off of development exposures

COMMERCIAL LOAN ARREARS⁽¹⁾

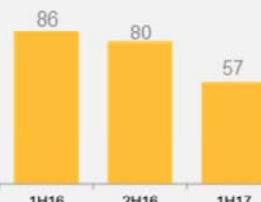


(1) Excludes BOQ Specialist

IMPAIRED ASSETS PROPORTION OF GROSS LOANS (bps)



NEW IMPAIRED ASSETS (\$M)



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Turning to Asset Quality on slide 7.

We continue to see further improvement in our asset quality metrics. This is in part due to some of the benign economic conditions and our focus in ensuring we have the settings to withstand the cycles.

BOQ has maintained its process of validating 100 per cent of all mortgages. We continue to run-off lower quality business and replace it with much better quality business under our revised risk appetite. BOQ Specialist and Virgin Money are also providing further diversification to our portfolio.

Competition in the mortgage market has moderated. The behaviour of our peers is more in line with the regulatory guidelines we implemented six months ago.

Despite the pockets of stress in central Queensland and northern WA, our loan book is performing better than the market in these regions.

We currently have only two impaired assets over 5 million dollars.

DELIVERING ON EXPENSE MANAGEMENT TARGETS



SUMMARY

- Reaffirming 1% underlying expense growth target for FY17
- \$15m in run-rate savings delivered
- Active investigation of additional efficiency opportunities underway

EFFICIENCY INITIATIVES

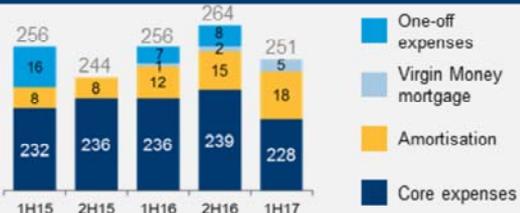
\$15m in ongoing savings delivered through:

- Operating model changes – centres of excellence
- e-statements
- Cheque digitisation
- Procurement efficiencies

UNDERLYING EXPENSES (\$M)⁽¹⁾



CORE EXPENSES LOWER (\$M)⁽¹⁾



(1) 1H17 excludes the acquisition in December 2016 of BOQF Cashflow Finance Pty Ltd

And now to expenses on slide 8.

We are on track to deliver on the guidance we provided at our full year 2016 results, for 1 per cent underlying expense growth in FY17.

Headline expenses were down 2 per cent on the prior corresponding period, and only up 1 per cent on an underlying basis. This was achieved despite absorbing a 6 million dollar increase in amortisation expense and a 4 million dollar increase in expenses related to the Virgin Money mortgage roll-out. Excluding these items, expenses were down 8 million dollars or 3 per cent on the prior corresponding period.

The 15 million dollar investment we announced in February last year to refine our operating model delivered the cost savings within the targeted 12 month pay back period. We see further cost reduction opportunities throughout the business which Anthony will elaborate on further.

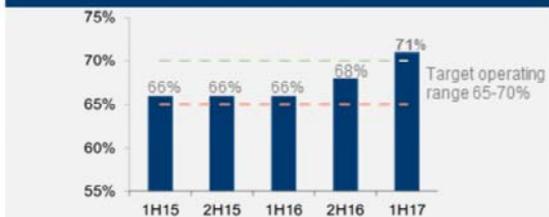
STRONG BALANCE SHEET PROVIDING OPERATING LEVERAGE



SUMMARY

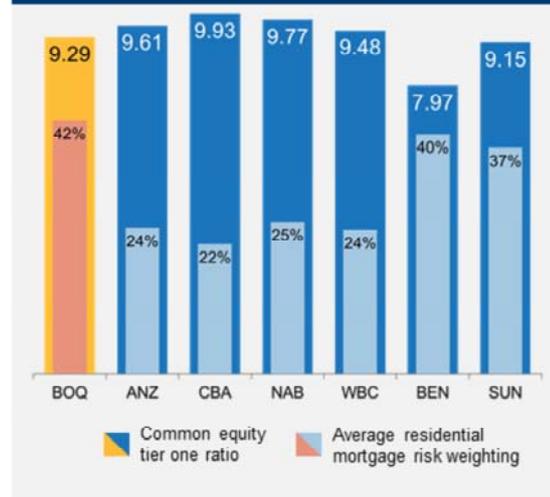
- Strong capital position on any measure
- Liquidity & funding position provides room for growth
- Well placed for any changes
- Capital base to be optimised when regulatory requirements have been settled

DEPOSIT TO LOAN RATIO



(1) Source: Most recent half or full year company Pillar 3 reports

COMMON EQUITY TIER 1 CAPITAL VS PEERS (%)⁽¹⁾



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Turning to the balance sheet on slide 9.

BOQ remains very well capitalised on all measures.

Our CET1 ratio strengthened by a further 29 basis points to 9.29 per cent.

When combined with our peer-leading ratings capital position and higher mortgage risk weighting requirements, we are well positioned for any upcoming regulatory changes.

With our level of capital and healthy deposit to loan ratio of 71 per cent, we have the capacity to fund asset growth in the second half without putting stress on our margins.

1H17 SCORECARD: STRATEGIC PRIORITIES



Strategic pillar	FY17 priorities	1H17 progress
Customer in charge	<ol style="list-style-type: none"> Expansion of mortgage aggregators for Virgin Money Enhance digital customer experience Ongoing branch network optimisation 	<ul style="list-style-type: none"> Achieved In progress Achieved
Grow the right way	<ol style="list-style-type: none"> Optimise deposit pricing using data analytics Develop specialist niche capability in franchising and hospitality Focus investment in high margin businesses 	<ul style="list-style-type: none"> Achieved In progress Achieved
There's always a better way	<ol style="list-style-type: none"> Complete roll out of new origination & leasing systems Deliver return on investment in efficiency programs Implement centralised mortgage hub 	<ul style="list-style-type: none"> In progress Achieved In progress
Loved like no other	<ol style="list-style-type: none"> Invest in leadership and talent Build gender diversity towards 50% in senior management by 2020 Complete ethics training roll-out 	<ul style="list-style-type: none"> In progress In progress Achieved

Legend: Achieved Achieved & ongoing In progress

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Let's look at the progress we have made against our strategic priorities on slide 10.

We have successfully launched the Virgin Money Reward Me home loan and significantly increased the number of brokers accredited to distribute this product.

We have continued to optimise the branch network with more than 60 per cent of owner-managers transitioned to the new franchise agreement.

We have made good progress in utilising data analytics to optimise deposit pricing and investing in higher margin segments.

We have delivered efficiency program savings targets and continue to identify further opportunities.

Finally, conduct and culture remains a focus across the industry as a whole. At BOQ we are continuing the roll out of ethics training to our employees.

I will now hand over to Anthony to run through the numbers in more detail.

Thank you.



FINANCIAL OVERVIEW

ANTHONY ROSE
Chief Financial Officer



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

FINANCIAL PERFORMANCE



	1H17	1H17 v 1H16	1H17 v 2H16
Net interest income	\$452m	(3%) ▼	(4%) ▼
Non interest income	\$80m	(6%) ▼	(9%) ▼
Total income	\$532m	(4%) ▼	(5%) ▼
Operating expenses	(\$252m)	(2%) ▼	(5%) ▼
Underlying profit	\$280m	(5%) ▼	(5%) ▼
Loan impairment expense	(\$27m)	(25%) ▼	(13%) ▼
Profit before tax	\$253m	(3%) ▼	(4%) ▼
Income tax expense	(\$78m)	(4%) ▼	(5%) ▼
Cash earnings after tax	\$175m	(2%) ▼	(3%) ▼
Cash basic earnings per share	45.5c	(5%) ▼	(5%) ▼
Return on average tangible equity	13.0%	(100bps) ▼	(60bps) ▼

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Thanks Jon.

I'll start with an overview of the P&L, then go into detail on each of the line items and drivers relevant to each.

The bottom line result has been driven by a lower revenue outcome during the period. Net Interest Income was down 3 per cent on the prior corresponding period with the loan book contracting 1 per cent and margin compression of 5 basis points in the half. Non Interest Income was down 6 per cent, which meant total income was down 4 per cent on the first half of 2016.

Operating expenses were well managed, down 2 percent on the prior corresponding period and credit quality performance was very good, with a 25 per cent reduction in loan impairment expense.

EPS contracted 5 per cent as a result of the reduced earnings and shares issued under the dividend reinvestment plan.

Return on average tangible equity was down to 13 per cent, about half of which was a result of reduced earnings and the other half a function of dilution from higher capital levels.

So in summary, the expense management and asset quality metrics are pleasing and we do expect better revenue momentum in the second half of the year, which I'll discuss in more detail a little later.

MARGIN & CREDIT QUALITY PRIORITISED OVER GROWTH



SUMMARY

- Contraction in housing portfolio
- Niche segments contributing to commercial growth
- Prioritised margin over growth in 1H17 due to funding conditions and competition

GROSS LOANS AND ADVANCES (\$B)

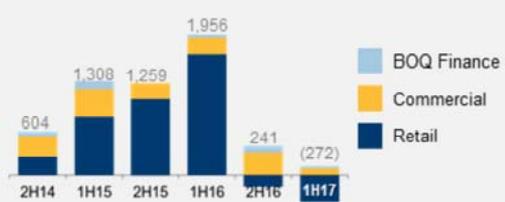


TOTAL LENDING GEOGRAPHIC MIX



(1) Excludes consumer lending and BOQF Cashflow Finance Pty Ltd (acquired in December 2016)

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



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Turning to the loan portfolio at an aggregate level and we did see a contraction in the half, primarily due to the housing loan book.

In this half, we prioritised margin and credit quality. This has been an intensely competitive period not just in lending but also in retail deposits. I'll expand on this as we go through the presentation.

As you can see from the chart on the bottom left, QLD concentration has reduced down to 47 per cent of the total lending portfolio.

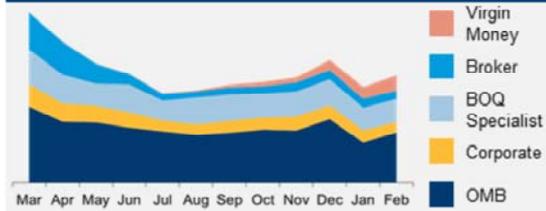
RETAIL LENDING IMPACTED BY LOWER BROKER VOLUMES



SUMMARY

- BOQ Specialist continues to grow strongly
- Branch network remains consistent source of settlements
- Focus on margin preservation and credit settings
- 55% of settlements originated outside QLD
- Application volumes higher in past 6 weeks

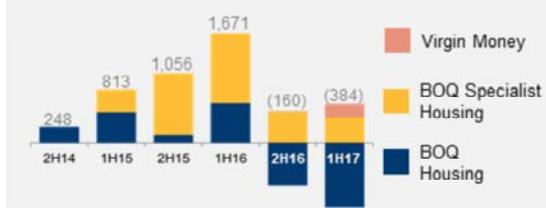
MONTHLY HOUSING LOAN SETTLEMENTS



HOUSING LOAN GEOGRAPHIC MIX



HOUSING LOAN GROWTH (\$M)



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Focusing on the housing book – and I am now referring to slide 14.

BOQ Specialist has continued to generate good mortgage growth and we have seen a stronger contribution from Virgin Money mortgages since the offering was launched in May of last year. BOQ Specialist delivered growth of around 400 million dollars while Virgin contributed 200 million dollars. Both of these channels have helped to diversify the housing portfolio with a higher proportion of business coming from New South Wales and Victoria.

The branch network has continued to see net run-off with settlement volumes not at a level sufficient to offset the natural amortisation occurring in that book.

We saw only 50 million dollars in growth from the BOQ broker channel during the half, compared with an average of around 500 million dollars from this channel in the four prior half-year periods. This was the biggest driver of the portfolio contraction during the half.

The drop-off in settlement volumes from the broker channel is clearly evident in the chart on the top right.

We spoke at our full year results last year about the steps we had to take to manage under the

regulator's 10 per cent cap on investment lending growth. This did create issues for us in the broker market and our return to growth has taken longer than we would have liked for a number of reasons.

Firstly, there has been a lot of regulatory focus on serviceability calculations and ensuring living expenses are appropriately considered as part of any lending application. We have been very diligent in this space, taking a prudent approach to these assessments and ensuring we are meeting the regulators expectations. It's fair to say there have been some different policies in use across the industry, and variability by borrower type, geography, income levels, etcetera. In many cases we have found that we were willing to lend a lower maximum amount than our peers, particularly in the Sydney and Melbourne markets where the strongest growth has been. As a result, we found ourselves off the consideration set for many brokers.

Secondly, our application processing for broker generated loans has been more onerous for a couple of reasons. We still complete validation of 100 per cent of loan applications. This is a time-consuming process. It involves reviewing the customer's application and ensuring that the income and expenses declared and used in the assessment can be verified from supporting documentation and is consistent with activity on an applicant's bank statements.

We have also still been in the process of rolling out the second phase of our retail lending origination system, with the second drop of code for this system landing in December. This will enable up to 70 per cent of applications to be processed through the new system over time. We are still working to improve other elements of the end to end lending process, to ensure we become easier to deal with for brokers, branches and customers alike. By the end of this calendar year we should be in a much stronger position in this regard.

Lastly, we have made a conscious decision not to move our pricing point to the sharper end of the market. Given the pressure we had seen on the funding side of the book, we were not willing to pull the price lever to generate growth. We believe this was the right approach.

We have seen much more promising application levels in the past six weeks. Application levels have been running over 30 per cent higher in the last 6 weeks than the average for the first 4 months of the year. The increase in applications appears to be partially driven by credit and serviceability standards of our peers being brought more into line with where we have been operating for some time. This more level playing field improves our ability to lift new business volumes and gives us confidence of returning to a reasonable level of mortgage growth in the second half.

GROWTH IN COMMERCIAL LENDING NICHE SEGMENTS



SUMMARY

- Solid contribution from Business Banking niche segments
- BOQ Specialist Commercial growth continuing strongly
- Improved business mix in BOQ Finance

PREMIUM FUNDING ACQUISITION

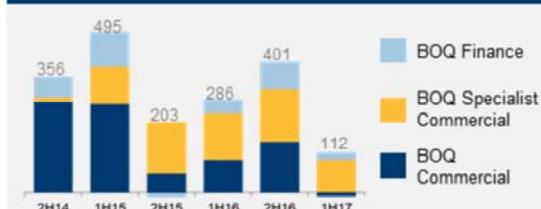
- Acquisition completed 30 December 2016
- Leading participant in the premium funding industry
- Originating around 30,000 new loans per annum
- Loan portfolio ~\$120m
- Successfully integrated under BOQ Finance
- Earnings & ROE accretive from day one

COMMERCIAL LOAN GEOGRAPHIC MIX



(1) Excludes BOQF Cashflow Finance (acquired in December 2016)

COMMERCIAL LENDING & LEASING GROWTH (\$M)⁽¹⁾



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Moving to the commercial book on slide 15. BOQ Specialist and BOQ Finance have contributed solid growth relative to the markets that they operate in.

BOQ Specialist grew by 8 per cent annualised over the half and we would expect it to grow faster in the second half consistent with its historical seasonality.

BOQ Finance has improved its business mix with 11 per cent annualised growth in the higher margin structured product offerings. The traditional broker originated equipment finance portfolio declined, which is a more competitive and lower return segment for us.

We completed the acquisition of the Centrepont Alliance insurance premium funding business during the half, which has added around 120 million dollars in loan balances. This business complements BOQ Finance's existing product offering and is a natural extension of our niche segment strategy.

The BOQ Commercial book has contracted slightly over the half. We continue to see a reasonable pipeline of opportunities that meet our risk versus return hurdles. As we have said previously, we don't expect growth in this portfolio to be linear. In the half we did see a small number of large customer paydowns driven by some large asset sales that impacted momentum.

As Jon has already mentioned, we have continued to make good progress in our target niche segments, with strong growth being delivered in these sectors.

Once again, you can see the improvement in diversification here, with Queensland concentration down to 39 per cent in the commercial book.

STRONG FUNDING MIX

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SUMMARY

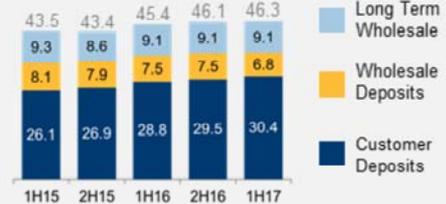
- Transaction account growth of 10% annualised (including strong mortgage offset growth)
- Deposit to Loan ratio increased from 68% to 71%
- Net Stable Funding Ratio ~107% during the period
- Strong funding mix with operating leverage

CUSTOMER DEPOSIT MIX

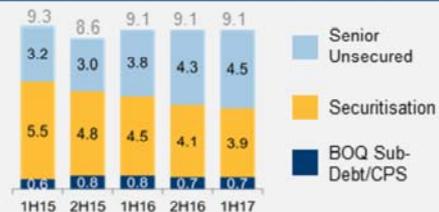


(1) 1H16 and 2H16 Customer and Wholesale Deposits have been restated to reflect reclassification aligned to industry practice

OVERALL FUNDING MIX (\$B)⁽¹⁾



LONG TERM WHOLESALE FUNDING (\$B)



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Turning to funding on slide 16, and we have taken the opportunity to improve the mix of the book given the lower asset growth we've seen during the half.

As many of you would be aware, we have had the highest dependency on term deposits compared to our peers. When I go through the margin walk shortly, you will see the impact this has had on Net Interest Margin over the half. We also historically have had the highest pricing premium over our peers on term deposits. We see this as a clear opportunity for us to improve and we have been very focused on building capability over the last six months that will support our ability to narrow the gap over time.

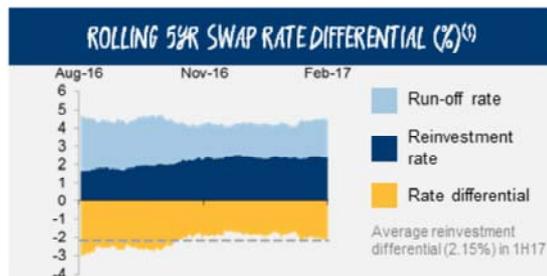
We do see opportunities from utilising data analytics to optimise our term deposit pricing and reduce our reliance on the higher cost segments of this market. We've had some success in achieving this through the half but recognise there is still much more for us to do in this space.

We have continued to see strong growth in mortgage offset accounts. Although this is an expensive form of funding, it does signal an improvement in gaining main financial institution customers.

And very importantly, with the lower asset growth this half, our deposit to lending ratio has increased from 68 per cent to 71 per cent and is now comfortably above our 65 per cent to 70 per cent target range. This gives us operating leverage to grow the balance sheet without placing undue stress on net interest margin, now that conditions have become more favourable competitively for us to grow.

CHANGING DYNAMICS FOR NET INTEREST MARGIN

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(1) Source: Bloomberg
 (2) Spreads above 3-mth bank accepted bills, using average industry term deposit rates. Source: RBA
 (3) Term deposit spreads over 3-mth bank accepted bills, excludes internal transfer pricing. March 2017 figures are for the month to 21 March.

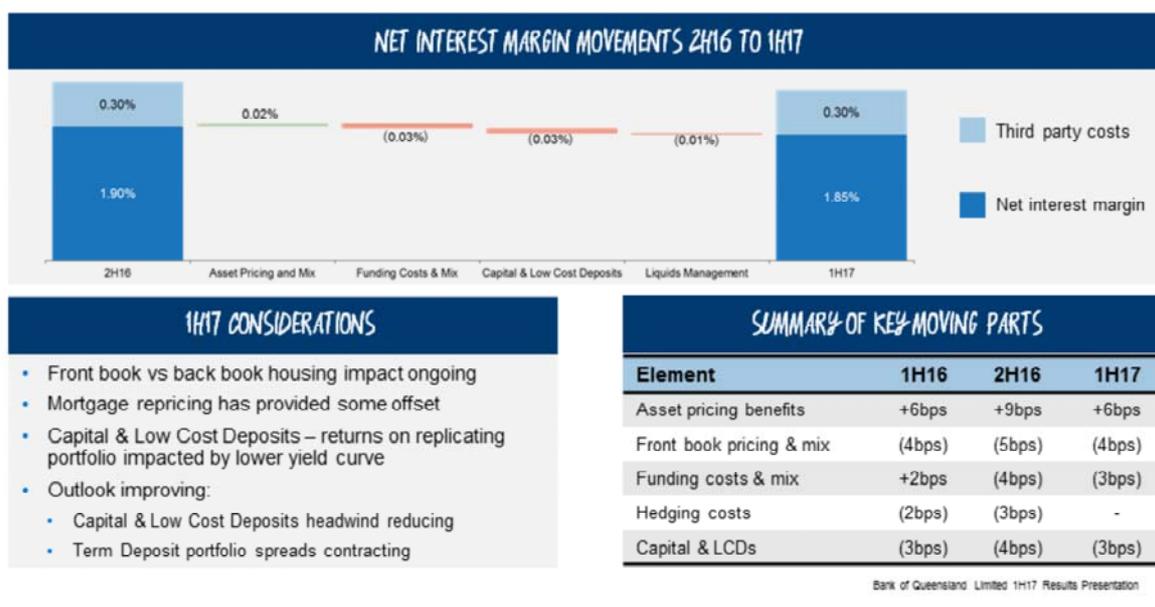
Looking now at net interest margin, and on slide 17 we've tried to provide some insight into some of the external factors that significantly impact this metric.

The two charts at the top are an update to the charts we provided last half, which demonstrate the reduced return that is being achieved on our capital and low cost deposits. These balances have historically been reinvested at the prevailing 5 year rate as part of a replicating portfolio that sees 1/60th of the portfolio roll off and reinvested each month. The declining 5 year rate has meant a gradual decline in returns on this portfolio.

Given the shifting outlook for interest rates, we have recently moved to a 3 year investment horizon for this portfolio, in order to capture the benefits of a rising rate environment sooner. I'll provide more detail on what this means for our margin on the next slide.

The bottom two charts demonstrate the significant increase in the cost of term deposits over the last two halves. As you can see from these charts, term deposit spreads peaked in late last year but have been improving since that time. Given the profile of this chart and lag effect on the portfolio, we have seen the impact wash through our margin in this half. The improvement in the profile since late last year however means we expect this to unwind in the second half if current new business spreads prevail.

MOVEMENT IN NET INTEREST MARGIN



Getting into the specifics around our margin outcome for the half – and I’m now on slide 18.

Starting with the asset side of the balance sheet, and there was a net 2 basis point benefit in the half from asset pricing and mix. We felt the usual headwind from the front to back book pricing dynamic that continues to prevail across the industry, with an impact of 4 basis points this half. This was more than offset, however, by a 6 basis point benefit from repricing that occurred through the course of 2016 and early 2017. The total benefit of the repricing was actually more like 8 basis points but the prior half had the benefit of some repricing timing differences that were not present in this half.

On the liability side, I’ve talked about the spikes in term deposit spreads that occurred in May and August last year, which significantly increased the portfolio spread for our term deposit book. This impact was in the order of 13 basis points from the second half of 2016 to the first half of 2017. Given the high proportion of our funding from term deposits, this resulted in 3 basis points of NIM compression during the half.

The other element I covered on the previous slide was the return on our replicating portfolio, or the investment of our capital and low cost deposits. Due to the drop in returns experienced on this portfolio, we saw a 3 basis point impact on net interest margin. Given the changes we made to reduce the investment time horizon of this portfolio to 3 years, the returns on this portfolio are expected to have a further 2 basis points of negative impact to margin in the second half, however, there is not expected to be any impact on margin from the returns on this portfolio in 2018 – that is if you assume that interests rates track the profile implied by the current yield curve.

The last bucket we have on the chart is 1 basis point which is attributable to the higher level of liquid assets we were carrying during the period. This is really just a denominator effect in the margin calculation. We tend to carry more conservative liquidity over the holiday period and have prefunded some larger wholesale debt maturities during the period. We would expect this to unwind as our liquidity levels normalise.

Thinking about the outlook, the one constant at the moment is the front to back book pricing dynamic, which is currently driving 3 to 4 basis points of NIM degradation each half. We expect this dynamic to continue, however recent industry pricing changes point to a potential for the gap to narrow. Whether that can be sustained for any length of time is the open question.

The repricing that has been implemented to date is expected to provide a further benefit in the second half of approximately 4 basis points. We also expect a benefit of around 1 basis point from the cashflow finance business acquired during the first half, which is mix related.

You'll note we haven't seen any impact from hedging costs this half, given the stabilisation of the cash to bills spread.

That leaves the funding cost and mix bucket. The chart on the previous slide provided an indicative forward profile for our term deposit book, should new business spreads for us stabilise at 60 basis points. As you could see on that chart, this outcome would drive a 14 basis point reduction in our term deposit portfolio spread from the first to second half of 2017. This would effectively reverse the experience we encountered in the first half. Some recent pricing changes in savings account rates will also provide an additional basis point of margin improvement. We also expect about a basis point of benefit in wholesale funding costs if current conditions are maintained.

The net result of this is that we believe the impact experienced in net interest margin in the first half will reverse in the second half. We expect margin to return back to the level we achieved in the second half of 2016 - which was 1.90 per cent. As always, things can change quickly. We remain focused on managing margin on both sides of the balance sheet.

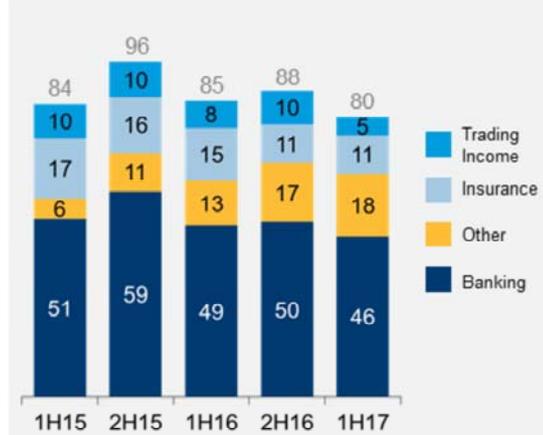
NON INTEREST INCOME CHALLENGING



SUMMARY

- Customer shift to lower fee products continues
- Change in ATM fee arrangements reduced result by \$3m on prior half
- Trading profits at a more normal level
- St Andrew's Insurance transitioning to new agreement and product mix as expected

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



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Turning now to non interest income on slide 19. We've said in prior periods that this is a challenging line for us and we need to pedal hard to try and keep it flat.

That has been particularly difficult this half. Banking fees in general continue to reduce as customer preferences necessitate a shift to low or no fee products.

After several periods of above expectation trading profits, the trading result was lower by 5 million dollars on the prior half. There was also a reduction in Banking income of 3 million dollars relating to changes to an outsourced portion of the Bank's ATM fleet where a commensurate reduction in expenses was recognised.

The St Andrew's insurance income was flat on the prior half, with the impact of changing business mix to wholesale lines and a decreasing proportion of single premium business. This has seen earnings declining in recent periods, with the trend now flattening out. The insurance market is undergoing significant industry change and heightened regulatory requirements create uncertainty to the outlook.

We continue to target a flat profile in this line item for the second half, with work to do to achieve that and with very few levers available to drive non interest income growth at this point in time.

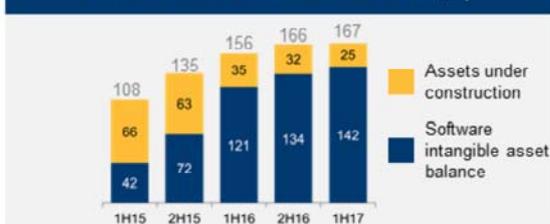
EXPENSES WELL MANAGED



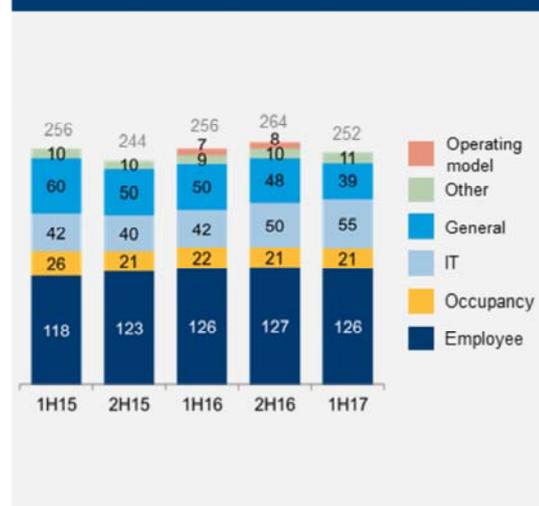
SUMMARY

- Underlying expense growth of 1% in 1H17
- Cost to Income ratio up to 47.4%
- Increase in amortisation absorbed
- Virgin Money mortgage roll-out added \$4m in 1H17
- Targeting 1% underlying expense growth in FY17
- Premium funding acquisition to add \$4m in FY17

CARRYING VALUE OF INTANGIBLE ASSETS (\$M)



OPERATING EXPENSE BREAKDOWN (\$M)



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Looking at expenses on slide 20, we have delivered a good result which is in line with the guidance we provided last year.

The increase in amortisation and increased impact from the Virgin Money mortgage roll-out have been absorbed as we said they would. We've been successful in delivering the run-rate required to deliver on a 12 month payback of the 15 million dollars we invested last year. In fact, with the initiatives we now have underway, we expect to deliver well in excess of the 15 million dollar in savings we were originally targeting, although much of this will be reinvested in the business, including through additional efficiency initiatives that give us confidence of continuing to improve our operating efficiency over time.

We remain comfortably on track to achieve the 510 million dollar operating expense target for the full year, with the premium funding business acquired in January expected to add around 4 million dollars to the previous guidance.

ASSET QUALITY METRICS FURTHER IMPROVED



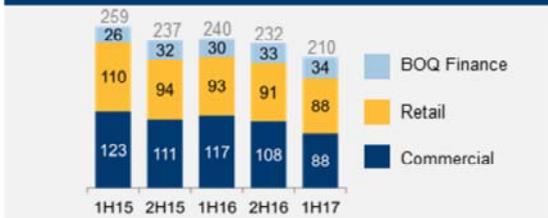
SUMMARY

- Continued improvement in asset quality
- Commercial portfolio performance in 1H17 particularly pleasing; no new impaired assets >\$5m
- Retail impairments weighted to Central QLD & North WA exposures

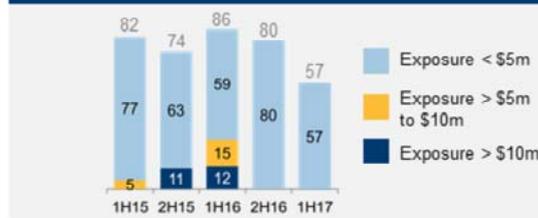
LOAN IMPAIRMENT EXPENSE BY PRODUCT



IMPAIRED ASSETS (\$M)



NEW IMPAIRED ASSETS (\$M)



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Moving to asset quality and we have seen further improvement across most metrics this half.

Loan impairment expenses has reduced to 13 basis points on the overall portfolio.

Reduction in impairment expense was evident in the Commercial and BOQ Finance portfolios.

There was a 3 million dollar increase in the impairment charge in the retail portfolio compared to the prior half. We have seen some higher loss given default rates in the areas that I'd categorise as being in the tail risk category. These are related to the regions in central QLD and northern WA where corrections in property prices have been the most severe across the country. We are talking small numbers and we are very comfortable with our relative positioning in these locations.

Impaired assets have reduced another 9 per cent on where we ended FY16, whilst recognition of new impaired assets was down nearly 30 per cent on the prior half.

We have only two impaired assets greater than 5 million dollars, with no new impaired assets recognised above 5 million dollars identified in the past two halves.

ARREARS DATA SHOW GOOD PORTFOLIO HEALTH



SUMMARY

- Improving seasonally-adjusted trends across all portfolios
- BOQ Specialist mortgages contributing to improvement
- Diminishing impact of mining construction transition evident in Equipment Finance portfolio

COMMERCIAL ARREARS⁽¹⁾



HOUSING ARREARS⁽²⁾



BOQ FINANCE ARREARS



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

The arrears charts on slide 22 also provide a picture of good portfolio health, with the normal seasonal uptick still well below the levels seen this time last year in the Commercial and BOQ Finance books.

The Housing portfolio has been fairly flat, with no issues emerging in that portfolio to keep us awake at night. Pleasingly, we have seen very little seasonal arrears increase in the portfolios that we would normally expect to see at this time of year. Given our history, 90 day mortgage arrears in the low 40s is a very pleasing result and compares favourably across the sector.

STRONG CAPITAL POSITION ON ANY MEASURE



SUMMARY

- Capital position compares well against peers, particularly given BOQ's more conservative risk weightings
- Well placed for regulatory changes
- Good progress made towards advanced accreditation if size of the prize warrants accelerating that step

S&P RAC RATIO PEER COMPARISON⁽¹⁾



COMMON EQUITY TIER 1 RATIO MOVEMENTS⁽²⁾



OPPORTUNITIES FROM BASEL 4 REMAIN

Lower risk weights for SME & Leasing books

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

Capital floor for advanced banks

Capital floor would help close the gap between advanced & standardised

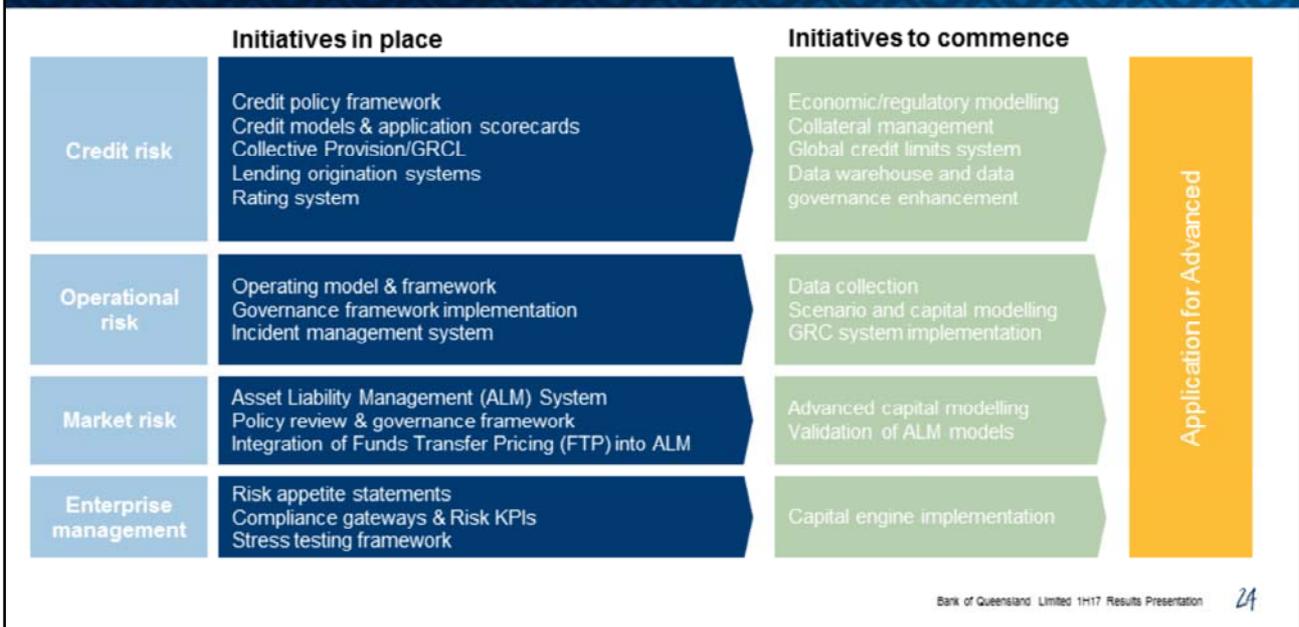
(1) Based on most recent risk-adjusted capital (RAC) ratios published by Standard Poor's
 (2) Other includes the positive impact of reduced deferred tax balances and dividends received from entities outside the capital group, net against non-recurring items.

Moving to capital on slide 23 and as Jon mentioned, we remain well capitalised on any measure.

S&P's risk adjusted capital measure is becoming an increasingly relevant metric given the S&P's negative outlook for the sector, and the impact of the relevant capital band in determining their rating outcomes. At over 13 per cent, BOQ sits in the 'strong' capital ratio category while the major banks sit in the 'adequate' category with RAC ratios below 10 per cent.

Regardless of the outcome of the Basel Committee's deliberations, and APRA's interpretation of unquestionably strong, we remain confident that BOQ is extremely well placed to adapt to any new requirements.

PROGRESS TOWARDS ADVANCED ACCREDITATION



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While the benefits and ultimate pathway to achieving advanced accreditation remain unclear, we have continued to make good progress towards being a better-run bank.

We remain committed to improving our risk management capability and stand ready to make a decision on whether or not to accelerate any investment toward advanced accreditation, when and if the potential benefits from doing so become clear.

With that, I'll hand back to Jon to wrap up.



SUMMARY & OUTLOOK

JON SUTTON
Managing Director & CEO



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

Industry

- Conduct and culture focus
- Rapidly changing customer expectations
- Increased regulatory scrutiny
- Licence to operate

Economic

- National economy holding up well
- Improved business sentiment but credit growth subdued
- Tourism, education and exports helping QLD
- Impact of mining sector downturn diminishing

Thanks Anthony.

I'll start by looking at the external environment, before moving to the outlook for the rest of the year.

The industry is facing increased scrutiny from community, politicians and regulators. People expect more from their banks, particularly in terms of trust.

At BOQ, we have been proactive with the establishment of an Ethics Committee in 2015 and the roll out of Ethics training to our staff. We are also leading the charge in our support of the Banking and Finance Oath. I'm proud to report BOQ has the largest percentage of signatories to the Oath of any bank.

Conduct reform across the industry is vital. The ABA's six point plan sets out a series of actions to be taken by the sector to make banking easier and more transparent for customers. As part of this, we have recently appointed a Customer Advocate. The industry as a whole is making tangible improvements across a number of areas. BOQ continues to progress on each of the six point plan initiatives and is on track to deliver these by the required dates.

We also welcome and support the ABA's response on Tuesday to the Code of Banking Practice.

It will take time for the industry to rebuild trust. Even though BOQ is in a strong position, there is always more to do.

Looking at the economy more broadly. NSW and Victoria continue to be the strongest state economies.

There have been signs of some improvement in the WA economy, supported by stronger commodity prices.

Queensland has been performing a little better than WA reflecting the more diversified nature of the economy. Tourism, agriculture and education have been positive for Queensland, as has rising exports.

Economic conditions remain mixed between the Queensland regions. The unemployment rate in the South East remains well below the state average. While conditions remain tough in central QLD, there are signs that this might be drawing to an end.

STRATEGY & FY17 PRIORITIES



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

Outcomes ...

Outperform sector EPS growth

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Turning now to our priorities on slide 27.

We are continuing to strive towards our vision to become Australia's most loved bank.

Our focus on niche segments that value a more intimate customer relationship remains unchanged.

In the second half we will continue to expand the distribution reach for Virgin Money's Reward Me home loan. We see a lot of growth potential for this business, with sustained credit card balance growth of over 15 per cent for the past 3 years demonstrating the power of the brand.

We will continue to find smarter ways to attract and retain deposits. Not by just offering the highest price in the market, but by using more sophisticated data analytics.

We will drive additional benefits from a number of efficiency initiatives underway across the group, to ensure we are always finding better ways to do things.

Our diversity and ethics programs will continue to be rolled out. We remain focused on setting a high standard in the quality of our people and how they conduct themselves.

- 1 Better outlook for revenue in second half
- 2 Mortgage momentum returning
- 3 Strong capital and funding provide room for growth
- 4 Risk discipline to be maintained
- 5 Efficiency remains a key focus

In summary, we have delivered a credible result in a difficult revenue environment. We expect revenue growth to resume in the second half with an improved outlook for net interest margin.

We have seen a 30 per cent improvement in mortgage application volumes in recent weeks, which will lead to a return to growth in the second half.

By the end of the calendar year, both BOQ and Virgin will be launching new and improved customer facing websites. These websites are not only designed to enhance the customer experience, but will provide opportunities to grow and improve customer uptake of products and services.

Our strong capital and funding position means we have the capacity and flexibility to capitalise on the positive structural changes which appear to be turning in our favour. Our Common Equity Tier One ratio of 9.29 per cent compares very favourably with peers, particularly when adjusting for our higher mortgage risk weightings.

We have strong relationships with the regulators and will continue to maintain our risk and pricing discipline.

Efficiency remains a key focus. We are committed to delivering on the 1 per cent underlying expense target. We have embarked on a transformation program to find further productivity efficiencies across the organisation.

Even though it has been a tough environment, we are at a turning point. Our increased mortgage momentum, outlook for revenue growth and capital optionality all provide a strong framework to deliver on our full year targets.

Thank you for your time. Now let's move on to the Q&A to be led by Tanny.

Disclaimer

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