

Bank of Queensland

Full year results

31 August 2012



Your own personal bank

Agenda

▶ **Result highlights**

Stuart Grimshaw
Managing Director and CEO

▶ **Financial results**

Anthony Rose
Chief Financial Officer

▶ **Strategy update**

Stuart Grimshaw
Managing Director and CEO

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 'Normalised Cash 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 Normalised Cash 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 'Normalised Underlying Profit', which represents the Normalised Income less Normalised Operating Expenses, to provide users with a view on the underlying growth rate of the business before bad debt and tax expenses, which often carry volatility between periods. Further details of items excluded from statutory profit are provided in the reconciliation of the net profit after tax ("Normalised Cash basis") in this Presentation.

Non statutory financial disclosures are not audited.

▶ Result highlights

Stuart Grimshaw

Managing Director and CEO



Your own personal bank

Result highlights

- ▶ Dividend of 26c, reflecting confidence in underlying business
- ▶ Normalised underlying profit maintained at \$443.5m
- ▶ NIM improved by 2bps despite competitive pressure in a low growth environment
- ▶ Strong deposit growth, bringing retail funding mix to 59%
- ▶ Balance sheet and capital levels strong, leaving the group well positioned for growth
- ▶ Total shareholder return of 15.4%⁽¹⁾ for the 2012 financial year
- ▶ Challenging economic environment, especially in Queensland

⁽¹⁾ For shareholders who took up their pro-rata entitlement in the capital raising and assuming reinvestment of dividends in the DRP

Financial results

Anthony Rose

Chief Financial Officer



Your own personal bank

Financial performance overview

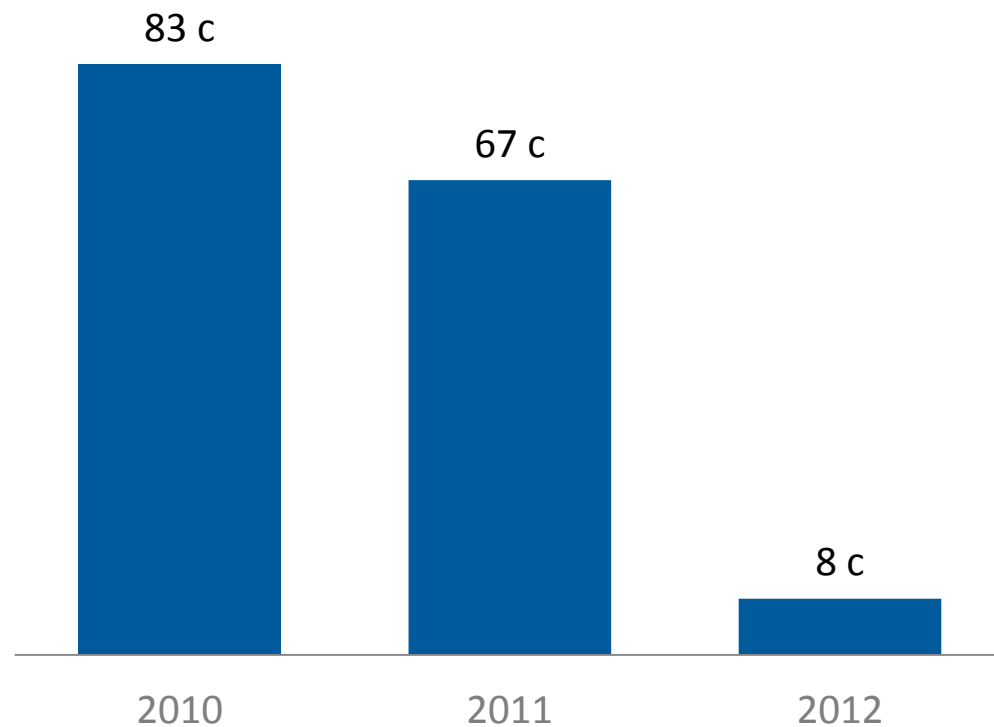
	2011	2012		
Normalised underlying profit before tax	\$447.4m	\$443.5m	▼	1%
Normalised cash net profit (loss) after tax	\$176.6m	\$30.6m	▼	83%
Statutory net profit (loss) after tax	\$158.7m	(\$17.1m)	▼	111%
Cash EPS (normalised fully diluted)	66.7¢	7.9¢	▼	58.8¢
Ordinary dividend	54¢	52¢	▼	2¢
Loan growth* (pcp)	4%	3%	▼	1pts
Retail deposit growth (pcp)	12%	10%	▼	2pts
Normalised cash net interest margin	1.65%	1.67%	▲	2bps
Cost-to-income ratio (normalised cash)	44.5%	45.7%	▲	1.2%

* Loans under management before collective provision.

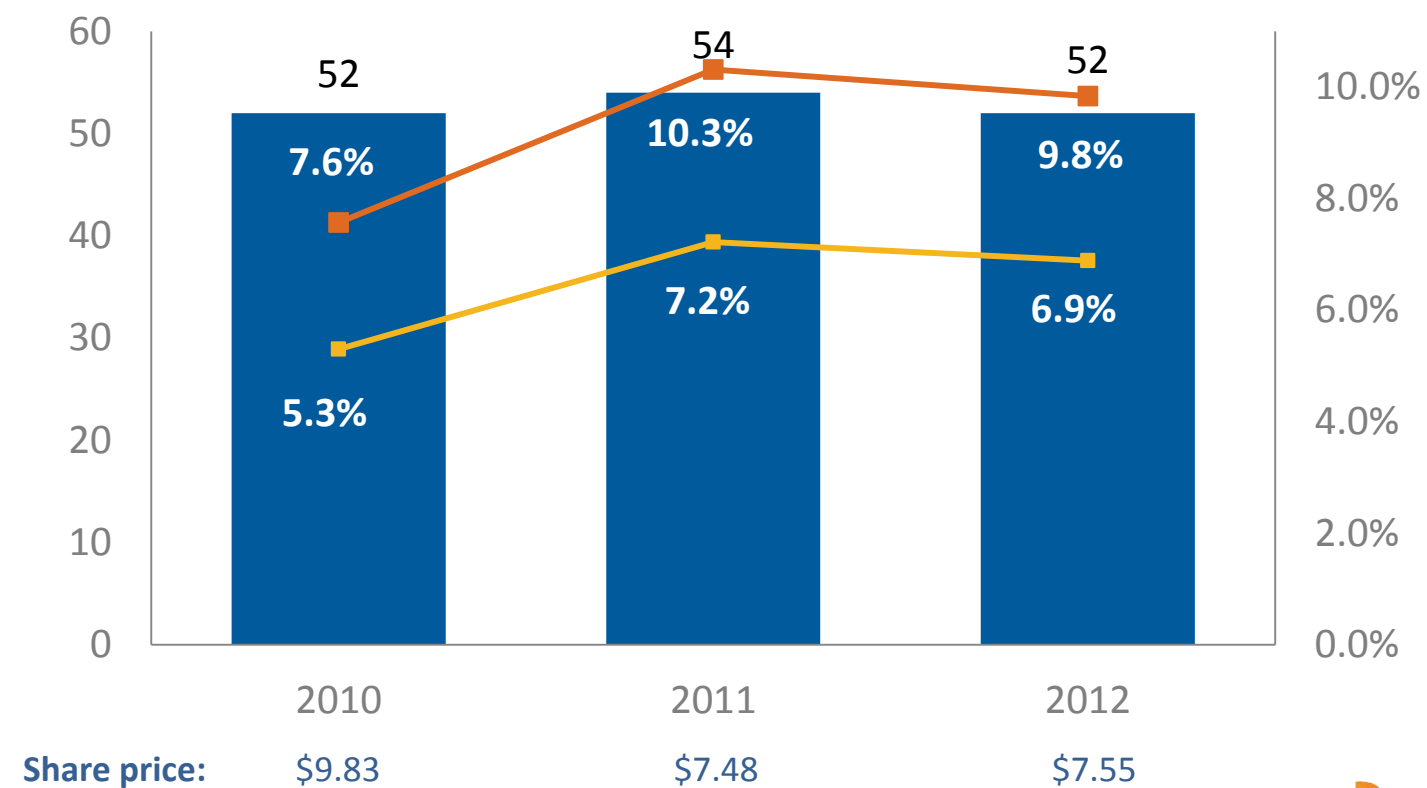
Dividend

- ▶ Dividend maintained at first half level of 26c, reflecting continued confidence in the underlying business

Normalised Diluted Cash Earnings per share



Dividends (cps) and yield (%)



- Dividend (cps)
- Dividend yield
- Gross dividend yield (including franking credits)

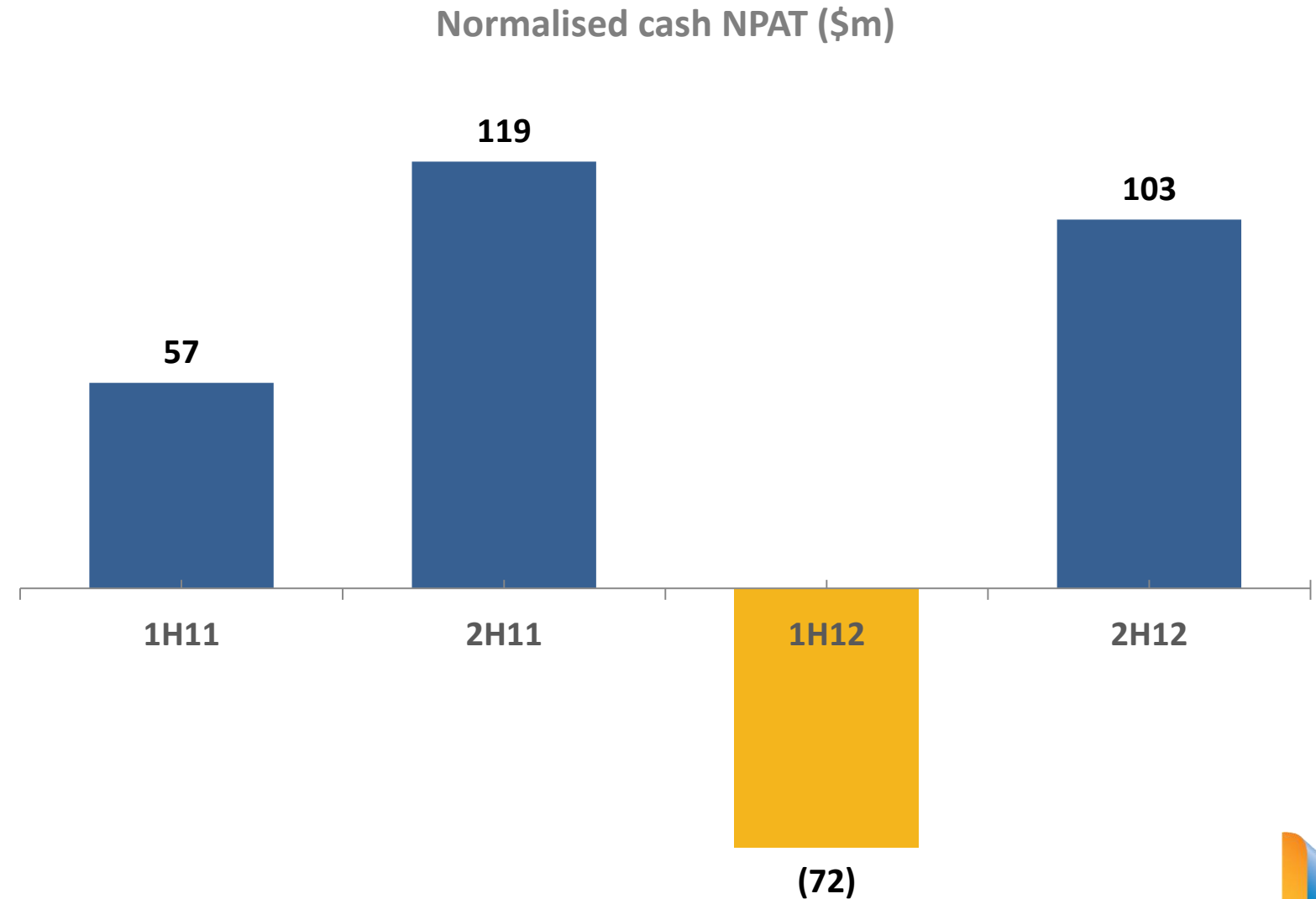
FY12 Result summary

- ▶ Net interest income growth
- ▶ Expense growth circa 4%
- ▶ Impairment expense mostly recognised at 1H12 as part of asset quality review

	2011	2012	% Change (vs pcip)
Net Interest Income	\$628.4m	\$656.4m	▲ 4%
Non interest income	\$177.7m	\$160.5m	▼ 10%
Total income	\$806.1m	\$816.9m	▲ 1%
Expenses	\$358.7m	\$373.4m	▼ 4%
Normalised underlying profit before tax	\$447.4m	\$443.5m	▼ 1%
Impairment expense	\$200.5m	\$401.0m	▼ 100%
Normalised operating profit before tax	\$246.9m	\$42.5m	▼ 83%
Income tax expense	\$70.3m	\$11.9m	▲ 83%
Normalised cash profit after tax	\$176.6m	\$30.6m	▼ 83%
Statutory profit (loss) after tax	\$158.7m	(\$17.1m)	▼ 111%

Return to profitability

- ▶ Return to profitability in second half
- ▶ Significant loan impairment expense reduction in second half



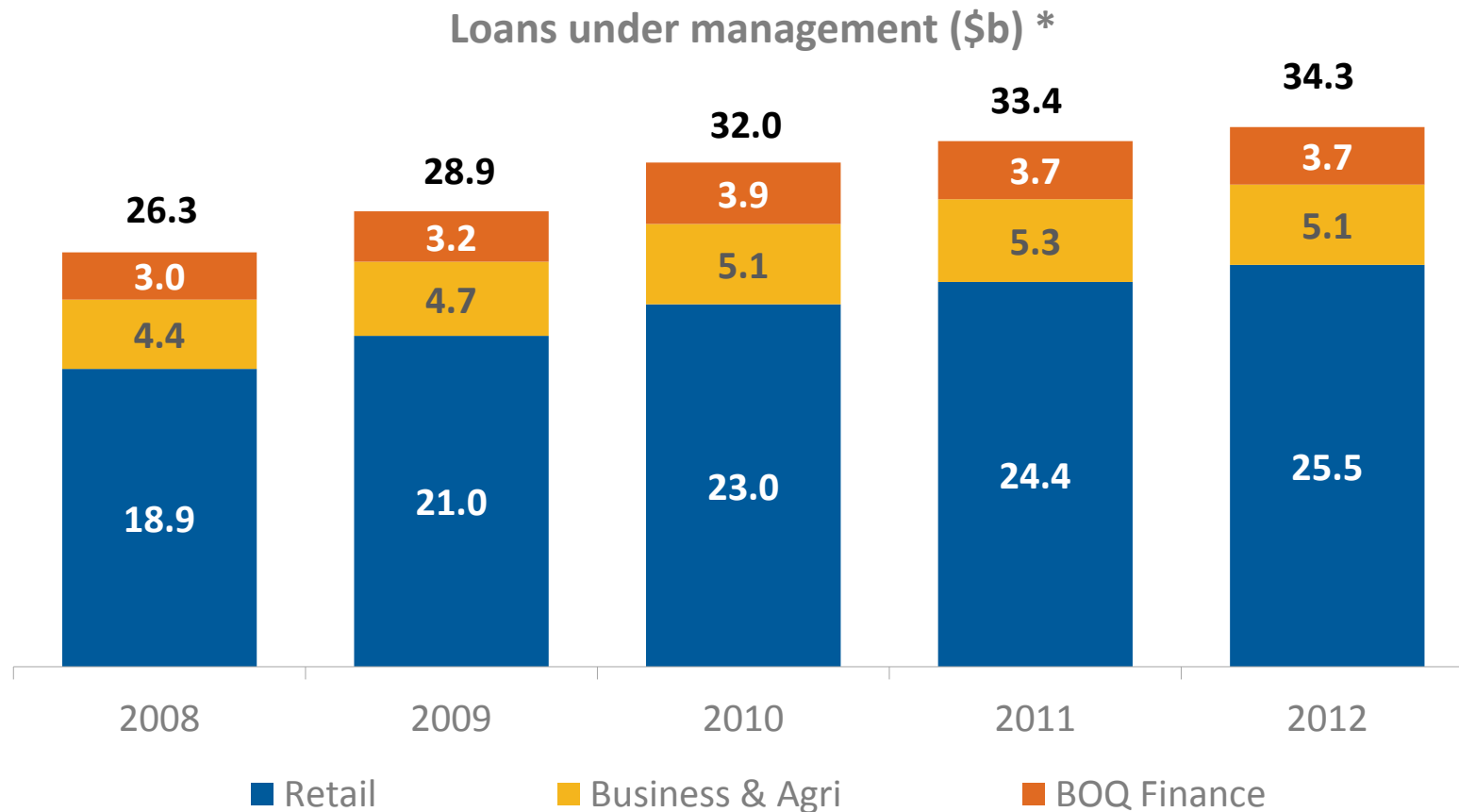
Significant items

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

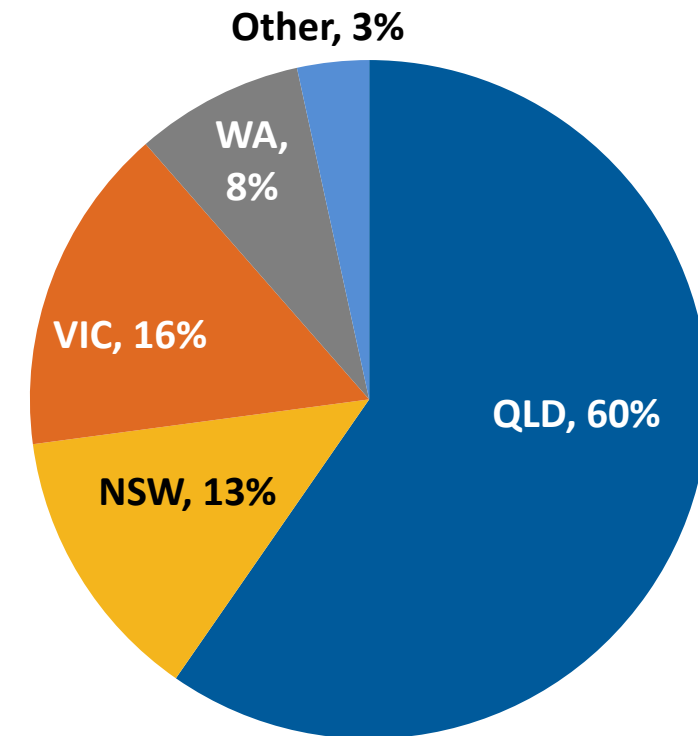
	2011	2012	Change (vs pcp)
Normalised cash profit after tax	\$176.6m	\$30.6m	▼ (\$146.0m)
Amortisation of customer contracts	(\$6.2m)	(\$10.5m)	▼ (\$4.3m)
Amortisation of fair value adjustments	(\$3.5m)	(\$3.9m)	▼ (\$0.4m)
Hedge ineffectiveness	\$1.0m	(\$3.3m)	▼ (\$4.3m)
Integration / due diligence costs	(\$4.1m)	(\$1.0m)	▲ \$3.1m
Asset impairment	-	(\$6.6m)	▼ (\$6.6m)
Government guarantee break fee	(\$4.3m)	(\$2.2m)	▲ \$2.1m
Flood impact	(\$0.8)	-	▲ \$0.8m
Legacy issues	-	(\$14.9m)	▼ (\$14.9m)
Restructuring costs	-	(\$5.3m)	▼ (\$5.3m)
Statutory profit (loss) after tax	\$158.7m	(\$17.1m)	▼ (\$175.8m)

Asset growth

- ▶ Housing portfolio growth continues: 5.2%
 - Improved 2H performance of 1.15x system growth
- ▶ Business & Agri run off due to impaired property asset realisations
- ▶ BOQ Finance book relatively flat



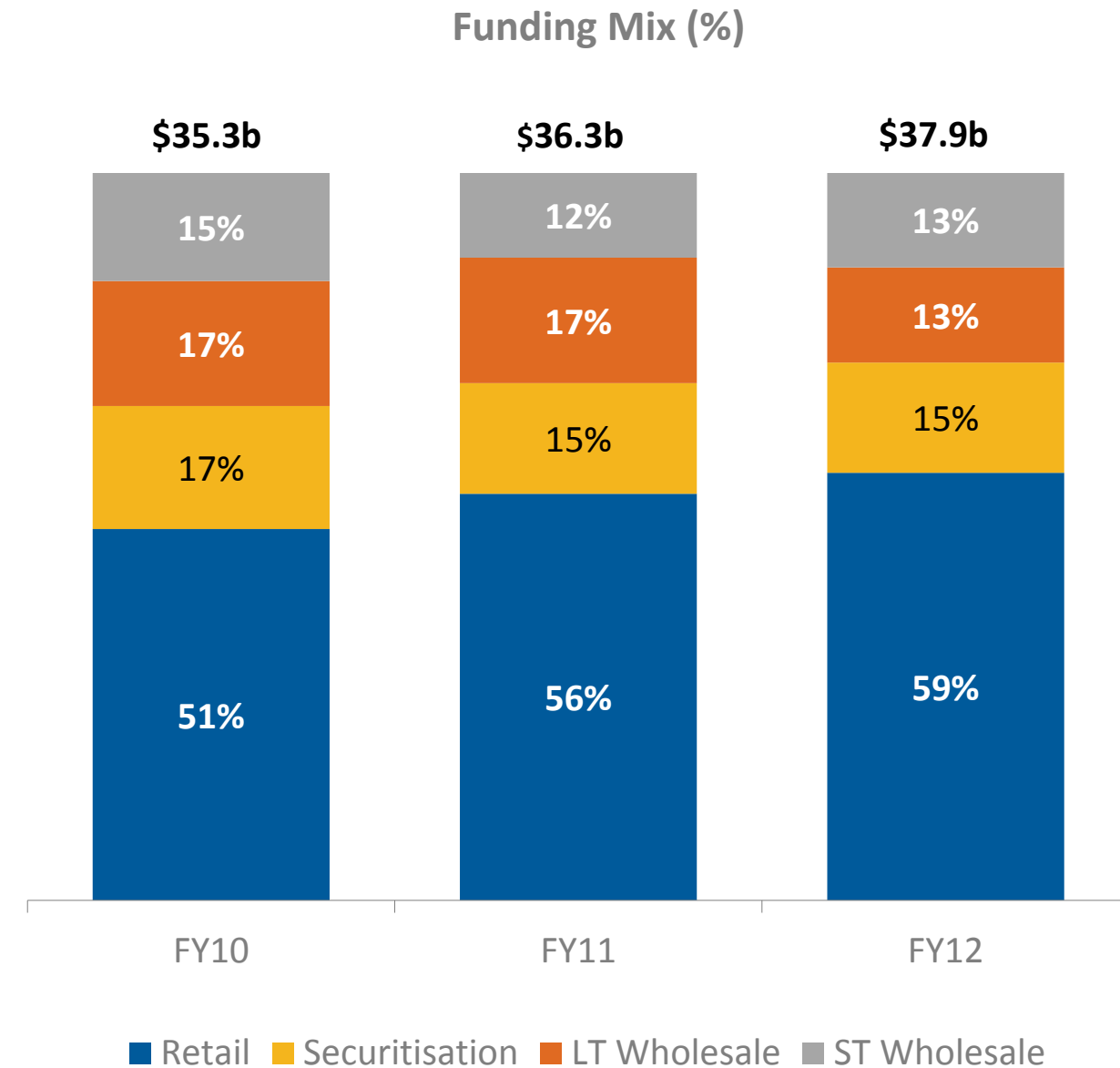
Total loans under management – 2012



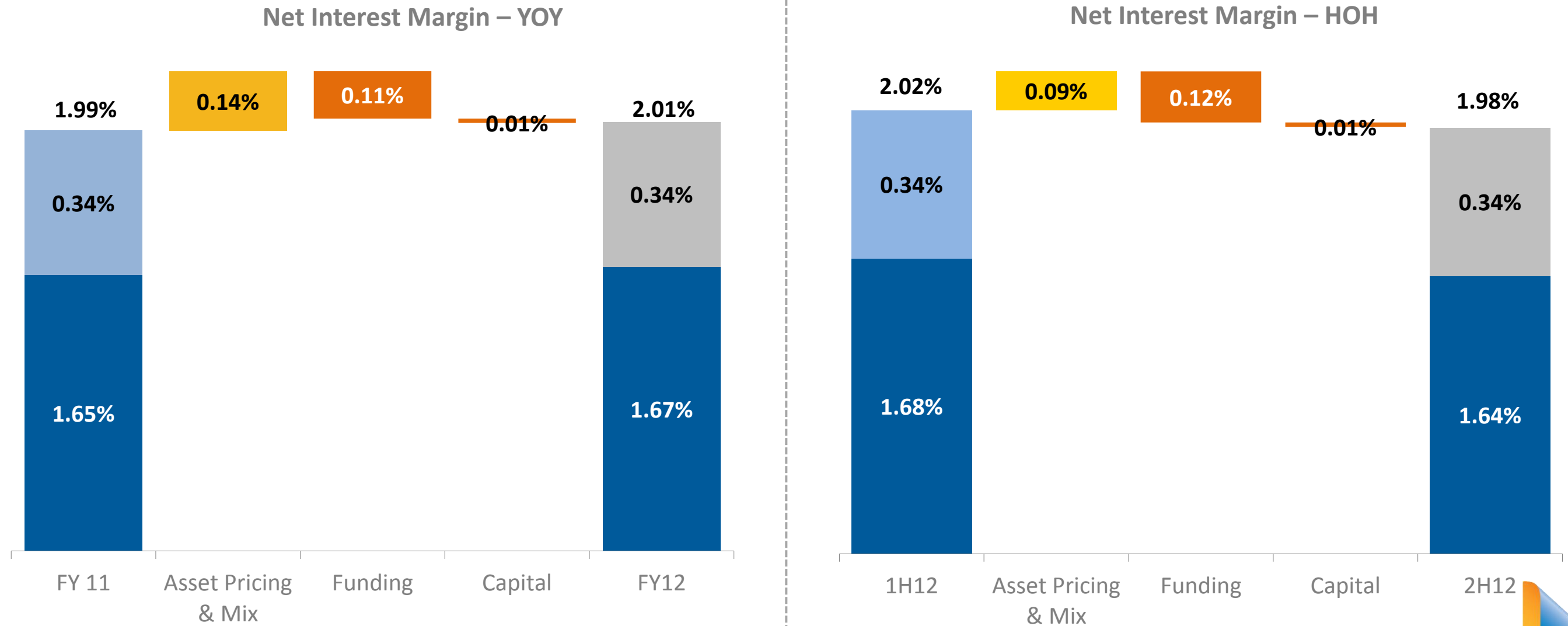
* Loans under management before collective provision.

Deposit growth

- ▶ Strong retail deposit growth of \$2b (1.0x system)
- ▶ Focus on term deposits over online savings
- ▶ Good success in new SMSF product – growth of ~\$600m
- ▶ Solid progress and on track for 63% retail funding target

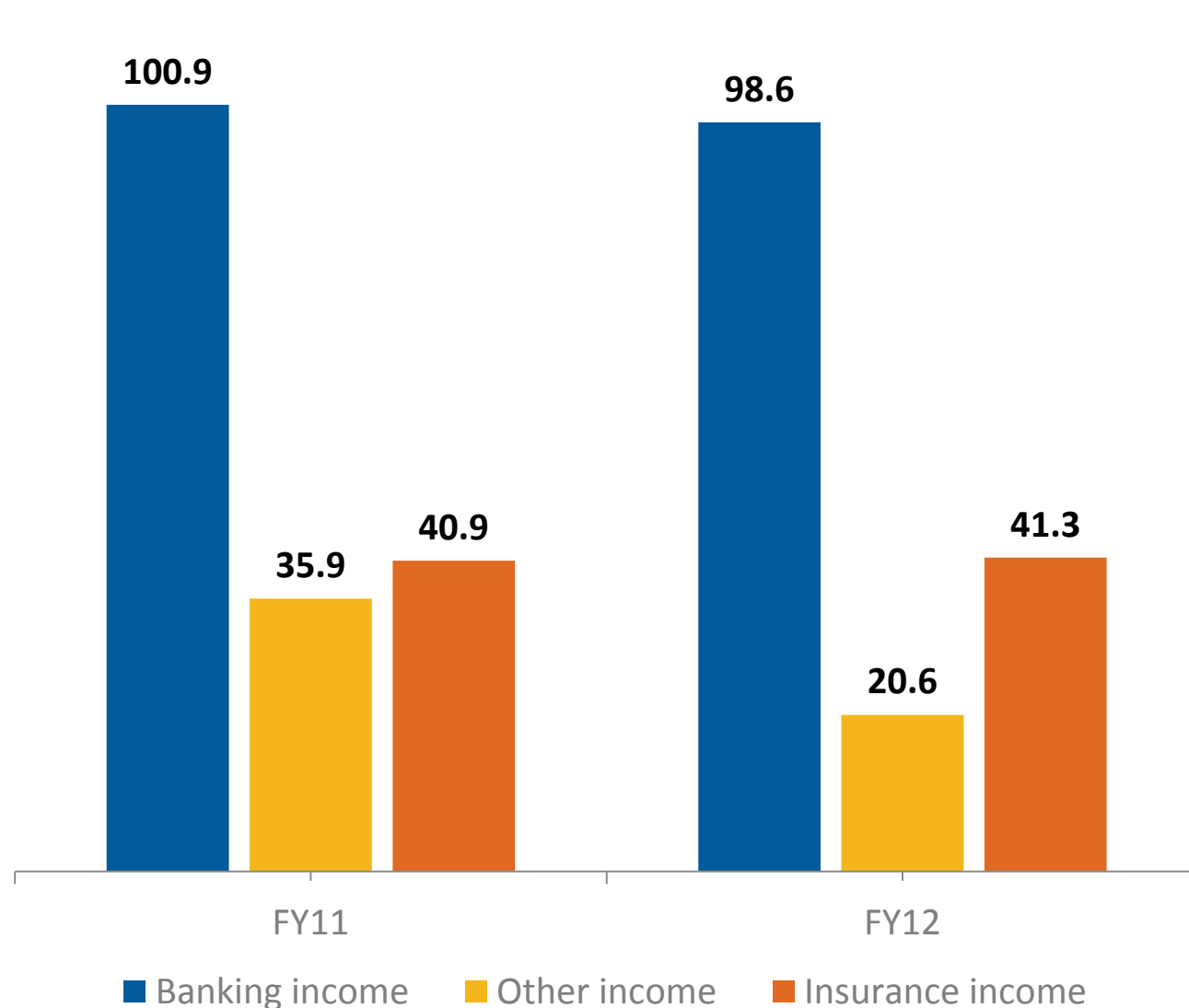


Net interest margin



Non interest income

Non interest income (\$m)

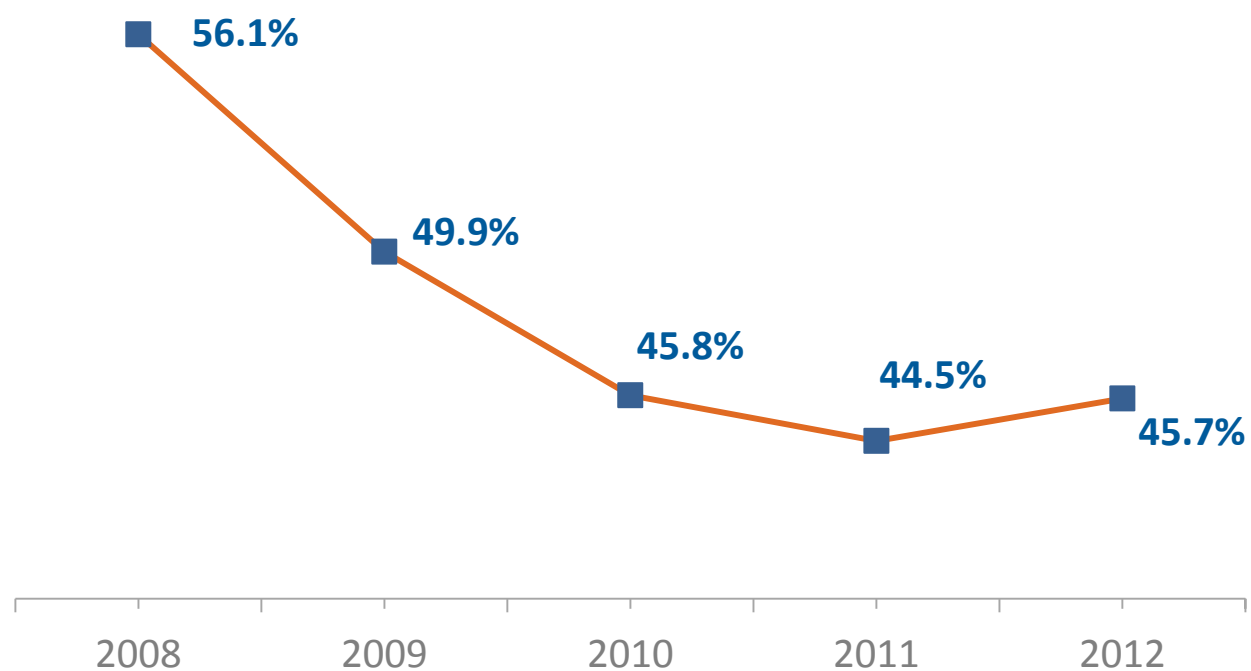


- ▶ Customer fees and charges relatively flat
- ▶ Other income reduced
- ▶ Insurance income steady in low credit growth environment

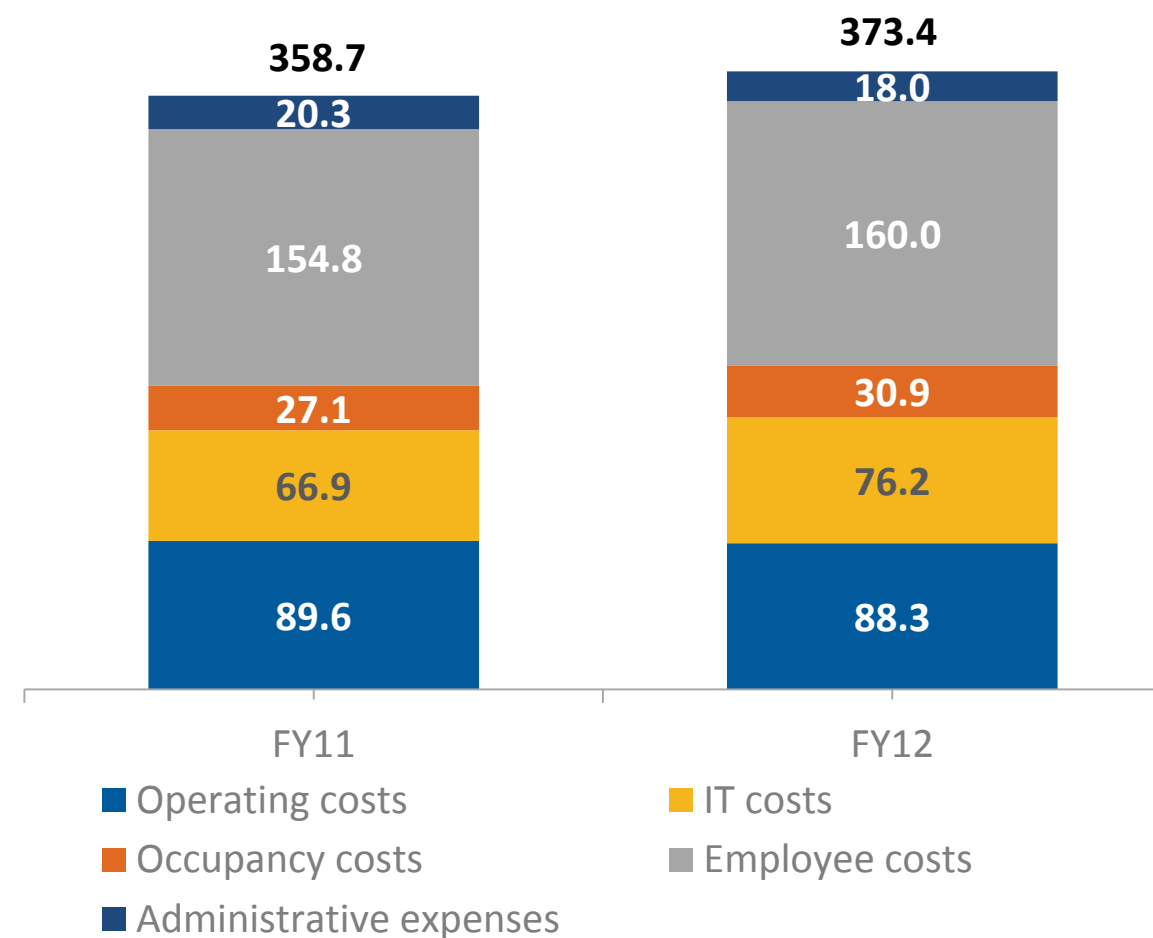
Cost-to-income

- ▶ Cost-to-income at competitive levels
- ▶ Expense increases going forward will be minimised as part of the Bank's efficiency initiative

Normalised cost-to-income ratio



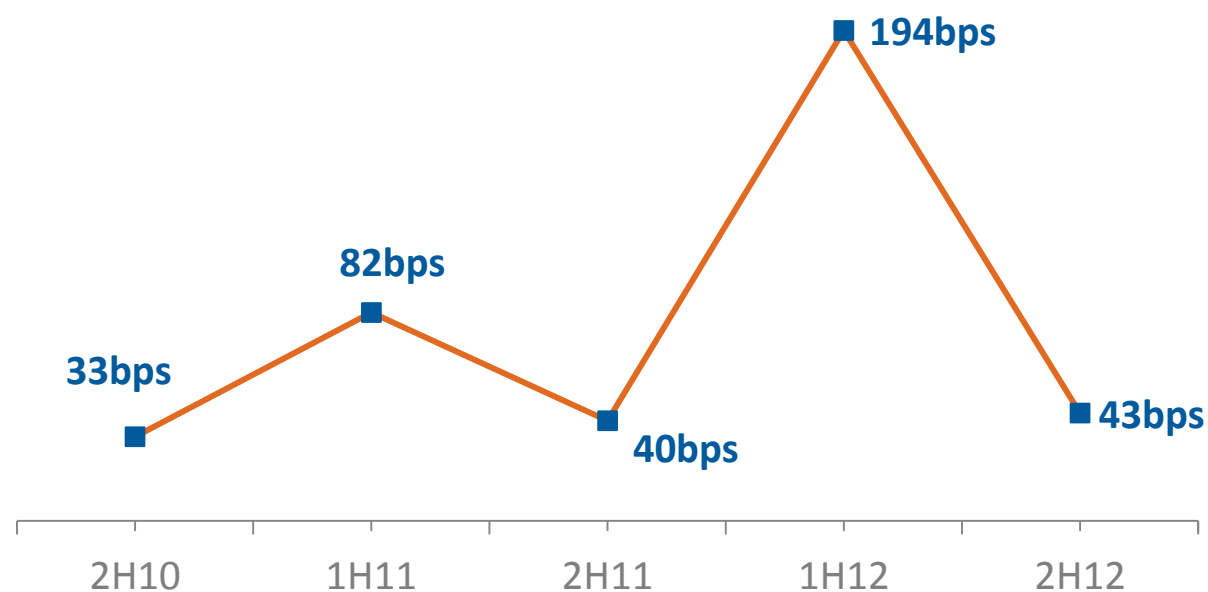
Expense composition (\$m)



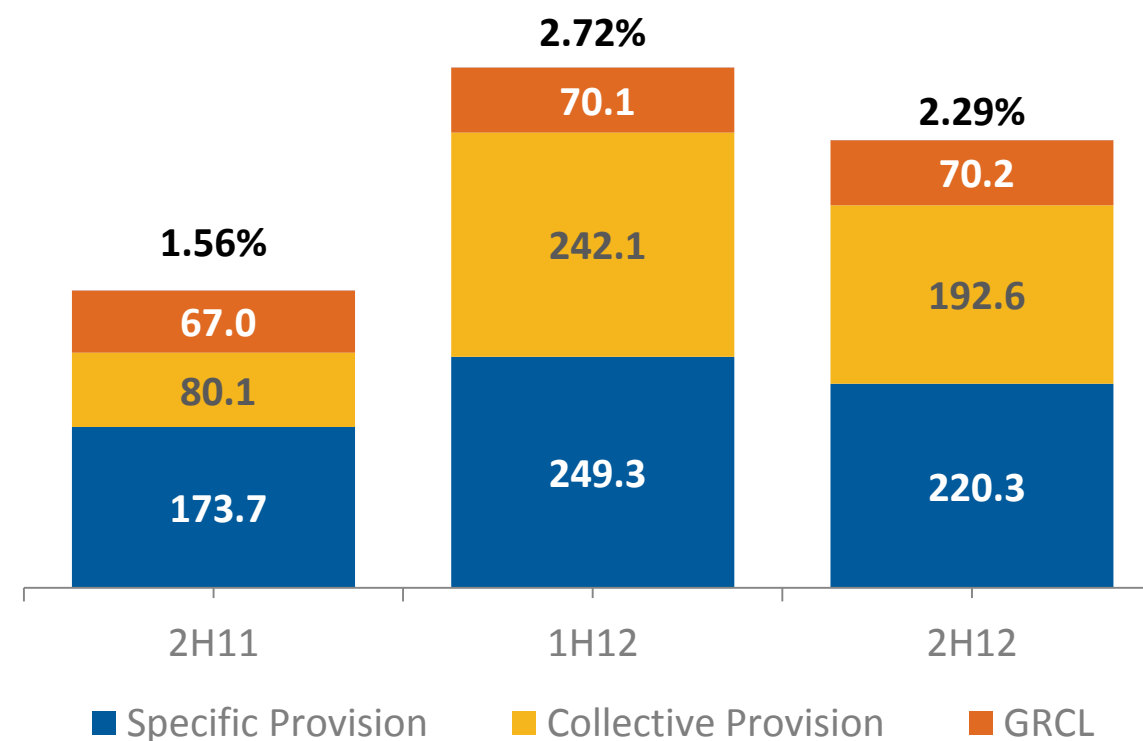
Provision coverage maintained in 2H

- ▶ Impairment charges stabilised in 2H following the asset quality review in 1H
- ▶ Specific charges in 2H were predominantly from the housing portfolio
- ▶ \$15m top up in collective overlay adopted to provide additional coverage for general economic conditions and ongoing weak conditions in commercial property market

Annualised impairment charge
to gross loans (bps)



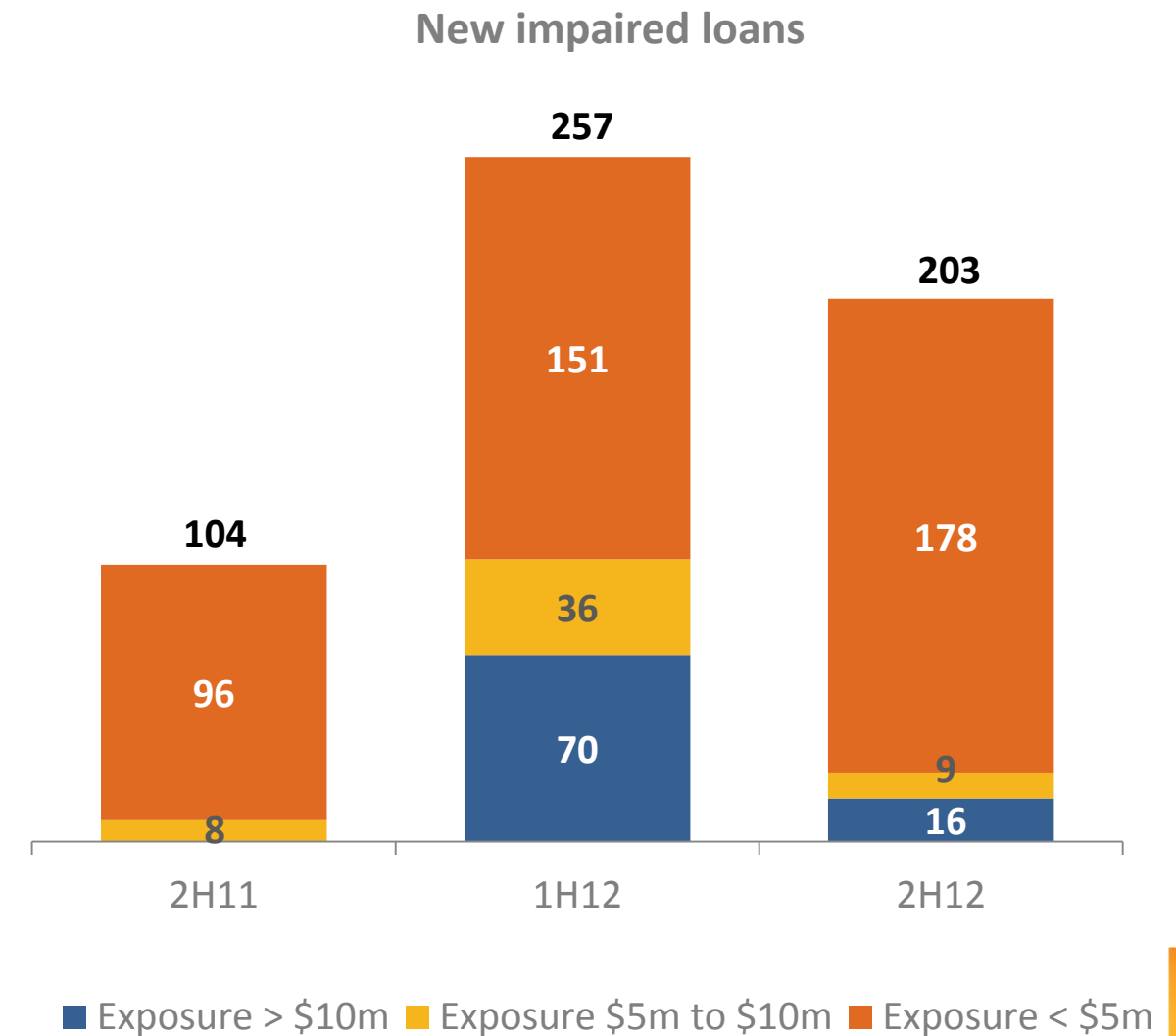
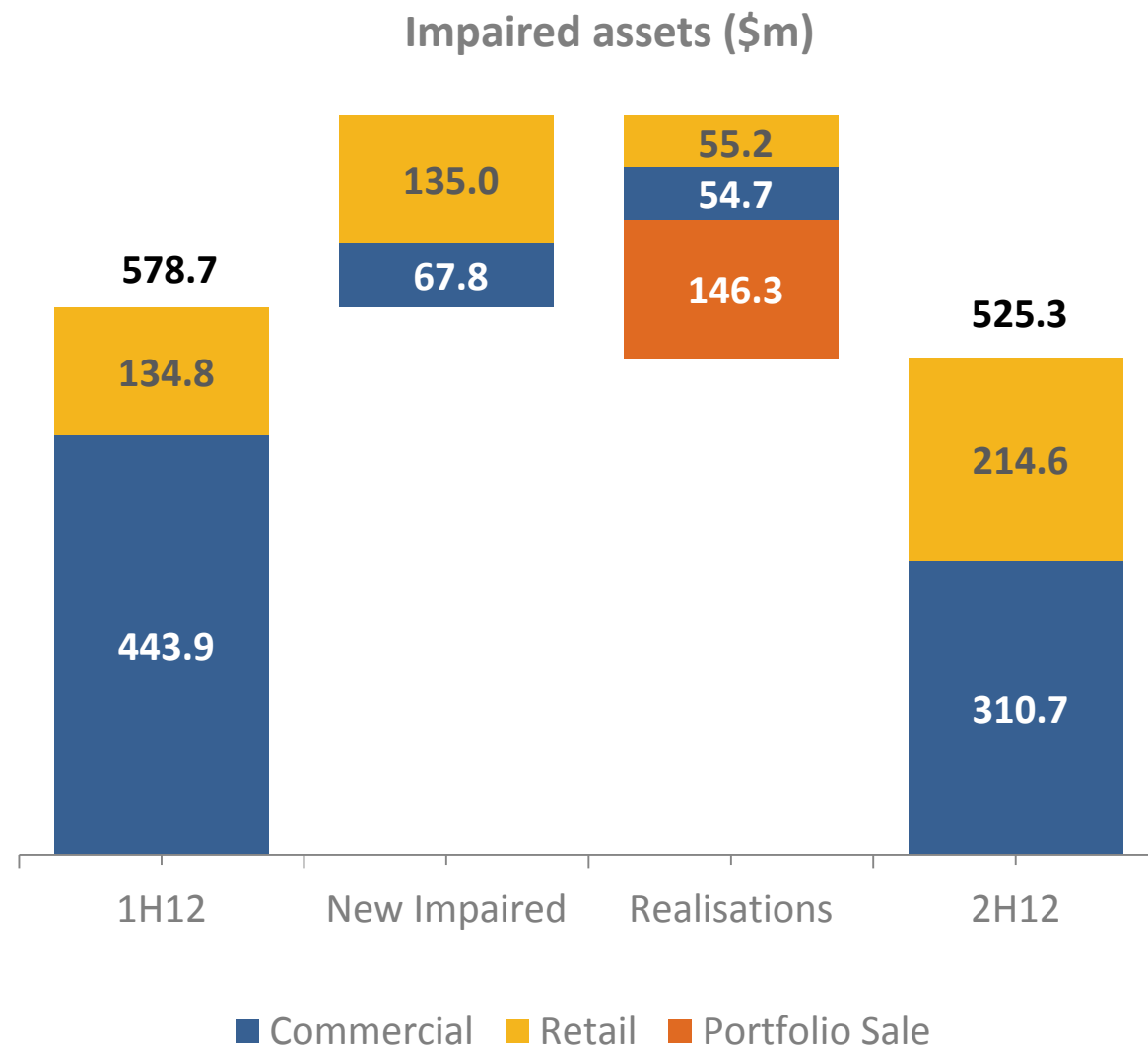
Provision Coverage (% RWA)



Strengthening risk management

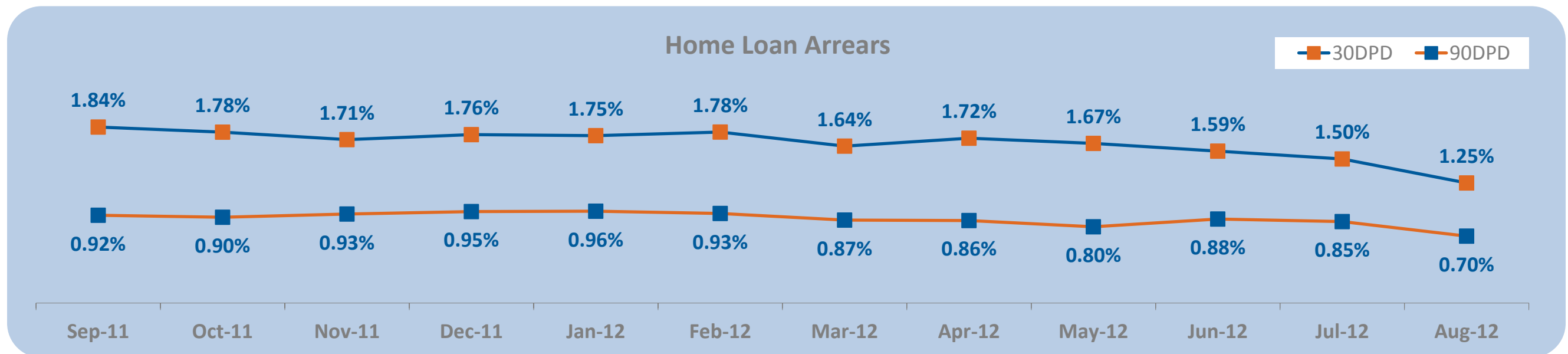
- ▶ New Risk Management organisational structure and leadership team now in place
- ▶ A dedicated Retail Credit team has been established to have full oversight of the 'end to end' credit process
- ▶ New Retail scorecards and underwriting standards have been developed in the second half. These initiatives will improve Retail portfolio quality and lower bad and doubtful debt expense in future years
- ▶ Asset Management Group substantially expanded in April 2012 to more effectively manage the weak and impaired commercial portfolio exposures
- ▶ Extensive follow up commercial loan portfolio reviews undertaken in the second half. The focus has been on portfolios and exposures (predominantly \$1m - \$5m) not covered by the March 2012 Asset Quality Review
- ▶ Substantial risk appetite and credit policy changes implemented across a range of key areas including lower LVRs, improved valuations practices and property finance lending criteria

Impaired assets fall



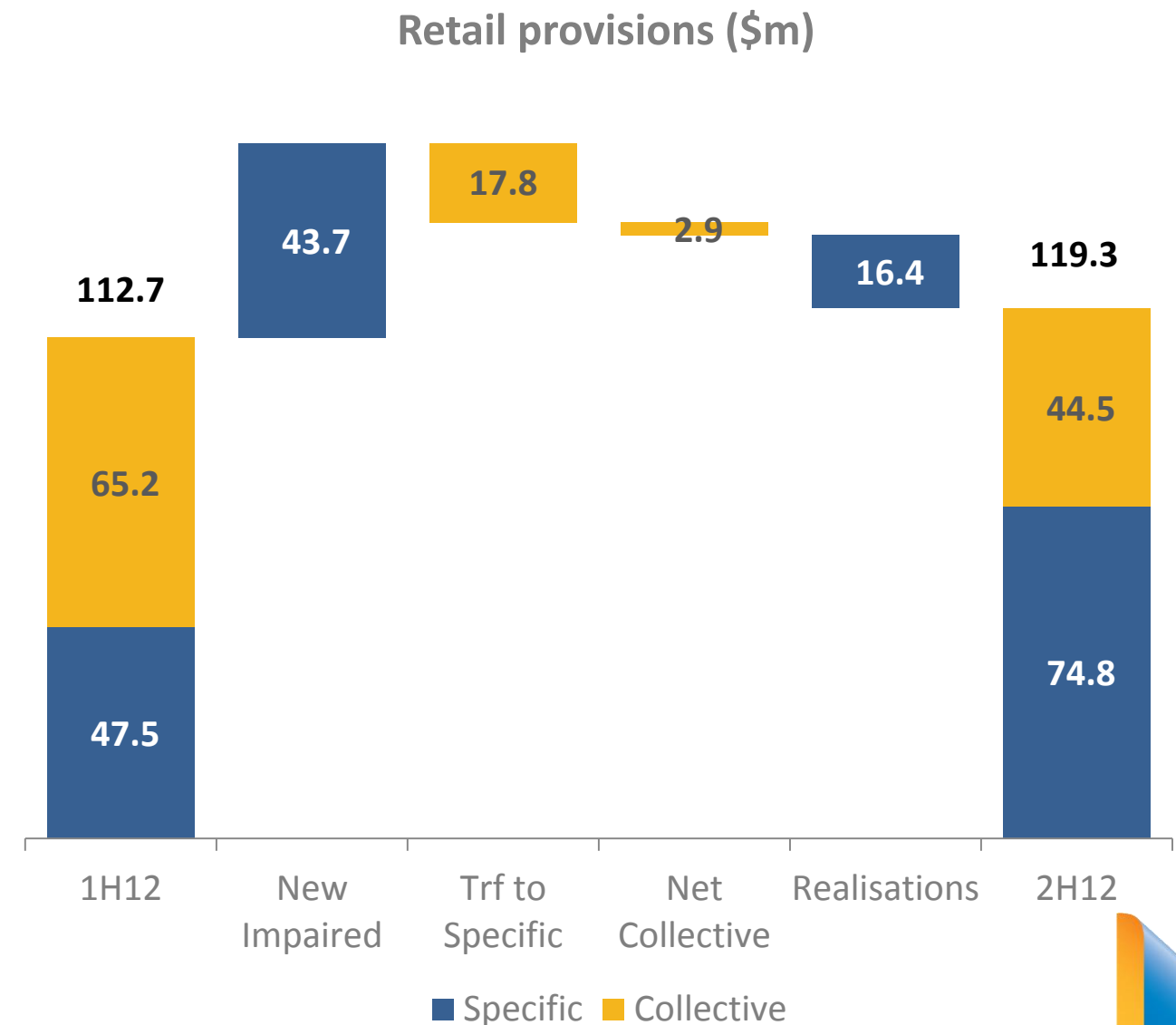
Home loan arrears improving

- ▶ Decrease in home loan 90+ arrears to 0.70% in 2H (0.93% in 1H) and 30+ arrears down by nearly 30% to 1.25%
- ▶ Improvement in arrears performance is across all states
- ▶ Improvement reflects the positive impact of RBA rate cuts and continued management focus on early stage arrears and enhanced collection strategies



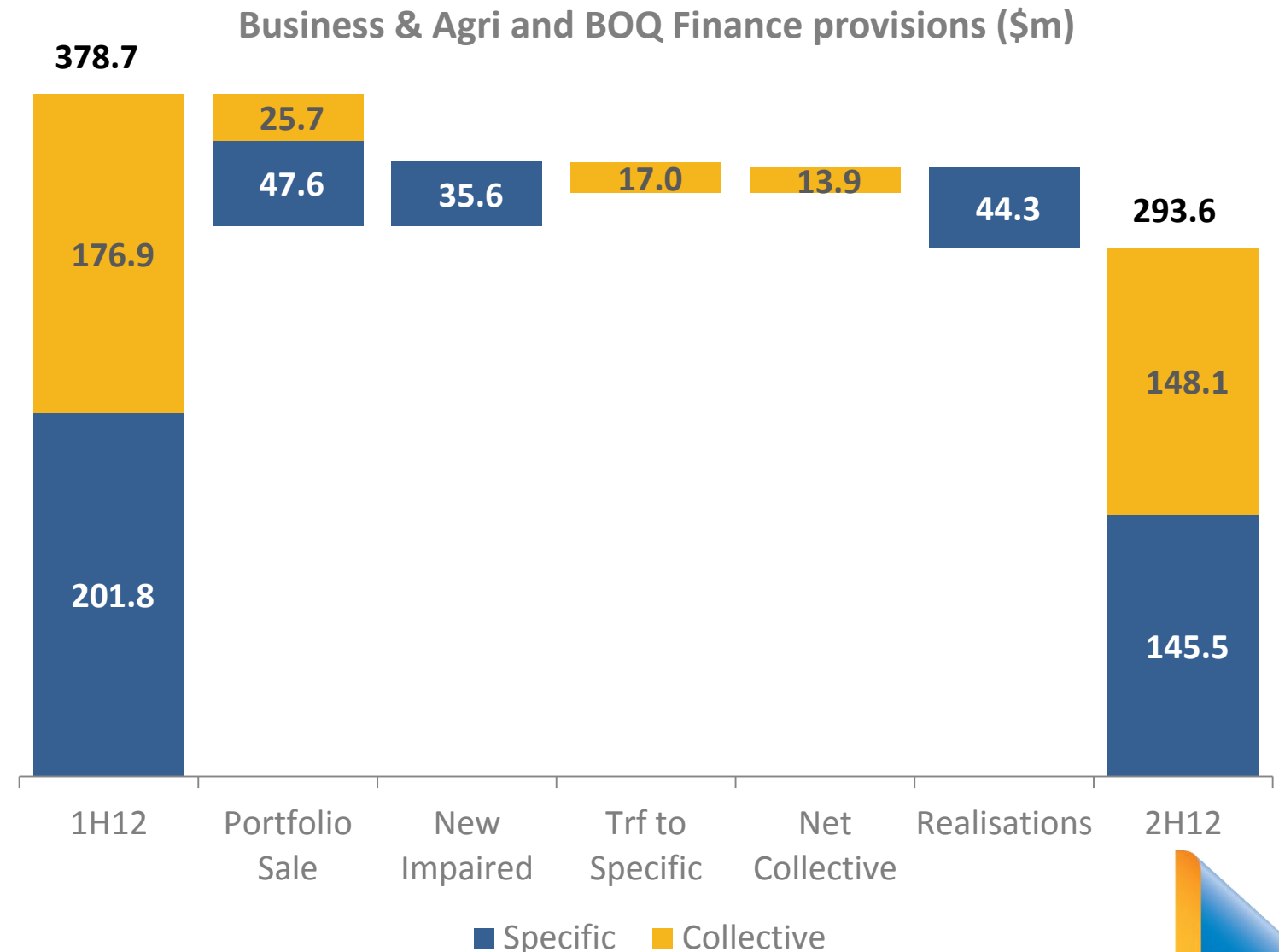
Retail provisions

- ▶ Increased specific provisions in 2H due to higher recovery activity
- ▶ Recovery processes streamlined, enabling earlier actioning of defaulted accounts, resulting in increased specific provisions and accelerated realisation timeframes
- ▶ A separate review was undertaken for all housing loans > 180+ arrears which also contributed to higher specific provisions in 2H

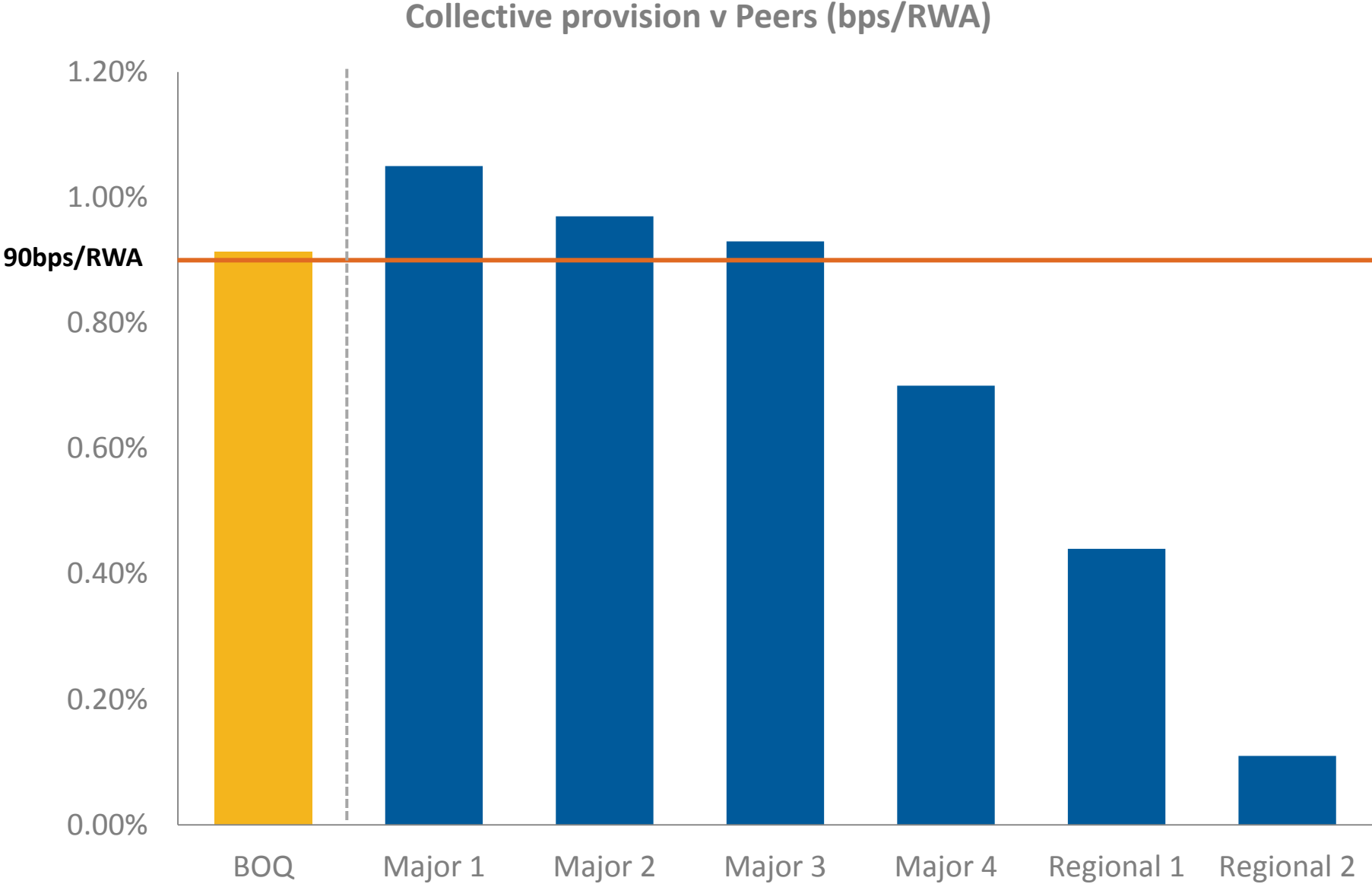


Commercial provisions

- ▶ Debt sale effected in July 2012 resulting in the decrease of \$47.6m in provisions (4 exposures)
- ▶ Commercial specific provisions stabilised in 2H following Asset Quality Review in 1H
- ▶ New provisions primarily associated with smaller exposures (<\$5m)

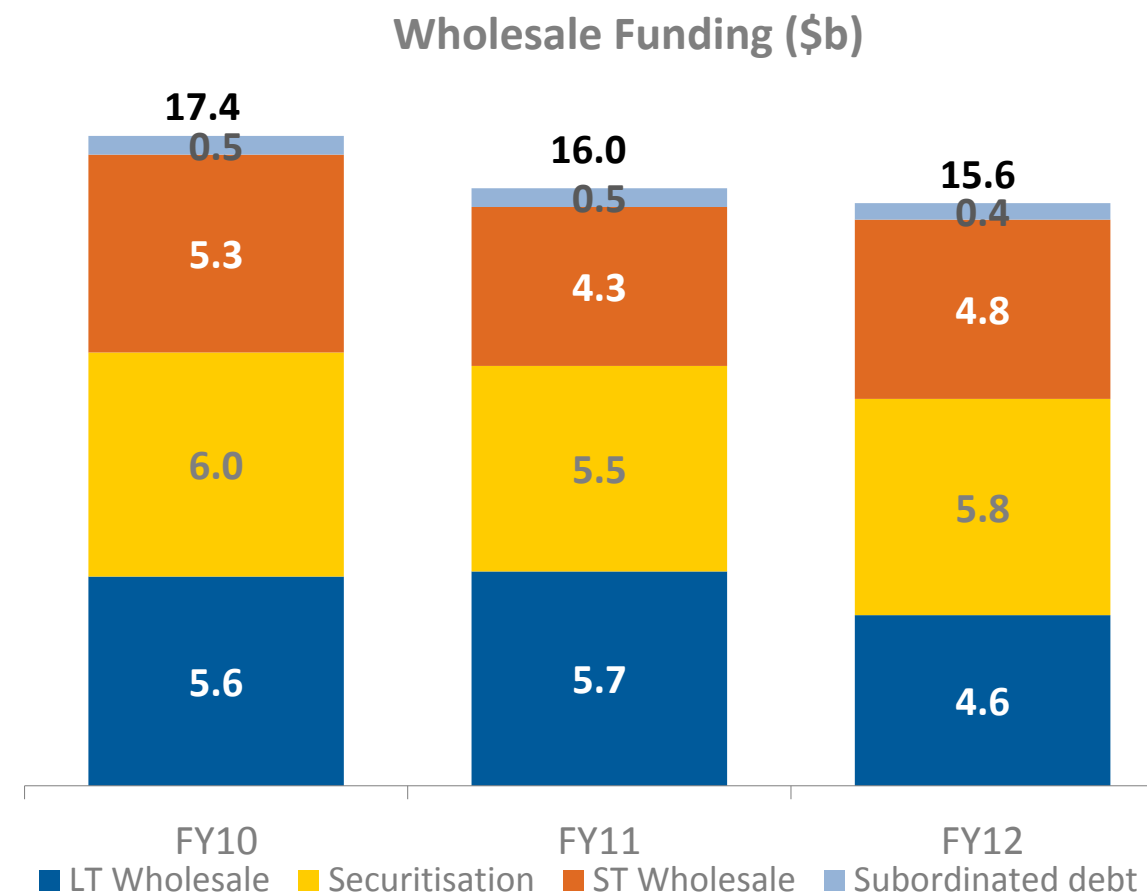
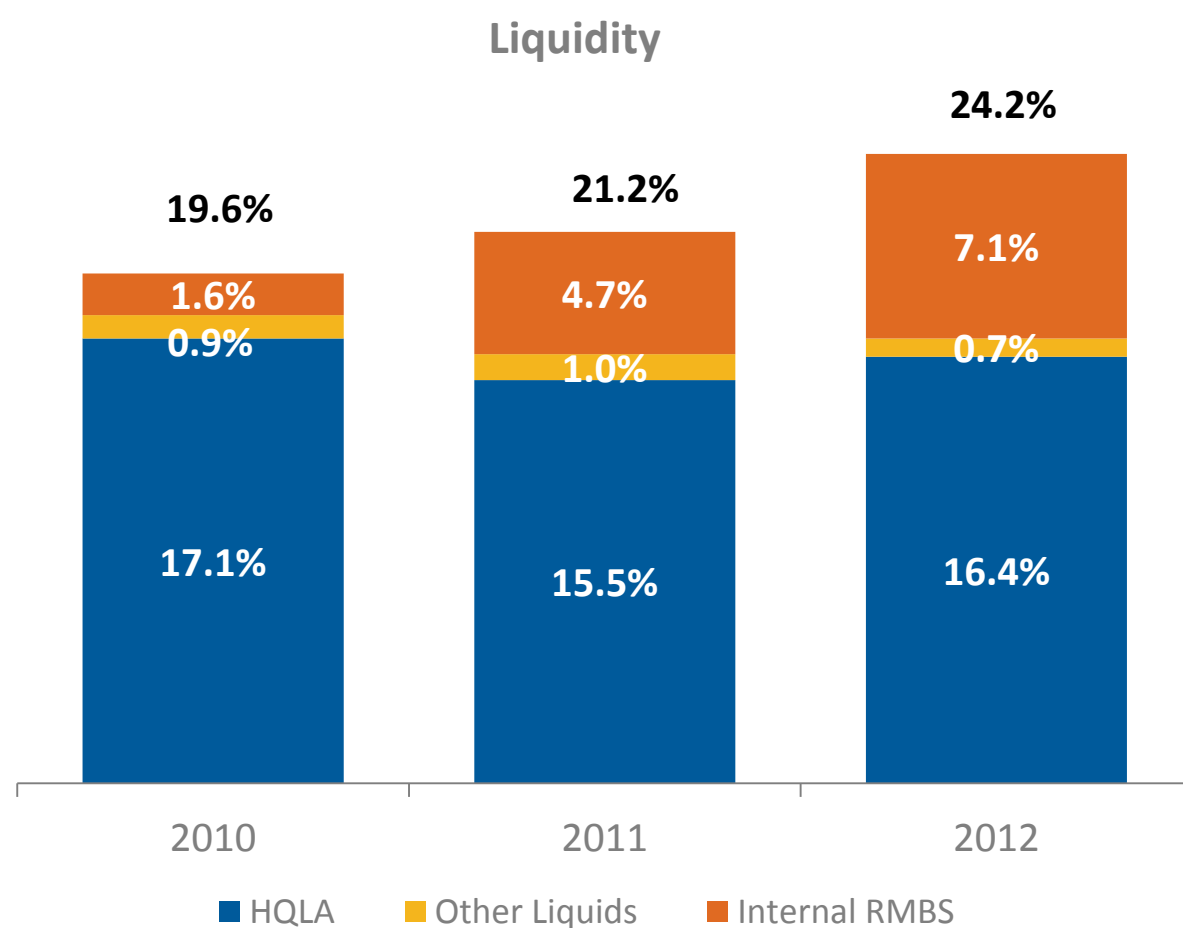


Provision coverage remains strong



Liquidity and Wholesale Funding

- ▶ Continued strong levels of liquidity, increased at year end for October maturity
- ▶ Reduced reliance on wholesale funding due to success in retail deposit strategy
- ▶ Short term wholesale of \$4.8b effectively funds liquid assets



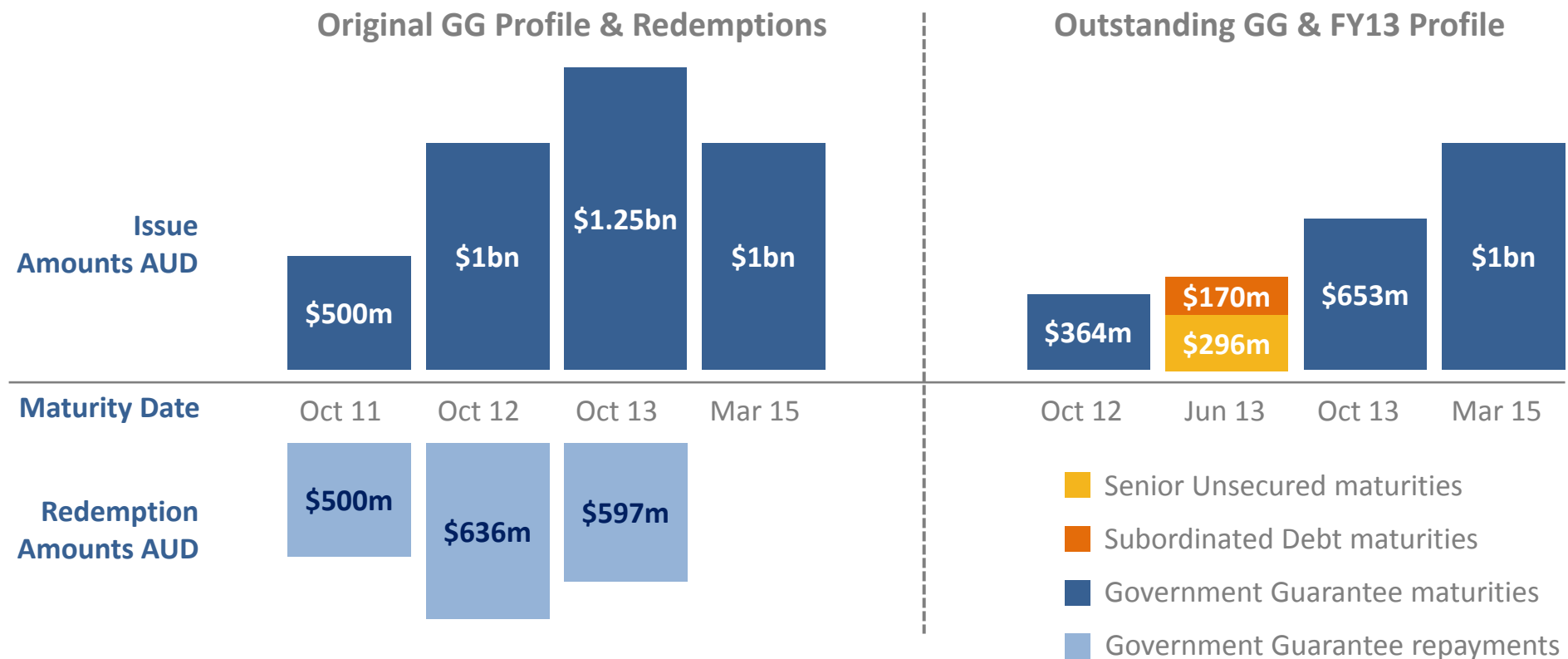
Wholesale maturity profile

- ▶ \$3.75bn issued between 2009 & 2010 maturities well spaced
- ▶ Repaid \$575m FY11 (including \$575m buybacks)
- ▶ Repaid \$1,158m FY12 (including \$658m buybacks)

(100% GG outstanding)

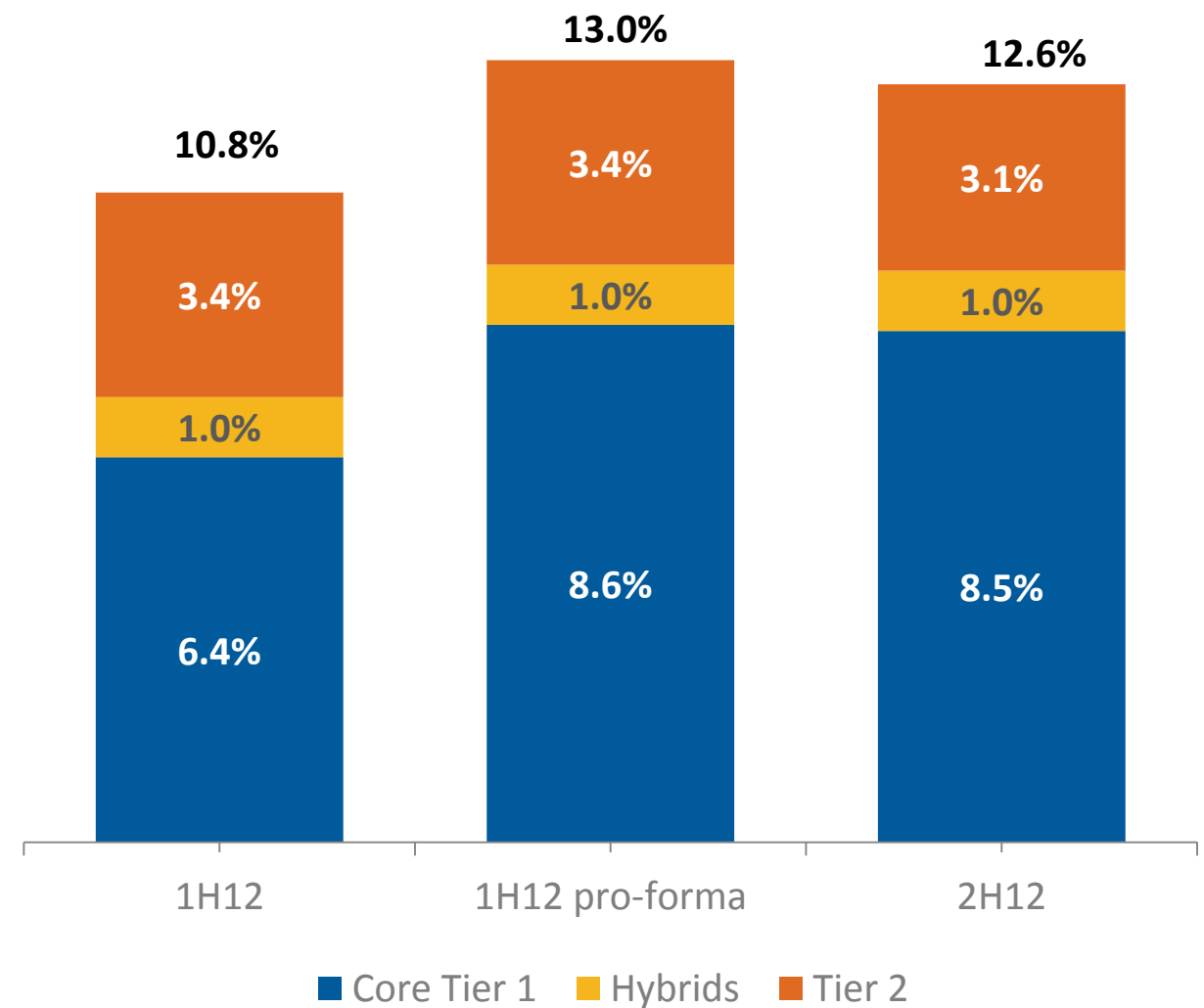
(85% GG outstanding)

(54% GG outstanding)



Capital position

Capital adequacy



- ▶ Core equity Tier 1 substantially increased
 - 2H performance funds final dividend of 26c
 - 8.5% ratio flat to position pro forma the capital raising
- ▶ Reduction in Tier 2 as T2 Bridge partially redeemed as foreshadowed at interim announcement
- ▶ Additional subordinated debt raised
- ▶ RWA growth exceeds capital retained during half

Summary

- ▶ Increased provisioning to market leading level
- ▶ Restored the capital base through the equity raising
- ▶ Improved funding mix through solid retail deposit growth
- ▶ Substantially enhanced risk management capability and practices
- ▶ Impaired asset and arrears trends demonstrate positive momentum
- ▶ Sound second half profitability
- ▶ Solid foundation for future growth established

► Strategy update

Stuart Grimshaw

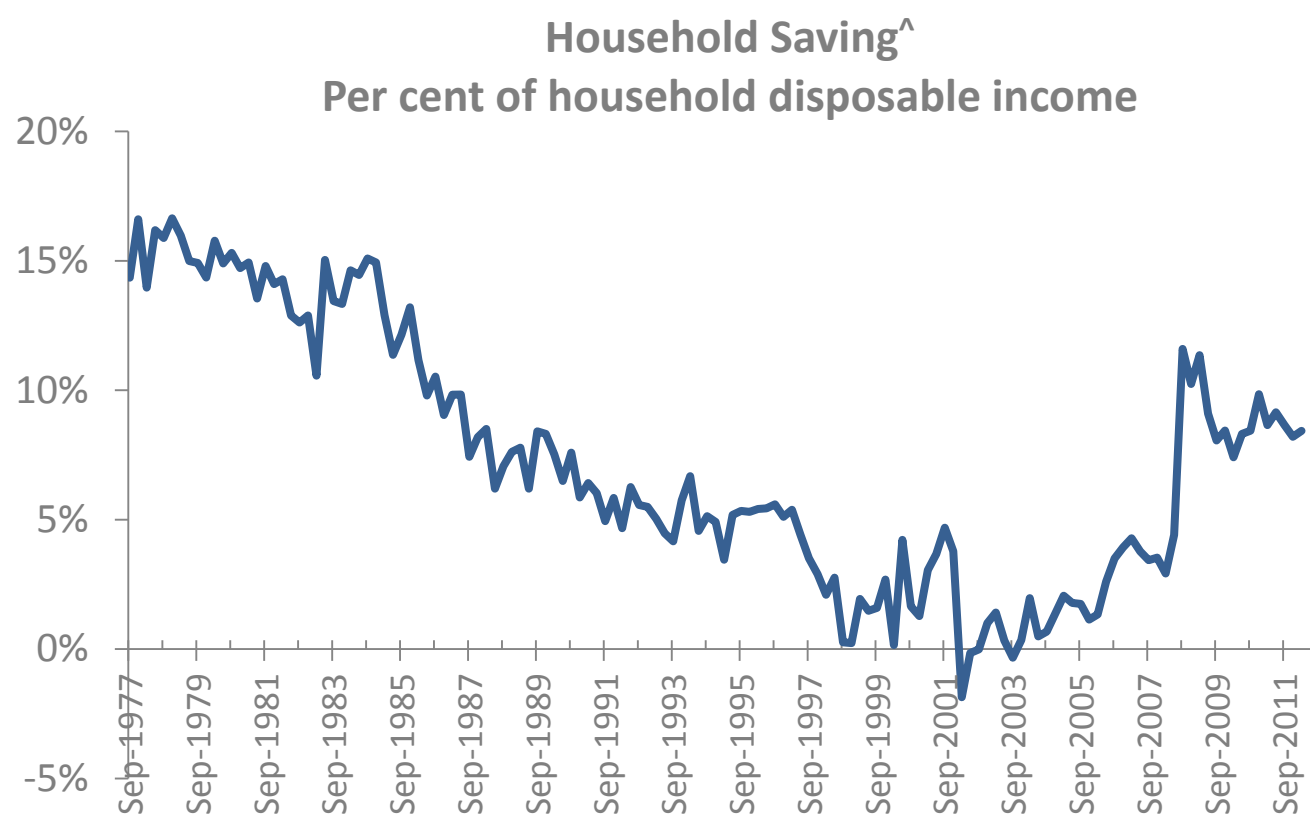
Managing Director and CEO



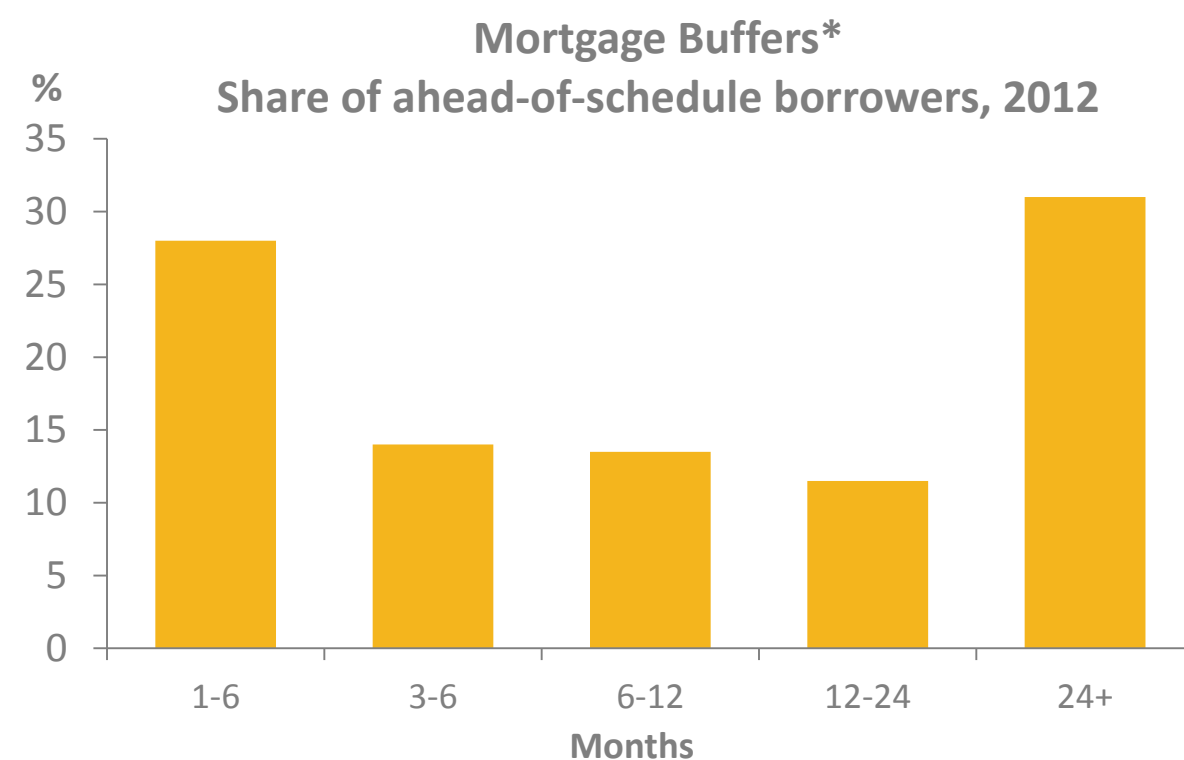
Your own personal bank

Macro trends: Economic

- ▶ Moderate GDP growth – global & local uncertainty restraining confidence
- ▶ Low credit growth – cautious consumers deleveraging
- ▶ Margins under pressure – decreasing cash rate and competition for deposits
- ▶ Bad and Doubtful Debts – stabilising but mixed experience across geographies



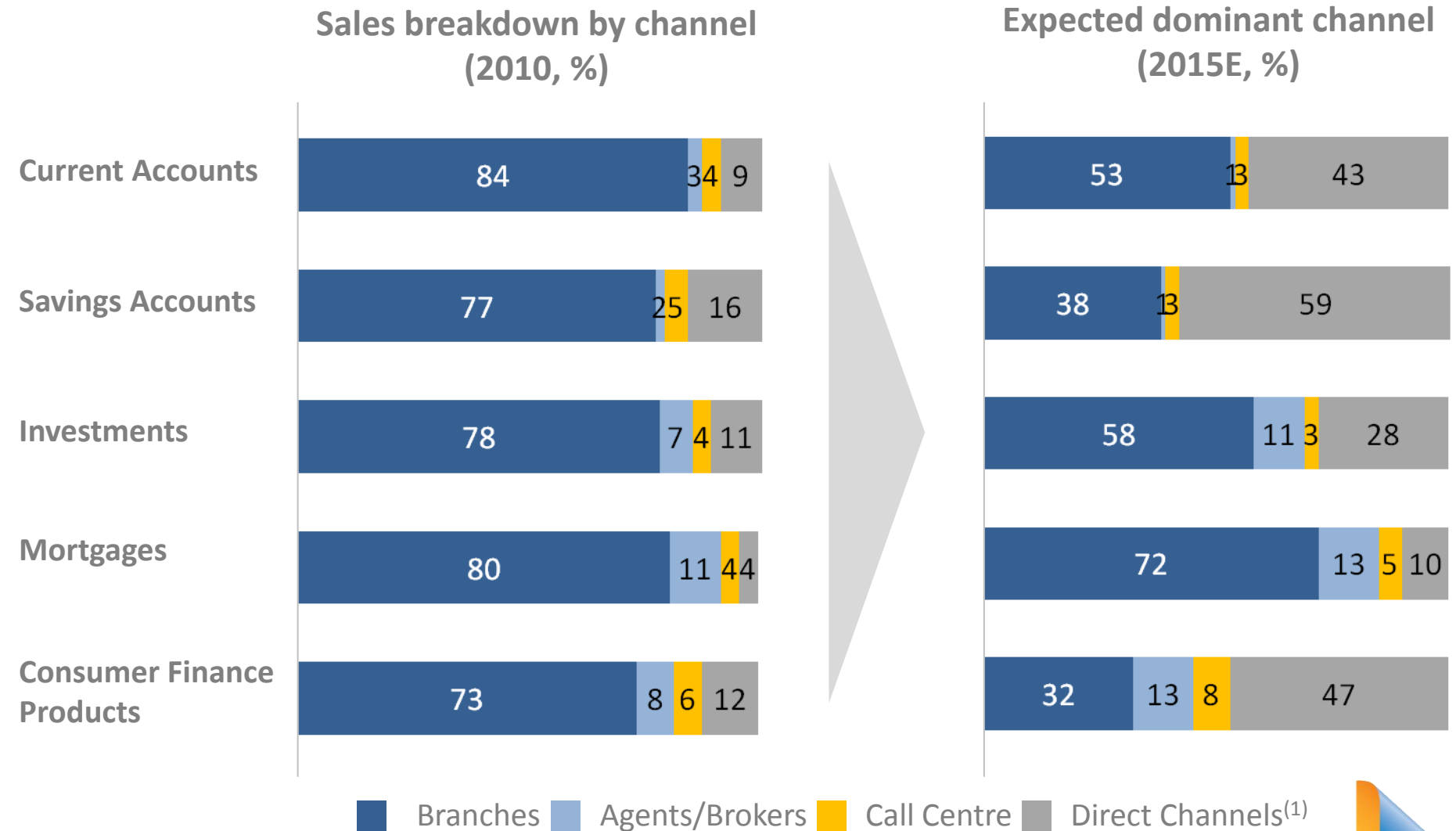
[^]Net of depreciation. Source: RBA



*Estimates from a sample of large banks. Source: RBA

Macro trends: Consumer channel preferences

- ▶ Use of direct channels (Internet, mobile) rapidly increasing
- ▶ However, consumers will continue seeking face-to-face advice when buying more complex products such as mortgages and investments
- ▶ Use of Brokers continues to increase for loans



Source: Efma online survey across 150+ European banks, McKinsey. (1) Internet, ATM, mobile.

BOQ needs to evolve with these trends

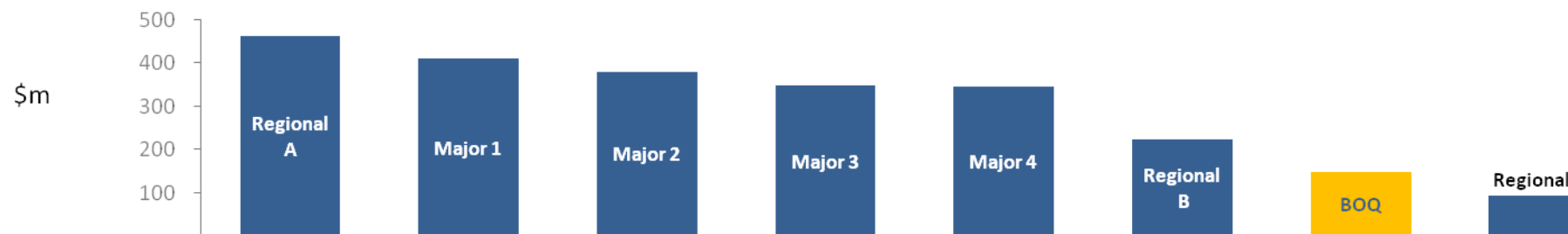
Source of originations

- ▶ BOQ: ~90% branch
- ▶ Competitors: branch, broker, call centre, online, mobile, social media
- ▶ Broker and online originations continue to increase

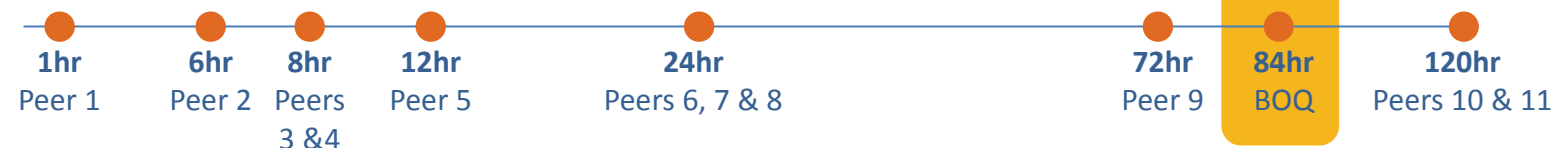
Sources of Revenue

- ▶ Housing Loans represent 74% of LUM
- ▶ Low margin, lower comparative ROE

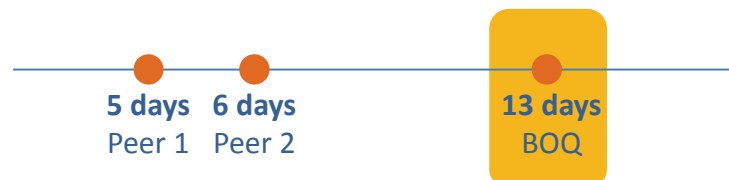
Household Footings per Branch[#]



Retail Lending “Time to Yes” *



Commercial Lending “Time to Yes” *



[#] Source: APRA

*Source: Stated target times & survey of median turnaround times of select competitors. No qualification of conditional vs unconditional



Your own personal bank

Strategic focus

1. Multi-channel optimisation

- ▶ Branch focus on development of service and sales, incl. cross sales
- ▶ Online, mobile & social media capability to be developed
- ▶ Call centre optimisation & selective use of brokers (by Mar 2013)

2. Risk/Return balance

- ▶ Focus on higher margin, higher ROE customers and increased cross sell
- ▶ Business Banking, Agribusiness, Financial Markets, St Andrew's & BOQ Finance
- ▶ Targeting profitable customers/segments

3. Operational excellence

- ▶ End to end lending processes – retail and commercial
- ▶ Removing administrative tasks from the branch & consolidating back office processing
- ▶ Expense growth below inflation

4. Talent, capability & culture

- ▶ New Executive team in place
- ▶ Existing talent being complemented with selected external hires at lower levels
- ▶ Diversity and staff engagement
- ▶ Revitalised culture

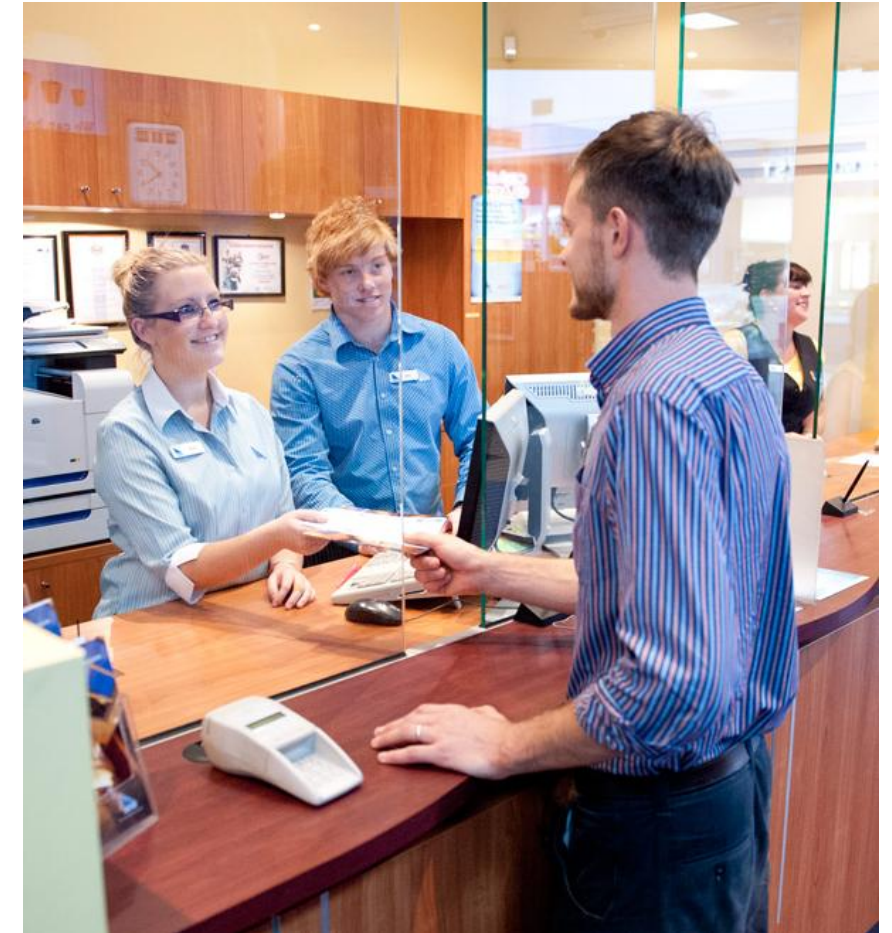


Your own personal bank

1. Multi-channel optimisation

Retail bank strategy

- ▶ Significant opportunity exists to increase footings per branch (Best in class competitor is >\$450m household footings per branch vs. BOQ ~\$150m#)
- ▶ Cross sale potential still needs to be reached (BOQ currently ~2 products per customer)
- ▶ Focusing on Retail & Small Business customer segments that value relationship banking
- ▶ Moving away from narrowly focused distribution strategy to deliver multichannel distribution:
 - Engaging Brokers, initially in WA
 - Re-focusing branches on sales and service
 - Maintain and support growth of our OMBs
 - Online and mobile enhancements to improve customer experience
- ▶ Refining our product range to better suit target segments' needs



1. Multi-channel optimisation

WA case study

Why WA?

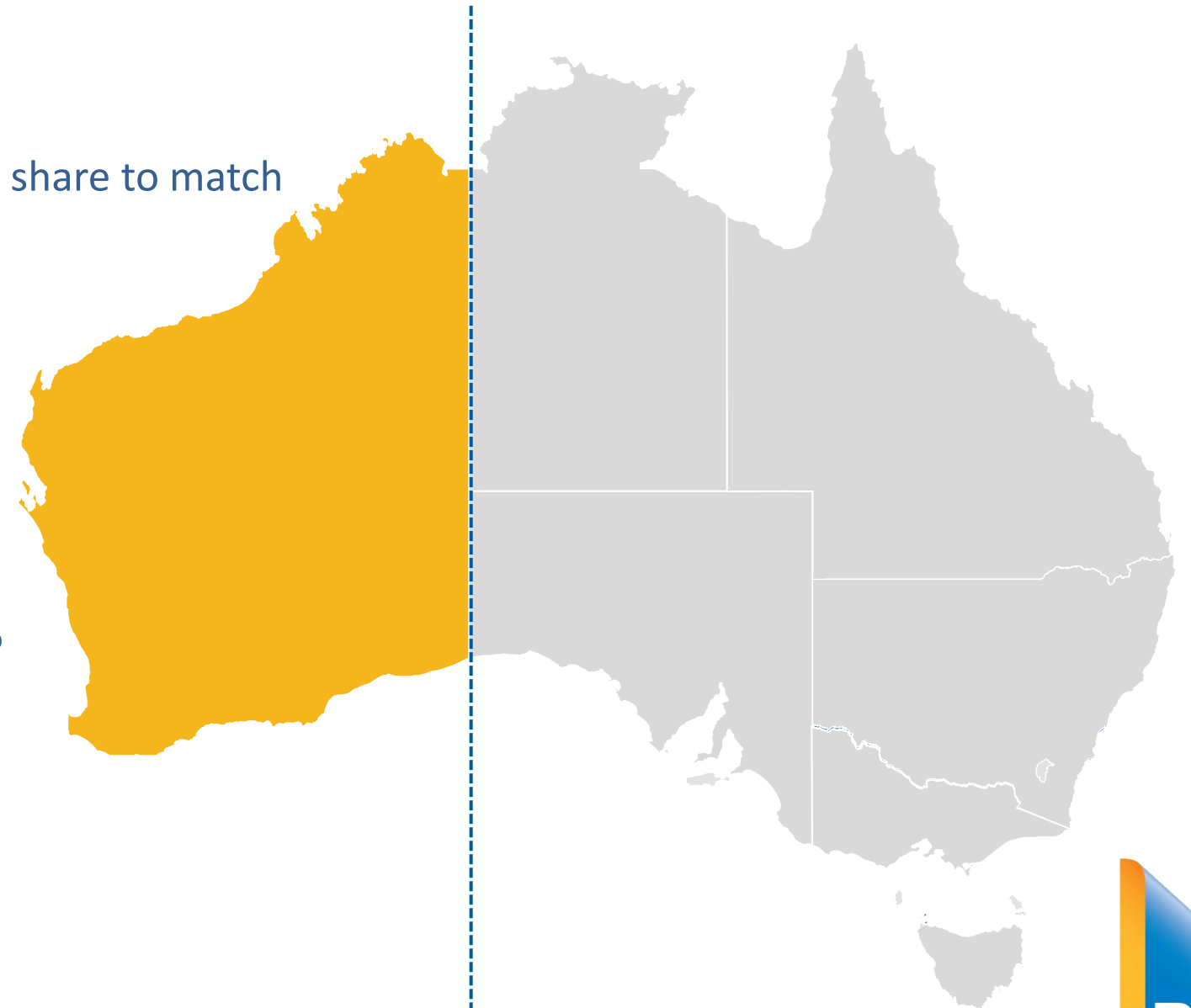
- ▶ WA will continue to exhibit strong GDP growth
- ▶ Significant opportunity exists for BOQ to improve market share to match a solid branch footprint
- ▶ Need a multi-channel approach to capture share

What have we done?

- ▶ Reinvigorated state leadership team now in place
- ▶ Turnaround in asset growth trend
- ▶ Retention program has reduced run-off from 29% to 23%

What's next?

- ▶ Re-entering the broker market in 2013
- ▶ Employing mobile bankers
- ▶ Continued local focus



2. Risk/Return balance

Business Bank strategy



- ▶ Focusing on Commercial customer segments that value relationship banking, including Agribusiness – targeting \$1bn in Agribusiness assets over 3 years
- ▶ Targeting a greater share of higher ROE business
- ▶ Cross sale of equipment finance, cashflow finance and financial markets products
- ▶ Refining our product range to better suit these segments' needs
- ▶ Bring in experienced bankers and risk personnel

2. Risk/Return balance

Business Bank strategy progress

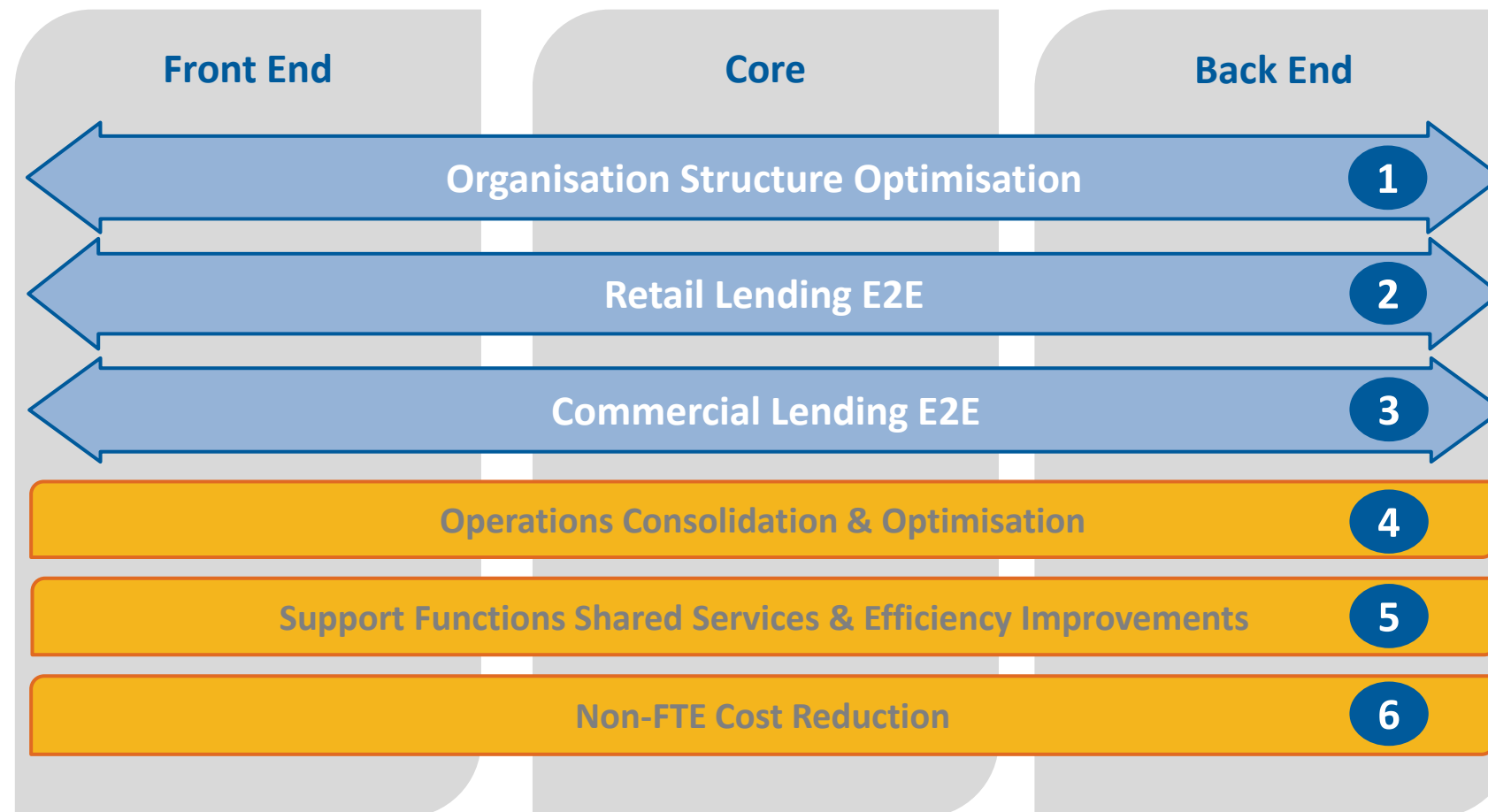
- ▶ More than 20 new Agribusiness and Corporate Bankers now on-boarded
 - Funded through moving people out and in (zero cost increase)
 - Opened in 8 new locations across NSW/QLD
- ▶ Driving customer acquisition and asset growth
 - First Agribusiness customer on board in October
 - Pipeline is up 230% in the last 6 months
- ▶ Financial markets offering under development
 - First swaps contracts approved



3. Operational excellence

Transformational change

- ▶ An efficiency and effectiveness program is in progress to address these issues



3. Operational excellence

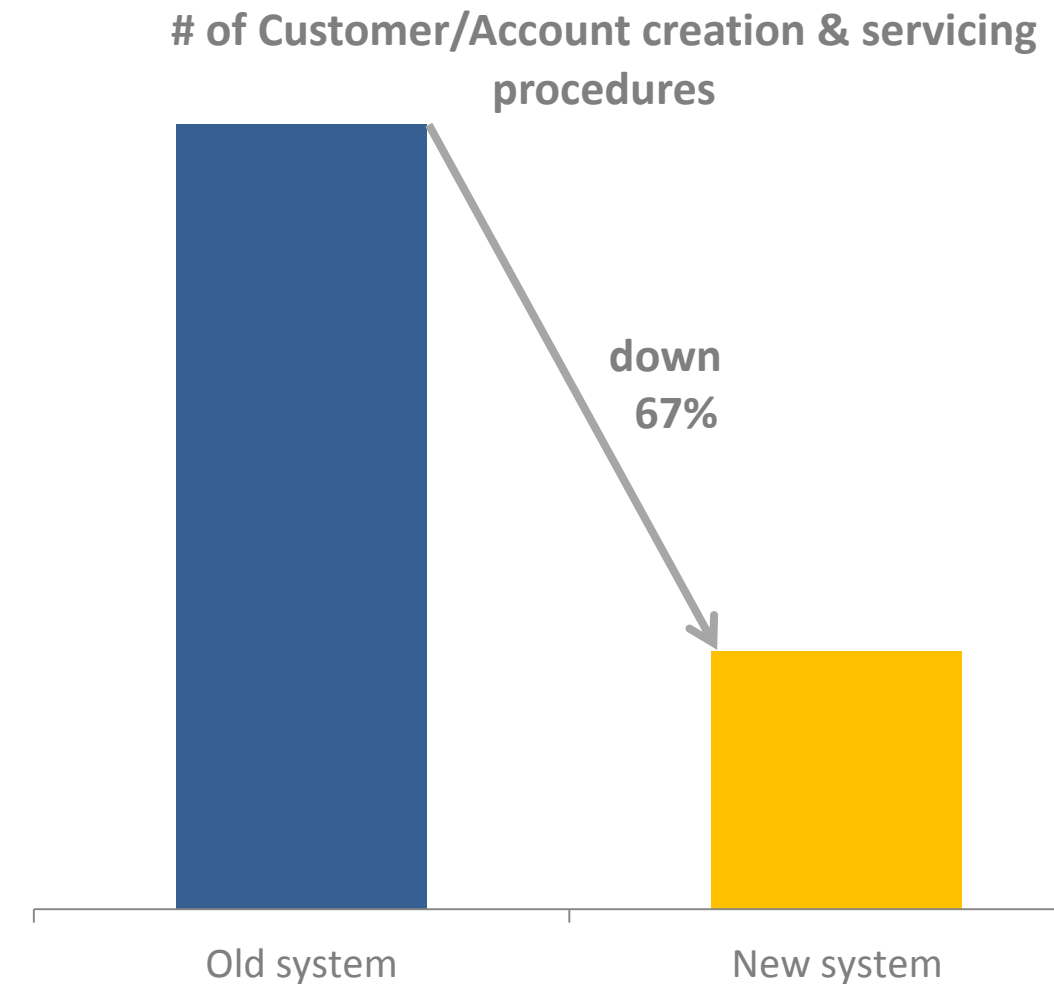
Progress made

- ▶ Review of organisational spans and layers of control, ~100 management roles eliminated, \$9m saving (self-funded in FY13) ✓
- ▶ Shared services model – bringing together duplicated functions (IT, HR, Finance) across Banking, BOQ Finance & Insurance, \$2m saving 1H13
- ▶ Back office operations consolidation, \$2.5m saving 1H13
- ▶ End to end loan processing (Retail & Commercial) — 2 year journey 2H14
- ▶ Non-FTE cost (marketing, travel, stationery, procurement) savings of \$4m 2H13
- ▶ Removing processes from the branch and improving “time to yes” for the customer
- ▶ Savings to fund investments in growth

3. Operational excellence

Progress made

- ▶ New CRM system being implemented for front line staff
 - Better ability for branch staff to focus on sales activities
 - Faster access to customer information and customer servicing activities across all channels
 - Number of customer / account creation and servicing procedures reduced from 128 to 42
- ▶ Processes being removed from the branch to free up resources
 - Term deposit rollovers are now dealt with via the call centre if the customer desires
- ▶ Further changes in the pipeline



3. Operational excellence

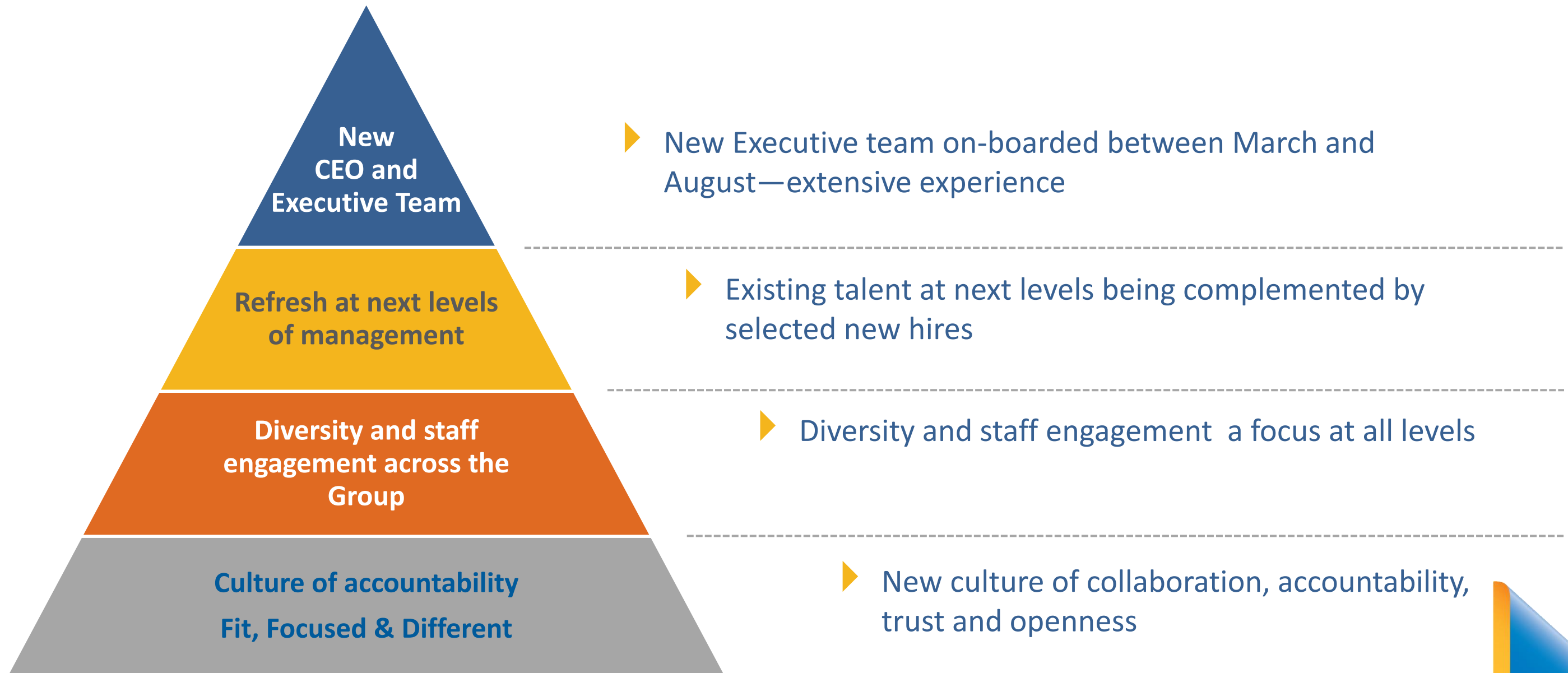
Technology approach

- ▶ Software as a service vs. hard wired
 - Smaller investment and more flexibility
- ▶ Investing in the low cost front end systems - Customer Relationship Management (CRM)
 - Delivering enhanced sales performance & improved workforce efficiencies
- ▶ New CRM platform supports the redesign of our operating model
 - Sales focused banking, for staff & customers through multiple channels
- ▶ Benefits commencing in FY13
 - Costs already embedded in plan



4. Talent, capability & culture

Change underway



Key management targets

Metrics	FY13	FY15+
BOQ asset growth		
- Retail	1.0x system	1.2x system
- Business [#]	1.0x system	1.5x system
Net Interest Margin	Low-Mid 160s	Low-Mid 160s
Expense growth	< Inflation	< Inflation
Cost to Income	45%	Low 40s
Bad & Doubtful Debts to GLA	28-34bps	~20bps
Return on Tangible Equity*	~10%	13%+

These are internal management targets and are not forecasts or projections

[#] Excluding the impact of impaired asset run-off

*Excluding goodwill and other intangibles

Summary

- ▶ Loan book is known and prudently provided for
 - Stronger credit and arrears management processes now in place
- ▶ Strong cost management focus and operational redesign well underway
 - Efficiency drive & operational excellence continuing to simplify processes for staff and customers
- ▶ Foundations for growth in place and positive early momentum
 - Retail Bank to become a multi-channel challenger
 - A move to optimise all distribution channels for sales and service
 - New Business Bank & Agribusiness strategy bearing fruit

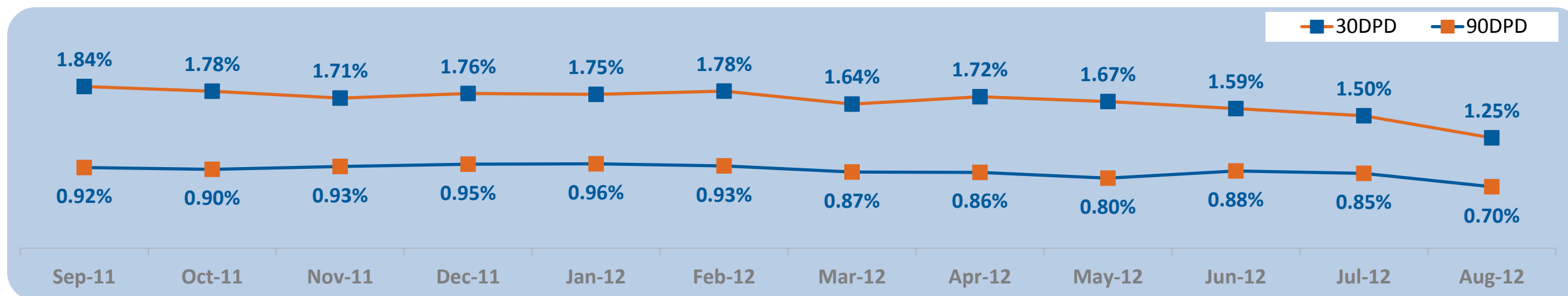
► Appendix

Portfolio Information



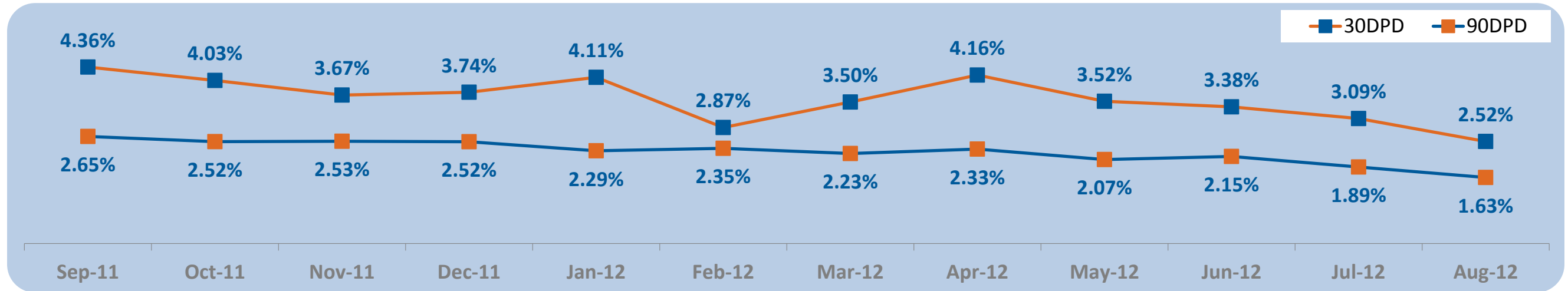
Your own personal bank

Housing arrears



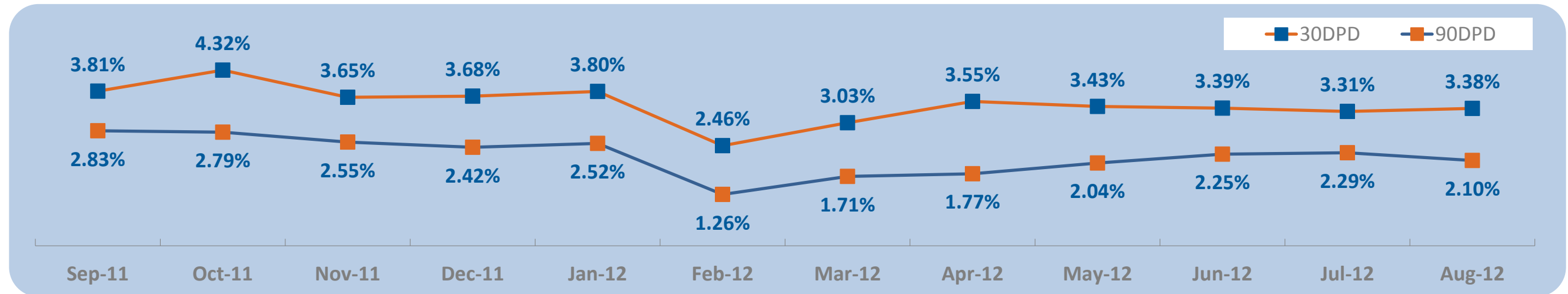
Portfolio metrics	2H11	1H12	2H12
Portfolio size (\$b)	18.4	19.4	20.3
Impaired (\$m)	61.6	88.6	123.9
Impaired %	0.34%	0.46%	0.61%
Specific BDD expense (\$m)	10.7	20.3	14.7
Specific BDD / Portfolio (%Ann)	0.12%	0.21%	0.14%
Specific provisions (\$m)	16.9	27.6	41.3
Collective provisions (\$m)	6.5	37.9	26.0
Total provision coverage	0.13%	0.34%	0.33%

Lines of Credit arrears



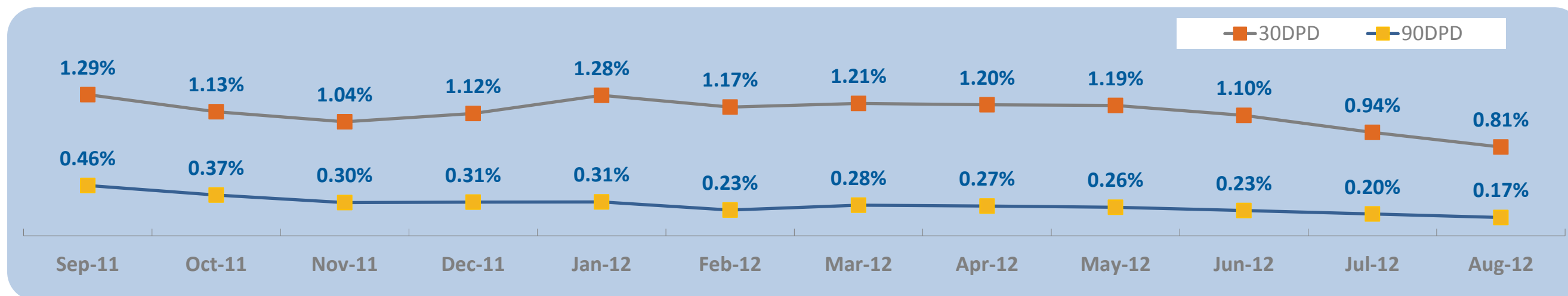
Portfolio metrics	2H11	1H12	2H12
Portfolio size (\$b)	5.5	5.2	5.0
Impaired (\$m)	27.7	45.5	89.5
Impaired %	0.50%	0.87%	1.78%
Specific BDD expense (\$m)	7.5	16.7	26.9
Specific BDD / Portfolio (%Ann)	0.27%	0.64%	1.07%
Specific provisions (\$m)	10.7	19.1	32.7
Collective provisions (\$m)	5.4	22.8	14.1
Total provision coverage	0.29%	0.80%	0.93%

Business & Agri arrears



Portfolio metrics	2H11	1H12	2H12
Portfolio size (\$b)	5.4	5.3	5.1
Impaired (\$m)	325.0	424.2	284.4
Impaired %	6.05%	8.04%	5.58%
Specific BDD expense (\$m)	26.9	108.5	0.8
Specific BDD / Portfolio (%Ann)	1.00%	4.11%	0.03%
Specific provisions (\$m)	125.0	187.9	127.9
Collective provisions (\$m)	24.8	156.6	121.2
Total provision coverage	2.79%	6.53%	4.89%

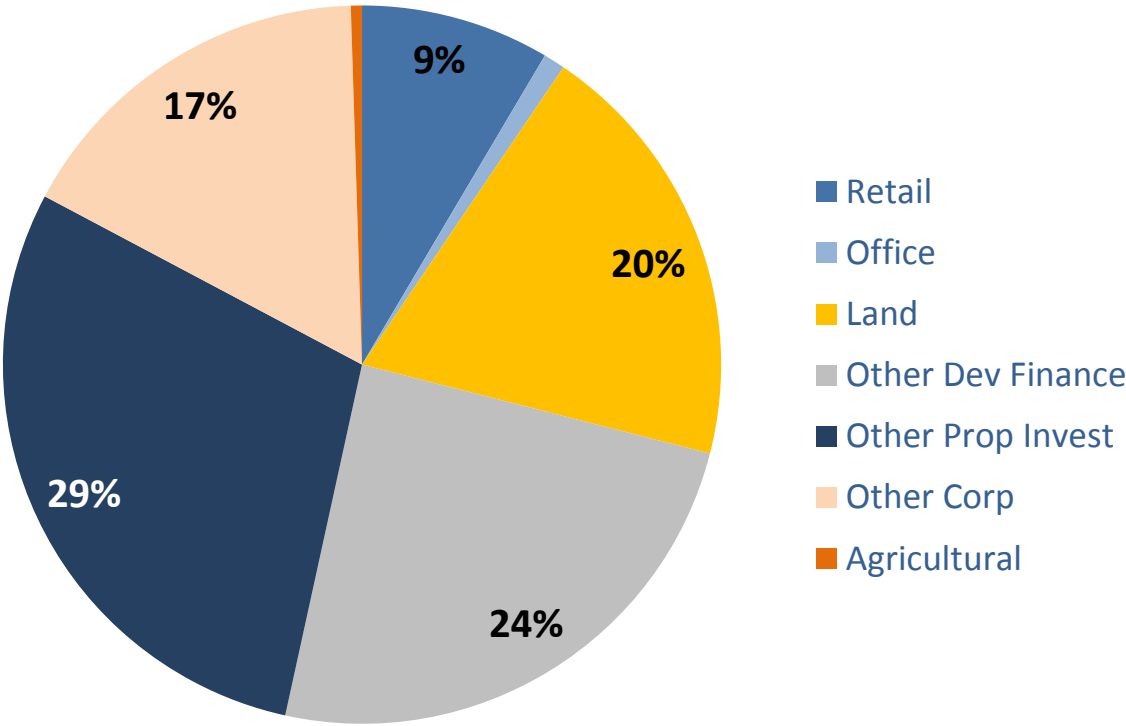
Leasing arrears



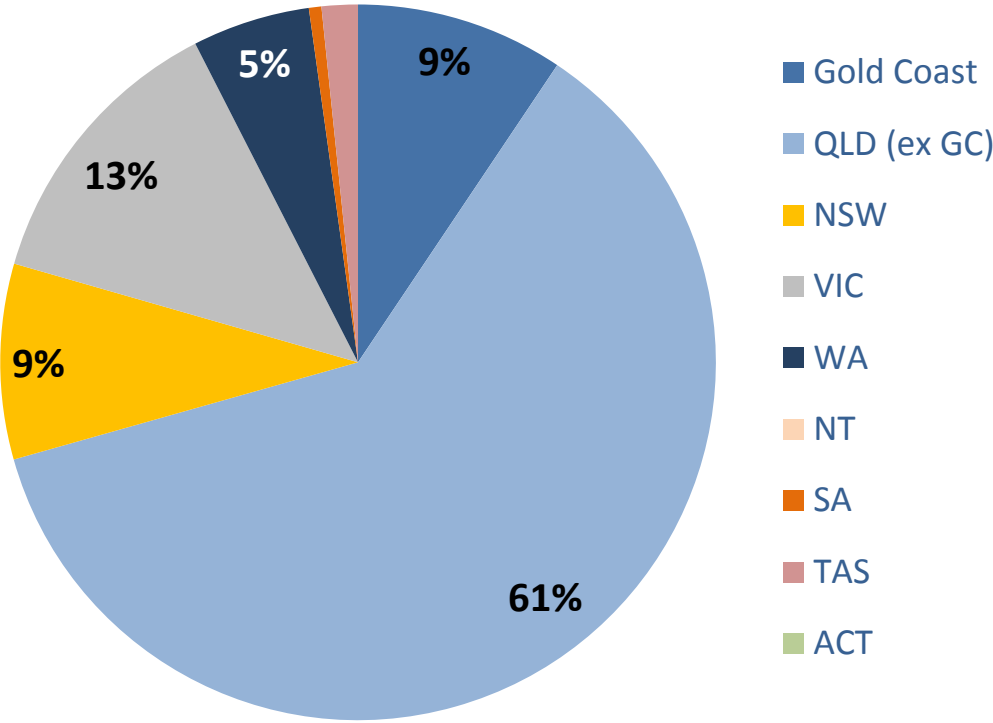
Portfolio metrics	2H11	1H12	2H12
Portfolio size (\$b)	3.6	3.7	3.7
Impaired (\$m)	28.4	19.7	26.3
Impaired %	0.80%	0.53%	0.72%
Specific BDD expense (\$m)	23.5	20.3	17.8
Specific BDD / Portfolio (%Ann)	1.32%	1.10%	0.97%
Specific provisions (\$m)	19.3	13.9	17.6
Collective provisions (\$m)	22.8	20.3	26.9
Total provision coverage	1.18%	0.92%	1.22%

Business & Agri impaired portfolio

Commercial Impaired assets by Segment



Commercial Impaired assets by Geography





Your own personal bank