2015 STRATEGY UPDATE

BANK OF QUEENSLAND

18 NOVEMBER 2015

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BOQ

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AGENDA

INTRODUCTION & CONTEXT

JON SUTTON
Managing Director & CEO

STRATEGIC PRIORITIES

BRENDAN WHITE, Group Executive Business Banking
MATT BAXBY, Group Executive Retail Banking
PETER DEANS, Chief Risk Officer
DONNA VINCI, Group Executive Enterprise Solutions
VIMPI JUNEJA, Group Executive Product & Strategy

SUMMARY

JON SUTTON
Managing Director & CEO

KEY MESSAGES

1 Business foundations substantially stronger

2 Track record in organic and inorganic execution

3 Credible ‘Challenger Bank’ strategy

4 Targeting long-term EPS outperformance

EXPERIENCED, ENTREPRENEURIAL LEADERSHIP TEAM

Jon Sutton, Managing Director & CEO

- 3 years with BOQ
- 20+ years experience in banking and financial markets
- Previously: Bankwest, CBA, Rice Growers

Anthony Rose, Chief Financial Officer

- 3 years with BOQ
- 20+ years experience in financial services
- BCom (UWA), CA, F Fin
- Previously: Suncorp, Citigroup, Merrill Lynch, Challenge Bank, Arthur Anderson

Donna Vinci, Group Executive Enterprise Solutions

- 4 months with BOQ
- 30+ years experience in operations, technology and risk management
- GAICD
- Previously: IAG, Westpac, Citigroup, Potter Warburg, Country Natwest

Peter Deans, Chief Risk Officer

- 3 years with BOQ
- 25+ years experience in banking and risk management
- Previously: CBA, Industrial Bank of Japan, ANZ, National Mutual Royal Bank

Michelle Thomsen, General Counsel & Company Secretary

- 5 months with BOQ
- 15 years domestic and international corporate and commercial legal experience
- LLB, BCom (Griffith)
- Previously: Suncorp, Babcock & Brown, King Wood & Mallesons

Matt Baxby, Group Executive Retail Banking

- 3 years with BOQ
- 12 years experience in financial services
- MAppFin, LLB, BBus (Acc) (QUT)
- Previously: Virgin Money, Virgin Group

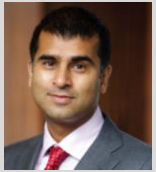
Brendan White, Group Executive Business Banking

- 3 years with BOQ
- 22 years experience in banking and financial markets
- Previously: CBA, Societe Generale, British Petroleum

Belinda Jefferys, Group Executive People and Communications

- Commencing Jan 2016 with BOQ
- 20+ years experience in human resources, culture and corporate affairs
- BBus, GradDipEd
- Previously: Elders, Bankwest, Westpac

Vimpi Juneja, Group Executive Product & Strategy



- 8 months with BOQ
- 12 years experience in financial services
- MBA (Harvard), M.A., BCom (Hons)
- Previously: NAB, AMP, IAG, Lion, Virgin Group, Archer PE, LEK Consulting

RECORD RESULT IN FY15

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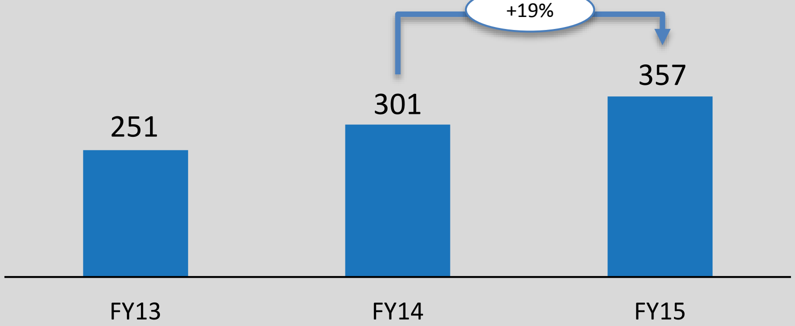
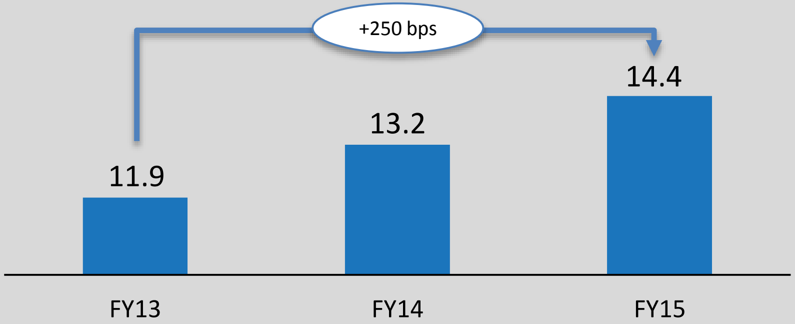
Record cash earnings

Cash earnings after tax ($m)



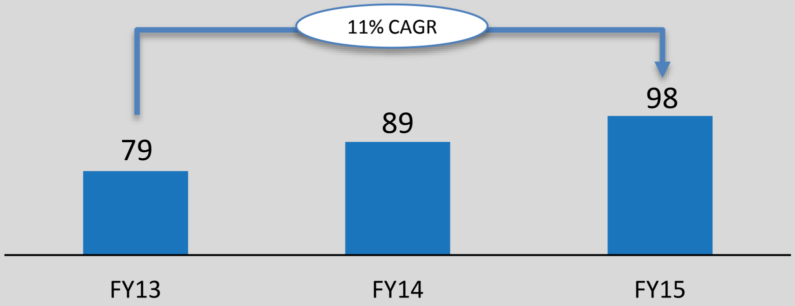
Cash ROTE over 14%

Cash ROTE (%)



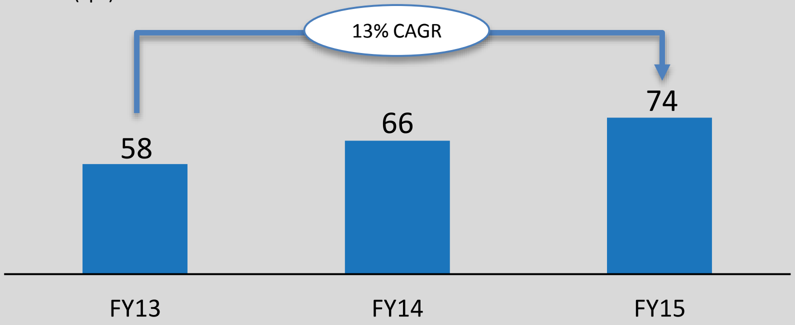
Strong EPS growth

Cash basic EPS (cps)



Record dividend

Dividends (cps)



WE'VE COME A LONG WAY SINCE 2012 CAPITAL RAISING

BOQ Performance Metrics: Pre-capital raising (Feb 2012) vs. FY15

	Metric	LTM before Capital Raising[1][2]	FY15	Change
Growth	GLA growth (x system)	0.8x	0.8x	**0.0x**
	NIM	1.67%	1.97%	**+0.30%**
	Non-interest income[3]	52 bps	45 bps	**(7) bps**
	CTI	44.4%	46.0%	**+1.6%**
Risk	BDD	117 bps	18 bps	**(99) bps**
	% weak quality loans[4]	15%	11%	**(4)%**
	90day+ arrears	116 bps	63 bps	**(53) bps**
	% portfolio in QLD	60%	49%	**(11)%**
Profitability	Pre-provision profit	$454m	$587m	**+$133m**
	ROTE	2.8%	14.4%	**+11.6%**
	ROE	2.1%	10.7%	**+8.6%**
Funding	Retail deposits : loans	63%	66%	**+3%**
	Wholesale borrowing	18%	20%	**(2)%**
	CET1	6.4%	8.9%	**2.5%**
	S&P credit rating	BBB Credit Watch	A- Stable	**+2 notch**

Refer notes at end of presentation

STEADY PROGRESS AGAINST STRATEGIC PILLARS

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Strategic pillar	Strategic metrics	FY13	FY14	FY15	ΔFY13-15	
Customer in charge	% transactions in digital channels	55%	57%	60%	+5%	✓
	Broker share of settlements	0%	5%	15%	+15%	✓
	Non-interest income % total income	19%	18%	17%	(2)%	✗
Grow the right way	Lending growth (x system)	0.3x	0.3x	0.8x	+0.5x	✓
	QLD % GLA	58%	54%	49%	(9)%	✓
	BDD / GLA	32 bps	22 bps	18 bps	(14) bps	✓
	Arrears 90 days+	0.8%	0.6%	0.6%	(0.2)%	✓
	Impaired loans / GLA	109 bps	76 bps	58 bps	(51) bps	✓
	CET1	8.63%	8.63%	8.91%	+0.28%	✓
There's always a better way	CTI	44.3%	43.9%	46.0%(1)	+1.7%	✗
Loved like no other	NPS	10%	16%	27%	+17%	✓
	Staff Engagement	39%	43%	67%	+28%	✓

Refer notes at end of presentation

OPERATING IN A DYNAMIC BANKING ENVIRONMENT

Shifting Economic Landscape

Changing Customer

Value Chain Disruption

Evolving Regulation

ESSENTIAL ROLE OF TRUST

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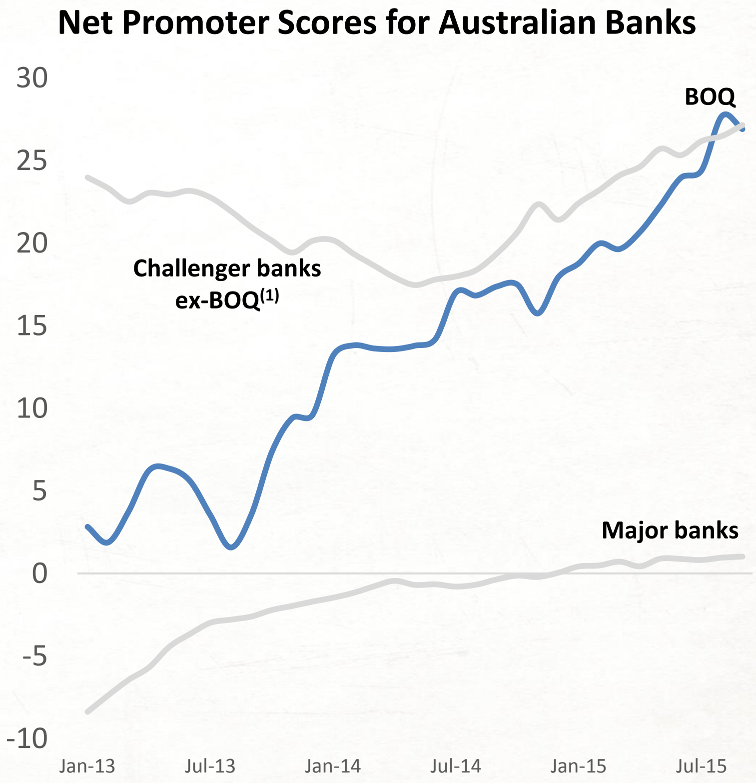
A trust deficit for banks?

- Only 46% of Australians trust the financial services industry
- 57% refuse to buy products and services from institutions they do not trust
- 49% criticise distrusted institutions to friends and colleagues
- 47% believe government regulation of the financial services industry is "not enough"



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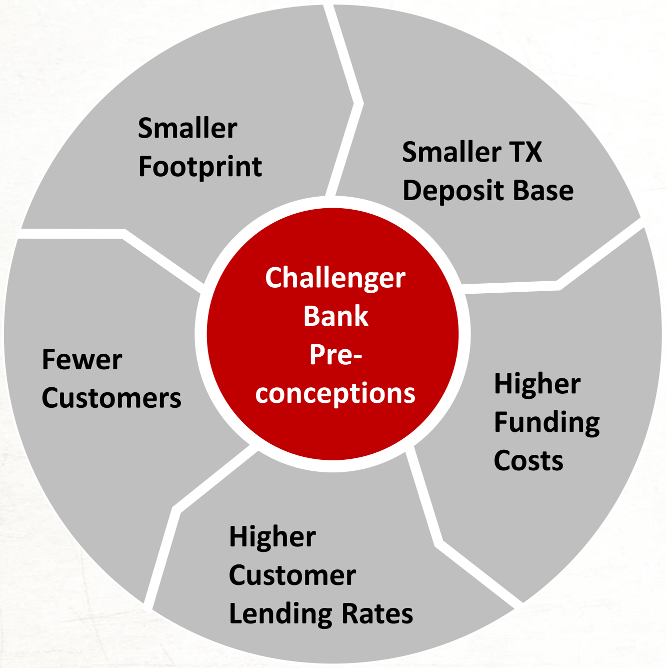
CHALLENGER BANKS NEED TO MAKE CLEAR CHOICES TO OUTPERFORM



Challenger Bank Business Model Examples

1 Direct, lower cost

- Virgin Money (Aus)
- ING Direct (Aus)
- OneSavings Bank (UK)
- Aldermore (UK)

2 High touch, high margin

- Umpqua Bank (USA)
- Pinnacle Financial (USA)
- Shawbrook (UK)
- Handelsbanken (UK)

3 Specialised, high return

- BOQ Specialist (Aus)
- BOQ Finance (Aus)
- Rabo (Neth)
- Canadian Western Bank (Can)

OUR STRATEGIC BELIEFS …

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External environment	Our Strategic Beliefs	Internal environment
Shifting and uncertain economic landscape, domestically and globally	1. Trust is the currency of the future	Low asset growth in branch network
Changing nature of trust and rising customer expectations	2. Culture is the ultimate competitive advantage	Cost and capital disadvantage relative to majors
Digital disruption of banking value chain	3. Specialisation rather than scale will deliver higher growth, customer satisfaction and returns	Leading Customer NPS
Evolving regulatory framework	4. Major banks are vulnerable to reputation risks and diseconomies of scale and scope	Strengthened risk culture
	5. Digital is the new industrial revolution	

… UNDERPIN A FOCUSED STRATEGY

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Vision …

Our dream is to create AUSTRALIA'S MOST LOVED BANK

Strategy …

Focus on niche segments that value a more intimate banking relationship

Target segments …

Retail banking

BOQ
- Aussie Achievers
- Today's Families

Virgin money
- Leading Lifestyles
- Metro-techs

Business banking

Heartland
- Micro
- SME
- Mid-market
- Property

Niche
- Healthcare
- Aged care
- Agri
- Franchises
- Professional Services
- Hospitality & Tourism
- Asset-Intensive

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

STRATEGIC PRIORITIES

BRENDAN WHITE, MATT BAXBY, PETER DEANS, DONNA VINCI, VIMPI JUNEJA

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BUSINESS BANKING TARGET NICHE SEGMENTS

Healthcare, Aged Care and Retirement
- ~$450M addressable profit pool
- Value understanding of industry specific cash flows and asset lifecycles
- BOQS established market leader in healthcare
- BOQ GLA: $2.5B, 243% CAGR

Professional Services
- ~$380M addressable profit pool
- Value access to practice finance as well as personal banking services
- Core market for BOQF; growth market for BOQS
- BOQ GLA: $1.2B, 16% CAGR

Agribusiness
- ~$350M addressable profit pool
- Requires deep knowledge of industry and commodity cycles
- Core market for BOQF; key sector of QLD economy; existing product and channel capabilities
- BOQ GLA: $0.6B, 24% CAGR

Hospitality & Tourism
- ~$200M addressable profit pool
- Requires deep industry knowledge;
- Good product offering; brand relevance; pubs and clubs value relationship model
- BOQ GLA: $0.6B, 4% CAGR

Franchising
- ~$1,300M addressable profit pool
- Leverage in-house expertise managing franchise networks and established credit appetite to grow presence with mid-sized franchisors and franchisees

Asset-Intensive
- ~$1,100M addressable profit pool
- Value understanding of industry and asset life cycles; EF broker channel requires responsiveness
- Expertise in asset-based financing; established distribution channels
- BOQ GLA: $2.2B, 9% CAGR

Refer notes at end of presentation

TRACK RECORD IN GROWING NICHE BUSINESSES

BOQ FINANCE

- Leading player in mid-market asset financing
- #1 in technology vendor finance
- Five diversified product lines: Equipment Finance, Structured Sales, Technology Finance, Dealer Finance, Debtor Finance
- High ROE business through the cycle

- $4.0B GLA, NIM ~400 bps
- Est. 5.5% market share (~8.5% in SME)
- Positive growth versus negative system
- 68,000 customers

BOQ SPECIALIST
Distinctive banking

- Acquired in 2014
- Market leader in servicing specialist personal and commercial banking needs of medical, dental, veterinary and accounting professionals
- Vertically-integrated model delivering innovative products through strong relationships and channels to market

- $4.1B GLA, NIM ~380 bps, low arrears
- Est. 18% market share
- Growing significantly above system in housing and business lending
- 25,000 customers

Virgin money

- Acquired in 2013
- 40 year Virgin trademark license for financial services in Australia
- Offer Virgin-branded credit card, superannuation and insurance with mortgage scheduled for 2016 launch
- Key partnerships: Citigroup, Mercer, Allianz, TAL, Auto & General

- $488m Credit card receivables
- ~17% share of system net receivables growth since 2010 launch
- $540m Super FUM; $38m Insurance GWP
- 215,000 customers

RETAIL BANKING TARGET SEGMENTS

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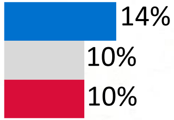
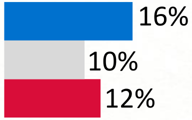
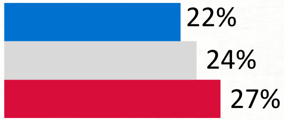
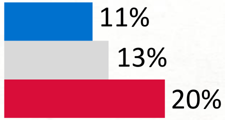
	Target Segments			Customer Composition	Geographic Focus	Channel Focus
BOQ	**Aussie Achievers**		▪ $2.8B profit pool ▪ Middle Australia families that would value coaching and a sense of community ▪ BOQ NPS: 26		▪ Largely BOQ's Queensland heartland	▪ Relationship-focused across all channels ▪ Improved omni-channel capabilities
	Today's Families		▪ $2.7B profit pool ▪ Want banks to understand and value their family situation ▪ BOQ NPS: 12			
Virgin money	**Leading Lifestyles**		▪ $8.9B profit pool ▪ Value being treated differently; feeling like their status and value is rewarded ▪ BOQ/VMA NPS: 24		▪ Nationwide	▪ Direct, brokers, digital only (branchless)
	Metrotechs		▪ $3.6B profit pool ▪ High income, tech-savvy attracted to independent brands ▪ BOQ/VMA NPS: 19			

BOQ
Market
VMA

Refer notes at end of presentation

CUSTOMER PROPOSITION THAT RESONATES

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BOQ Value Proposition

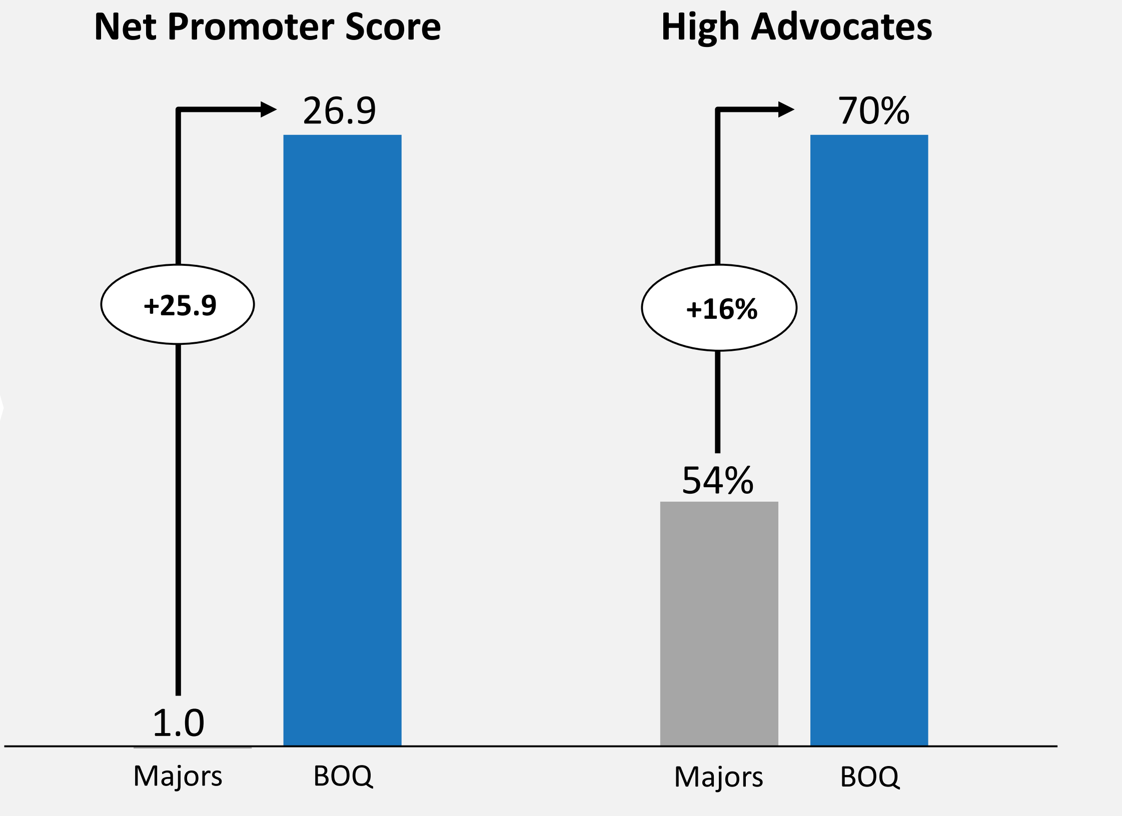
Personal
"We know you as people"

Loved
"You matter more to us"

Focused
"Target only where we can add real value to you"

Nimble
"Quick to respond"

Modern
"New ways to solve problems"



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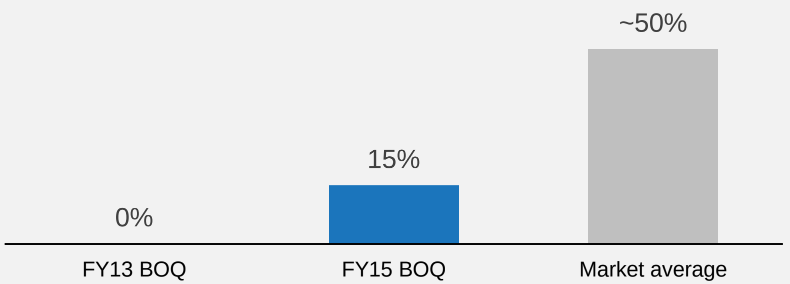
2020 PRIORITIES

1. Accelerate broker flow
2. Reignite growth in network
3. Broaden Virgin product offerings

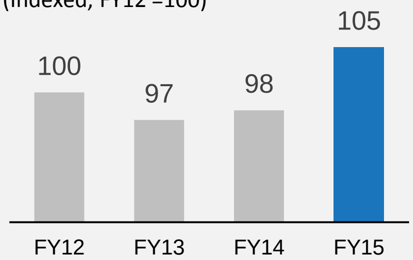
Opportunity to expand in broker channel

Broker mortgage settlements as a % of total settlements

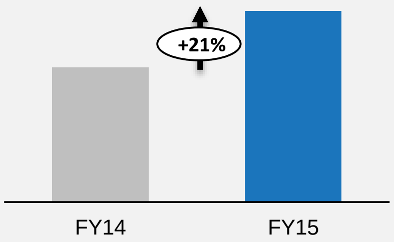


Opportunity to enhance network productivity

Mortgage settlements per branch (Indexed, FY12 =100)



Cross sell points per branch



FY16 FOCUS

1. Expand accredited brokers to 4,000
2. Ongoing branch network optimisation
3. Break-in digital
4. Roll out Virgin Money mortgage product

Refer notes at end of presentation

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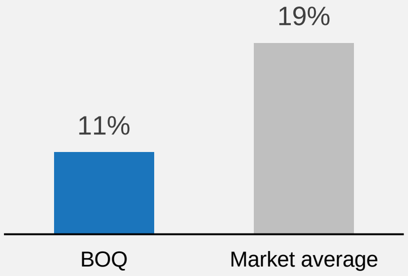
2020 PRIORITIES

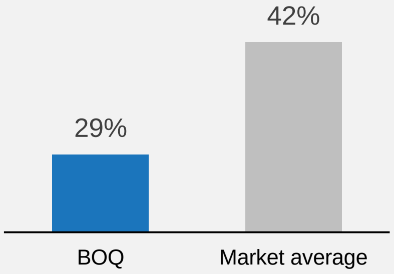
1. Build sustainable deposit base
2. Continue to invest in risk foundations
3. Grow specialist niches

Opportunity to improve funding mix

Transaction deposits % of retail deposits

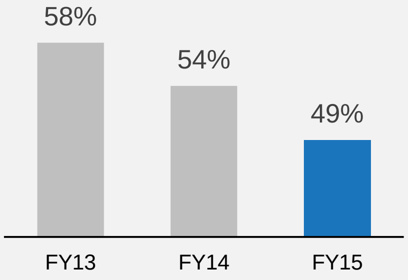


% customers holding at-call deposit account with MFI

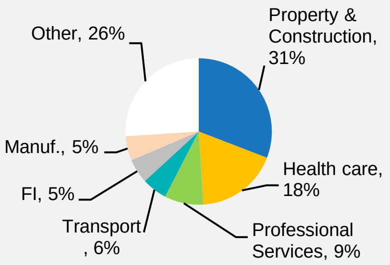


Opportunity to diversify lending portfolio

QLD % BOQ GLA



BOQ Commercial Lending by Sector (% BOQ Commercial GLA)



FY16 FOCUS

1. Continue to increase low cost customer deposits
2. Maintain discipline in pricing and credit quality
3. Continue to diversify portfolio by geography and sector

Refer notes at end of presentation

RISK MANAGEMENT FUTURE STATE

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TODAY

- Group & business unit appetite embedded
- Basel II compliant credit risk models
- Portfolio management & reporting
- Governance framework
- ALM system
- Operational risk management framework
- Credit risk grading system
- Collective provision/GRCL (in train)
- New data warehouse (in train)

FUTURE

Basel II: Advanced Accreditation

- Potential path to partial/staged accreditation
- Well placed to commence formal program of work when benefits are clearer

Basel IV: Considerations

- Changes to IRB models
- RWA floors for residential mortgages
- Fundamental review of the trading book

Priority Risk Capabilities

1. Risk-based pricing
2. Credit analysis and decisioning
3. Assessment innovation/ technology
4. Frontline skilled in underwriting
5. Specialist credit personnel

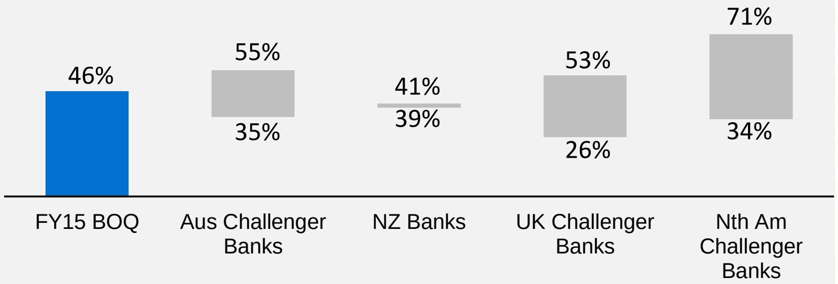
THERE'S ALWAYS A BETTER WAY

2020 PRIORITIES

1. Automate and digitise core processes
2. Simplify IT architecture
3. Raise productivity

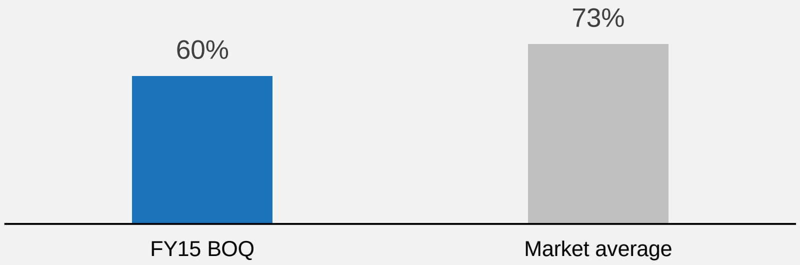
Opportunity to drive further efficiency

Cost to income ratio



Opportunity to increase digital self-service

% of transactions in digital channels



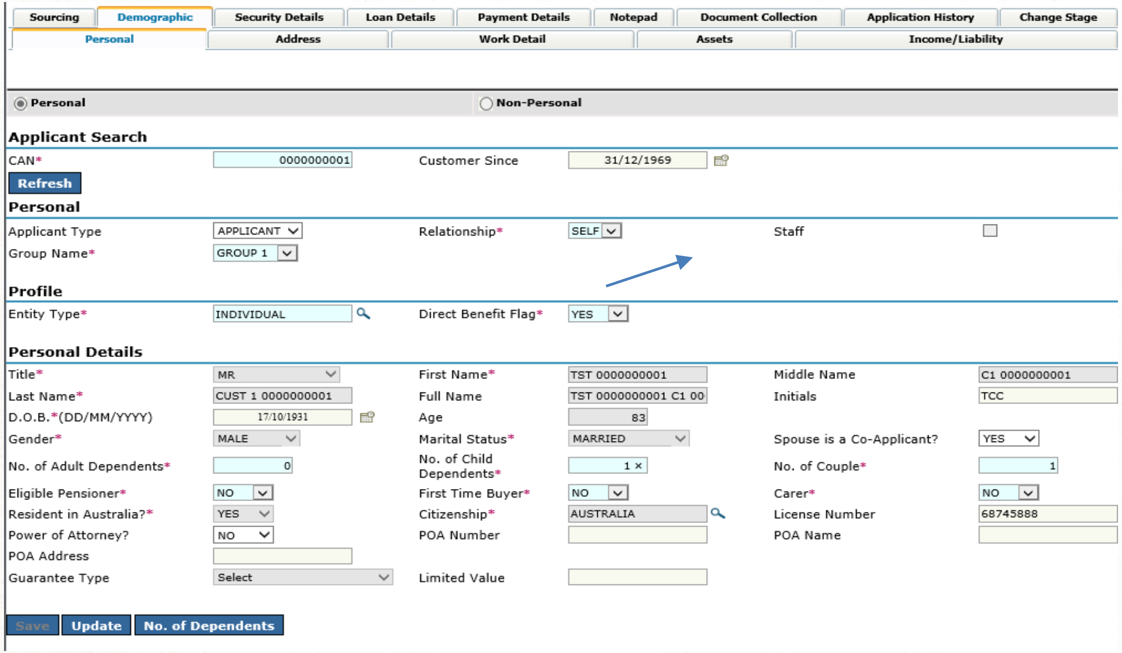
FY16 FOCUS

1. Roll out new Lending origination system
2. 'Smart' cost reduction
3. Embed data and analytics capability

Refer notes at end of presentation

AUTOMATION AND DIGITALISATION

Create Application → Exception List → Assessment → Document Selection → Verification


Sourcing | Demographic | Security Details | Loan Details | Payment Details | Notepad | Document Collection | Application History | Change Stage

Personal | Address | Work Detail | Assets | Income/Liability

Personal | Non-Personal

Applicant Search

CAN*	0000000001	Customer Since	31/12/1969		
Refresh					

Personal

Applicant Type	APPLICANT	Relationship*	SELF	Staff	
Group Name*	GROUP 1				

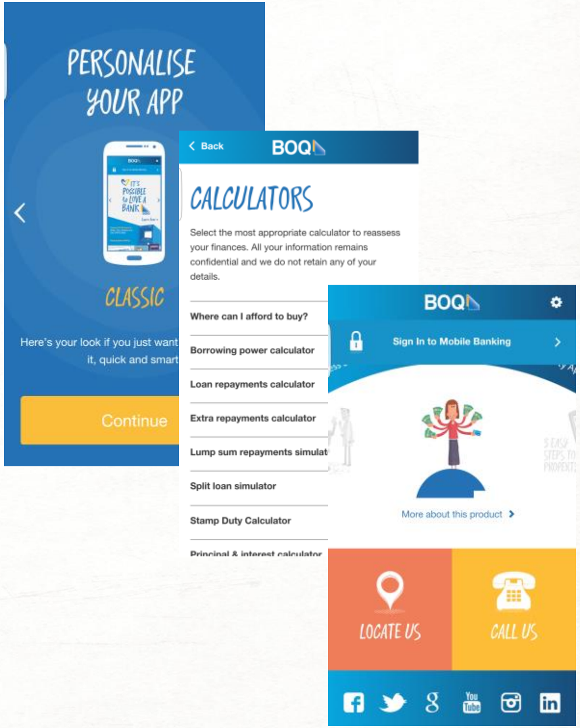
Profile

Entity Type*	INDIVIDUAL	Direct Benefit Flag*	YES		

Personal Details

Title*	MR	First Name*	TST 0000000001	Middle Name	C1 0000000001
Last Name*	CUST 1 0000000001	Full Name	TST 0000000001 C1 00	Initials	TCC
D.O.B.*(DD/MM/YYYY)	17/10/1931	Age	83		
Gender*	MALE	Marital Status*	MARRIED	Spouse is a Co-Applicant?	YES
No. of Adult Dependents*	0	No. of Child Dependents*	1	No. of Couple*	1
Eligible Pensioner*	NO	First Time Buyer*	NO	Carer*	NO
Resident in Australia?*	YES	Citizenship*	AUSTRALIA	License Number	68745888
Power of Attorney?	NO	POA Number		POA Name	
POA Address					
Guarantee Type	Select	Limited Value			

Save | Update | No. of Dependents



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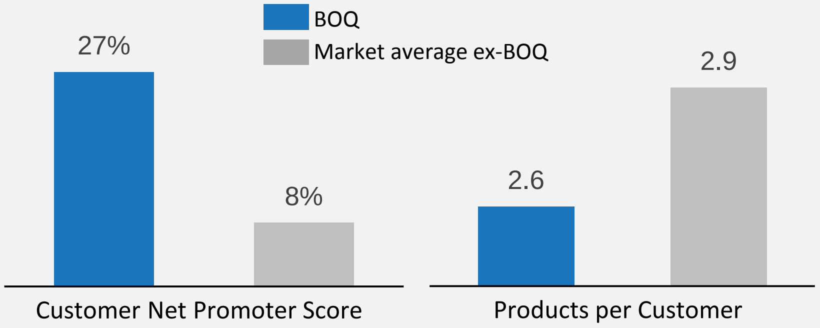
2020 PRIORITIES

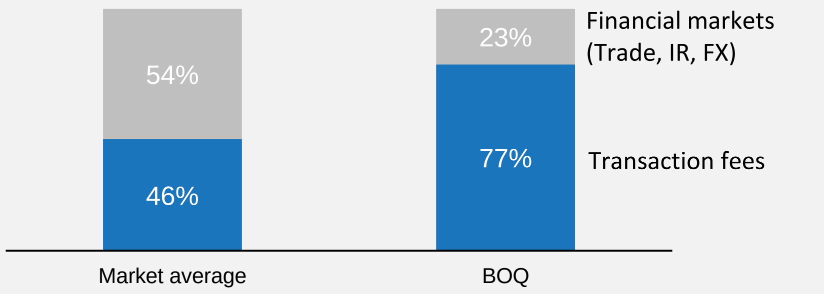
1. Instil sales and service discipline
2. Invest in leadership and talent
3. Cultivate diverse and inclusive work force

Opportunity to monetise customer relationships



Opportunity to broaden non-interest income

Business banking non-interest income composition (% total)



FY16 FOCUS

1. Convert service advantage into sales
2. Invest in leadership and talent
3. Close gender gap

Refer notes at end of presentation

SUMMARY

JON SUTTON

Managing Director & CEO

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CREDIBLE CHALLENGER BANK STRATEGY ...

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	Major Banks	IT'S POSSIBLE to LOVE A BANK BOQ
Basis of advantage	Scale, universal	Specialisation, focused
Customer proposition	Treated like a number	Treated like a person
Digital focus	Customer experience	Process automation
Innovation philosophy	“Not invented here”	“Can’t invent it here”
Culture	Bureaucratic	Nimble

… TO OUTPERFORM SECTOR EPS GROWTH OVER THE LONG-TERM

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Customer in charge

- Broker mortgage flow
- Branch productivity
- Virgin customers
- Transactions in digital channels
- Non-interest income

Grow the right way

- Transaction account balance growth
- Retail Deposits to Loans
- Concentration ex-QLD
- Lending growth in target segments
- Impaired assets

EPS outperformance

NIM, CTI, ROE

There's always a better way

- Lending end-to-end turnaround time
- Technology severity incidents
- # IT applications
- Customers per FTE

Loved like no other

- Customer NPS
- Employee engagement
- Diversity
- Safety

KEY MESSAGES

1. Business foundations substantially stronger
2. Track record in organic and inorganic execution
3. Credible 'Challenger Bank' strategy
4. Targeting long-term EPS outperformance

IT'S POSSIBLE to LOVE A BANK

BOQ

GLOSSARY OF ABBREVIATIONS

EPS: Earnings per share

ROTE: Return on tangible equity

GLA: Gross Lending & Advances

NIM: Net Interest Margin

CTI: Cost-to-income ratio

BDD: Bad & Doubtful Debt Expense

ROE: Return on Equity

CET1: Common Equity Tier 1

NPS: Net Promoter Score

S&P: Standard & Poor's

QLD: Queensland

Y-o-Y: Year-on-Year

TX: Transaction

VMA: Virgin Money Australia

CAGR: Compound Annual Growth Rate

SME: Small and Medium Enterprises

FUM: Funds under Management

CRE: Commercial Real Estate

bps: basis points

MFI: Main Financial Institution

ALM: Asset & Liability Management

GRCL: General Reserve for Credit Losses

IRB: Internal Ratings-Based Approach

IT: Information Technology

IR: Interest Rate (Hedging)

FX: Foreign Exchange

NOTES AND SOURCES

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Page 7. (1) Last 12 months (LTM) before capital raising is for the period Mar 2011 to Feb 2012 (eg. H2FY11 + H1FY12); (2) Based on normalised cash earnings; (3) Computed as Non-interest income per Average GLA; (4) Commercial loans only. Source: Company reports

Page 8. (1) BOQ FY15 CTI 44.5% excluding $16m one-off H1FY15 costs

Page 10. Challenger banks is weighted average of Bendigo, Suncorp and ING Direct; Major banks is weighted average of ANZ, CBA (including Bankwest), NAB, WBC (including STG). NPS is National 12-month rolling average: Jan 2013-Sep 2015. Source: Edelman Trust Barometer Annual Study – Australia (2014, 2015); Roy Morgan.

Page 15. BOQ GLA as at August 2015, includes BOQ, BOQS and BOQF GLA. BOQ CAGR is FY2013-2015.

Page 17. Source: Roy Morgan.

Page 18. Net Promoter Score is National 12-month rolling average, September 2015. Major banks is weighted average of ANZ, CBA (including Bankwest), NAB, WBC (including STG). High advocates is % of MFI customers rating their MFI 8 or 9 or 10 on Roy Morgan's 10-point advocacy scale. Source: Roy Morgan.

Page 19. Source Company Reports, Analyst Reports, Digital Finance Analytics, JP Morgan.

Page 20. Transaction deposits excludes offset and online accounts. Market average includes Suncorp, Westpac and CBA (ANZ and NAB do not disclose transaction account balances separately; eg. consolidated with savings accounts). BOQ Commercial Lending includes BOQ, BOQS and BOQF GLA. Source: Company Reports, RFi.

Page 22. BOQ FY15 CTI 44.5% excluding $16m one-off H1FY15 costs. Australian Challenger Banks include Bendigo, Suncorp and ING Direct. NZ Banks include ASB, ANZ, Westpac NZ and BNZ. UK Challenger Banks include Aldermore, Shawbrook, OneSavings Bank. North American Challenge Banks include Canadian Western Bank, Laurentian Bank of Canada, Discover Bank, Signature Bank, BankUnited, Pinnacle Financial, First Republic, EverBank, EastWest Bancorp, Umpqua Bank. Digital channels include internet and mobile. Sources: Company reports, Bain & Company

Page 24. Sources: Roy Morgan, RFi, BCG, Company reports.