



BOQ

FY16 RESULTS PRESENTATION

6 OCTOBER 2016

FOR THE YEAR ENDED 31 AUGUST 2016



Bank of Queensland Limited ABN 32 009 656 740, AFSL No 244610.

RESULTS OVERVIEW

JON SUTTON
Managing Director & CEO

FINANCIAL DETAIL

ANTHONY ROSE
Chief Financial Officer

SUMMARY & OUTLOOK

JON SUTTON
Managing Director & CEO

Ladies and Gentleman welcome to BOQ's full year result for 2016. 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 the webcast.

For today's presentation we will have our Managing Director & CEO Jon Sutton provide an overview of the result. Our 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 pass onto Jon. Thank you.

STRATEGY REMAINS UNCHANGED



Vision ... Our dream is to create AUSTRALIA'S MOST LOVED BANK

Strategy ... Focus on niche segments that value a more intimate customer relationship

Target segments ...

Retail banking	Business banking				
<ul style="list-style-type: none"> Aussie Achievers Today's Families Leading Lifestyles Metro-techs 	<table border="1"> <thead> <tr> <th>Heartland</th> <th>Niche</th> </tr> </thead> <tbody> <tr> <td> <ul style="list-style-type: none"> SME Mid-market Property </td> <td> <ul style="list-style-type: none"> Medical & Dental Agribusiness Retirement living </td> </tr> </tbody> </table>	Heartland	Niche	<ul style="list-style-type: none"> SME Mid-market Property 	<ul style="list-style-type: none"> Medical & Dental Agribusiness Retirement living
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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

Thank you Tanny and good morning to everyone. Thanks for joining us for BOQ's full year 2016 financial results.

Almost a year ago I stood in front of you and presented BOQ's updated strategy. A strategy that is more about evolution than revolution.

Since the strategy update, our focus on specialised customer segments and products is on track to deliver a superior outcome in the long term for the bank.

With our refreshed strategy in place, it was time to review our culture.

In April this year we launched our 144 Culture – one vision To be Australia's most loved bank, supported by the four strategic pillars Customer in Charge, Grow the Right Way, There's Always a better way and Loved Like No Other and four values which are Passion, Integrity, Collaboration and Impact.

We are seeing good traction with our refreshed culture and our strategy continues to serve us well which is reflected in today's result.

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

I'll begin with an overview of the result on slide 4. Our strategy has delivered an increased profit in what is a changing operating environment. Interest rates remain low, market volatility continues, regulatory requirements are increasing and competition for both loans and deposits is intensifying.

One of the most pleasing aspects of this result is the strong contribution from our specialist niche businesses. BOQ Specialist continues to exceed our expectations and BOQ Finance is delivering strong returns.

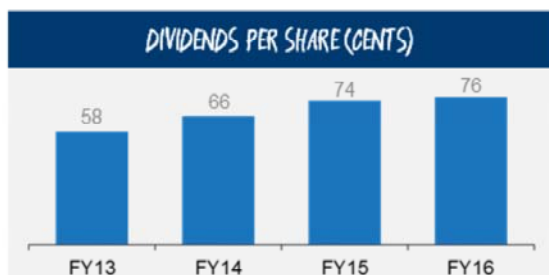
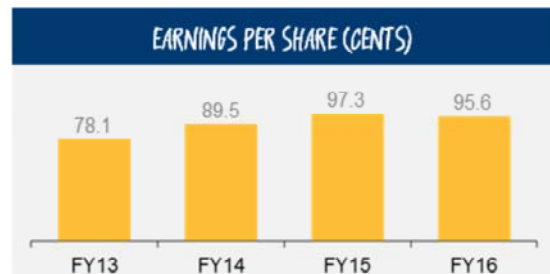
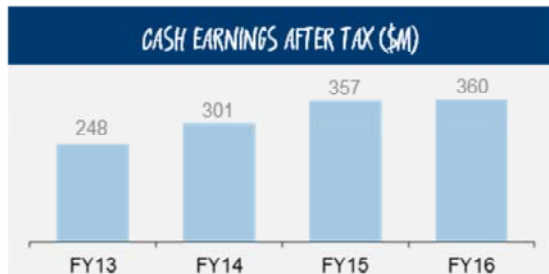
Another highlight of our 2016 result is the strong asset quality across all portfolios. While supported by low interest rates and relatively low unemployment levels, this improvement is the direct result of the disciplined approach we have taken to risk management since 2012. The business is now better placed to withstand the ups and downs of Australia's economic cycles.

Because of the subdued revenue growth across the sector, low credit growth and low interest rate environment, we have sharpened our focus on productivity and deposits. In February we announced a one-off \$15m investment to refine our operating model. This investment is on track to deliver above its payback target over the 12 month period. We have also kicked off a number of other efficiency initiatives within our current expense profile to deliver additional cost savings in future periods.

Meanwhile, the expansion of our distribution channels and our increased emphasis on deposit gathering has seen a rise in our deposit to loan ratio. We see further upside in this over time as our focus on deposits extends to all business groups within BOQ.

We continue to progress well with the execution of our strategy, which I will go into some more detail during the presentation.

KEY ELEMENTS OF THE RESULT



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Turning to the headline numbers on slide 5.

For the fourth consecutive year we have delivered increased cash earnings. In FY16, cash earnings after tax increased to \$360 million. This is up \$3 million from the prior year.

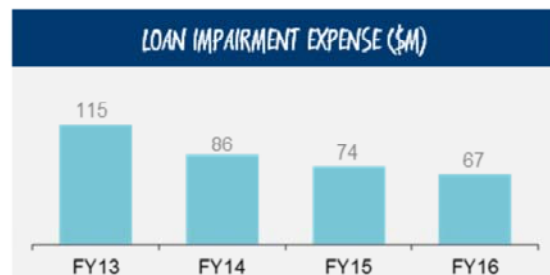
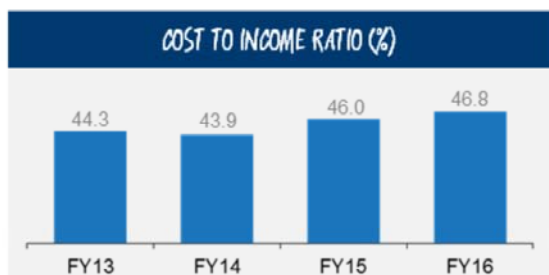
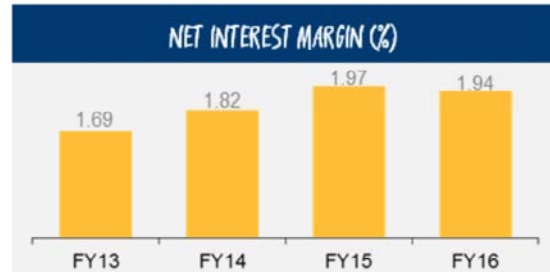
Earnings per share decreased slightly from 97.3 cents in 2015 to 95.6 cents in 2016, due to share issuance through the dividend reinvestment plan to support risk weighted asset growth.

The Bank's Common Equity Tier 1 capital ratio is very strong at 9%.

The Board has chosen to maintain the half yearly dividend at 38 cents, which means the full year dividend has increased 2 cents from 2015.

Return on Equity decreased 40 basis points to 10.3% in 2016.

DRIVERS OF THE RESULT



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

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Looking briefly at the drivers of the result on slide 6.

Our strong first half lending growth moderated significantly in the second half, resulting in \$2.2 billion in total lending growth for FY16 or 0.8x system growth.

Net Interest Margin reduced 3 basis points over the year. Tougher funding conditions and increased price competition impacted the NIM in the second half.

Cost to Income increased to 46.8%. This includes the \$15 million investment in efficiency we announced in February. It also includes the step up in amortisation we flagged in prior periods and the investment in Virgin Money's mortgage product roll-out.

Loan impairment expense reduced 9% to \$67million or 16 basis points of total loans. This is an extremely good result given the transition that is continuing to occur across the economy. BOQ Specialist is making a significant contribution to the overall quality of BOQ's mortgage book.

Anthony will talk through the numbers in more detail shortly.

NICHE STRATEGY DELIVERING RESULTS

IT'S POSSIBLE TO
LOVE A BANK BOQ

BOQ SPECIALIST

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



BOQ FINANCE

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



BUSINESS BANKING SEGMENT GROWTH

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

VIRGIN MONEY

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



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As I mentioned in my opening remarks, we are seeing some pleasing results in our niche businesses.

Let's take a look at some of the achievements in detail on slide 7.

BOQ Specialist has continued its momentum, delivering sustainable returns. Commercial loans grew 13%. This was achieved while maintaining good margins and low loss rates. The mortgage portfolio has also continued to go from strength to strength. The \$1.5bn of growth in 2016 helped to build a high quality residential loan portfolio.

BOQ Finance, our quiet achiever has also delivered good returns. Asset growth increased 3% in a flat market, with loss rates moving in line with expectations.

Growth in the niche business banking segment was above system. Over the year, we realigned bankers and credit specialists with the target segments and are seeing positive early results in retirement living, hospitality and agribusiness.

I'm also pleased to report that Virgin Money has launched its Reward Me home loan product through 800 accredited mortgage brokers. Since its launch we have received \$100 million worth of home loan applications. We are also planning the launch of a Virgin deposit product in the next 12 months, enhancing the current customer offering.

IMPROVING ASSET QUALITY HAS BUILT RESILIENCE



SUMMARY

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

COMMERCIAL LOAN ARREARS⁽¹⁾



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

GEOGRAPHIC DIVERSITY – GROSS LOANS



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



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Turning to slide 8, I just want to reinforce the continuous improvement in asset quality that we have delivered over the past 3 years. A number of our credit metrics demonstrate that the portfolio is in great shape and much better placed to cope with the ups and downs of the Australian economy.

Our QLD concentration is down to 48% in 2016 from 56% in 2013, with the broker channel and BOQ Specialist contributing to this diversification. We expect Virgin Money mortgages and growth through our niche businesses to further improve our geographic diversification in the periods ahead.

Since 2012, we have had sound risk management settings in place. This has significantly reduced our exposure to residential apartment development hotspots and mining reliant regions.

The long term commercial arrears chart on the bottom left of this slide shows the significant improvement in that book over time, as does the impaired asset chart on the bottom right. We remain vigilant, especially when it comes to our exposure to regional economies that have differing economic conditions.

Anthony will provide more detail on the quality of our loan book in his section.

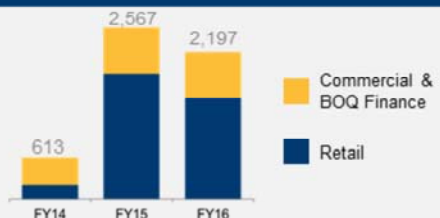
ADAPTING FOCUS TO FIT THE OPERATING ENVIRONMENT



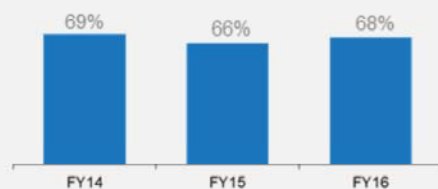
SUMMARY

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

ASSET GROWTH COMPOSITION⁽¹⁾



DEPOSITS TO LOAN RATIO



HOUSING SETTLEMENTS VS ACQUISITION NIM



(1) Excludes Consumer lending

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As I outlined earlier, there are a number of industry wide headwinds which have emerged in 2016.

Expectations of lower interest rates in Australia for longer has meant a lower rate of return on capital and low cost deposits. A widening of spreads in Term deposits and other liabilities has emerged alongside fierce competition for deposits.

Meanwhile there has been continued competition in pricing for new lending as system credit growth slows and banks seek to keep their balance sheets growing. This resulted in our Net Interest Margin contracting 3 basis points over the year.

We have taken steps to adapt to this low interest rate world. Given the expensive funding environment, increased competition and BOQ reaching its investor cap, we slowed asset growth in the second half, following a strong period of growth in the first half. During this period we focused on growing in higher margin asset segments, in particular commercial lending.

The Retail business increased its deposit gathering in the second half, more than doubling the growth it achieved in the first half. The emphasis on deposits has also been extended to all business groups within BOQ.

DRIVING PRODUCTIVITY & EFFICIENCY



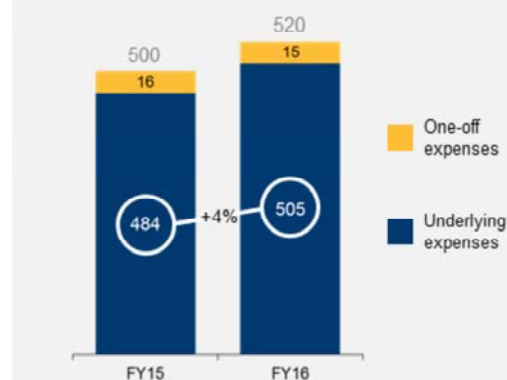
SUMMARY

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

\$15M INVESTMENT PAYBACK ON TRACK



TIGHT UNDERLYING EXPENSE MANAGEMENT



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Turning to slide 10.

As well as balancing margin and growth, we have always maintained a strong focus on costs. In 2016 we kept underlying expense growth to 4%. The \$15m investment we announced in February to refine our operating model is on track to deliver its 12-month payback target.

We currently have a number of additional efficiency initiatives underway which fit within our current expense profile and will deliver important expense savings in the years ahead.

Some of the initiatives include the merging of duplicated or similar processes across the business into centralised hubs. These will deliver a leaner and more efficient operating structure.

We expect to keep underlying expense growth to 1% in 2017, while continuing to build out our multi channel and niche segment market strategy.

FY16 SCORECARD: STRATEGIC PRIORITIES



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

Legend: Achieved Achieved & ongoing In progress

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We have made good progress across our strategic priorities in 2016 with the majority of these focus areas remaining relevant in 2017.

An important achievement in 2016 included the launch of the Virgin Money Reward Me home loan which is a unique offering. While it is still early days, we believe this business will deliver a meaningful contribution to the Group over time.

We now have more than 4000 mortgage brokers accredited across BOQ. This will expand further in 2017.

During the year, we rolled out a new commercial lending platform and made good progress on the next stage of our retail lending system. Both platforms will automate previous manual, paper based processes and deliver a quicker time to yes for our customers.

Our digital journey is in its early stages but I'm confident that there is plenty of upside for us. Our size allows us to partner which will significantly improve our digital capability and offer improved products and services. For us this means opening our Application Programming Interface, our "API gateway" which will allow more open architecture, plug and play.

We have started exploring the use of data analytics. This will provide meaningful insights into customer behaviours and preferences when it comes to mortgages and deposits.

The branch network continues to transition with a reduction of 23 branches over the year as customer preferences continue to shift towards digital channels. There is still an important place for branches in our distribution strategy and the OMB model remains a key component of this. We have a total of 13 Icon branches. Across the Icon branches we continue to see an uplift in settlements, deposit growth and cross sale metrics.

I am pleased with the progress we have made. I am confident of meeting our goal to deliver industry EPS

outperformance over the longer term.

I'll now hand over to Anthony to talk through the numbers in more detail.



FINANCIAL OVERVIEW

ANTHONY ROSE
Chief Financial Officer



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

FINANCIAL PERFORMANCE



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

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Thanks Jon.

Starting with the P&L on slide 13, you can see that total income was up 2% over the year with NII up 3% and Other income down 4%.

Expenses increased 4%, which was in line with expectations and driven largely by the higher amortisation profile we've called out previously.

This meant Underlying profit was up 1% to \$590m

As Jon mentioned, Loan impairment expense was down 9% to \$67m. This was a pleasing result with the second half impairment charges equivalent to 14 basis points of gross loans & advances.

The net result being cash earnings of \$360m, up 1% on 2015.

I'll now take you through each of the line items in more detail.

LENDING GROWTH



SUMMARY

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

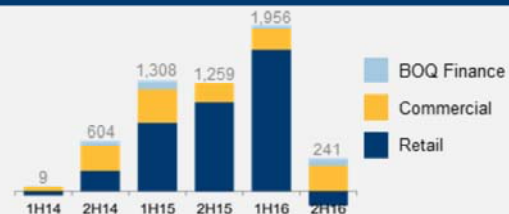
GROSS LOANS AND ADVANCES (\$B)



TOTAL LENDING GEOGRAPHIC MIX



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



(1) Excludes Consumer lending

Starting with lending growth - and I'm referring to slide 14 - we achieved growth of 5% over the year which was point 8 times system. This growth was heavily front-ended, as you can see on the chart at the bottom right of this slide.

Our geographic distribution is shown on the chart on the bottom left showing QLD concentration is now down to 48%, from 56% three years ago.

As we mentioned at the half year result, we did see an opportunity to generate momentum in our retail channels at the end of 2015. At the half year we flagged that second half growth would be lower than the first half. However, it is fair to say the environment was more difficult than we had envisaged - with competition intensifying in mortgages and retail deposits in particular. With the backdrop of falling interest rates, we took a conscious decision to stay out of the most competitive end of the market and growth slowed significantly. We prioritised margin over growth and increased the emphasis on deposit gathering.

There has been some retracement in the level of front book discounting in the market since the August RBA rate cut. We see current new business momentum improving the growth rate above that achieved in the last half, but given the difficult operating environment, we are more than comfortable if our growth is below system for the time being.

RETAIL LENDING



SUMMARY

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

MONTHLY HOUSING LOAN SETTLEMENTS



HOUSING LOAN GEOGRAPHIC MIX



HOUSING LOAN GROWTH (\$M)



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Looking more closely at the housing portfolio on slide 15, which splits out channel performance.

You can see that BOQ Specialist has continued to make a good contribution to housing growth, growing \$1.5 billion over the year.

If you look at the chart on the top right of the slide – this shows settlement volumes by channel. It demonstrates that even with the pricing changes we made during the year, our OMB and Corporate branch channels continued to provide a relatively consistent level of housing settlements - despite a reduction in branch numbers. The broker channel on the other hand has seen the biggest reduction in flows in the second half as our new business pricing moved away from the front of the market.

At the end of August we launched a new Economy product which has an attractive rate but less features than our Clear Path product. This should enable us to be on the consideration set with customers, while giving us the ability to achieve a better margin on Clear Path loans for those customers who want a more fully featured product.

Meanwhile, the Virgin home loan product will provide a new channel and new customer base for growth, and we expect BOQ Specialist to continue expanding its penetration into the medical and dental sectors.

COMMERCIAL LENDING



SUMMARY

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

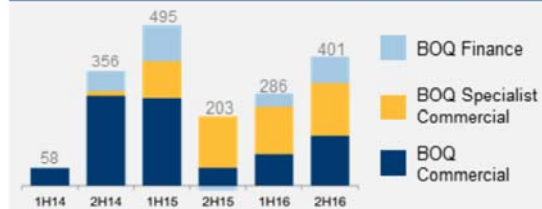
BUSINESS BANKING NICHE SEGMENTS



COMMERCIAL LOAN GEOGRAPHIC MIX



COMMERCIAL LENDING & LEASING GROWTH (\$M)



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Turning to the commercial loan book on slide 16. In the second half we did see the growth rate improve by 30% from that achieved in the first half. This would place growth at a little above system over the period.

The Business Banking, BOQ Specialist and BOQ Finance portfolios have all shown good momentum. This demonstrates the success of our niche segment strategy which Jon has already talked to.

The geographic concentration of the commercial portfolio to QLD is now down to 41%.

In the second half we have seen an improvement in the market dynamic in the mid to larger end of our commercial portfolio. It appears that the increase in bank term funding costs that had emerged some time back is now priced into rates being offered to customers. We hope this continues. As we have said before, we'll continue to grow selectively when it makes sense to do so.

The margins in our BOQ Specialist and BOQ Finance businesses also remain at attractive levels.

We will continue to pursue a risk versus reward growth strategy aligned to segments where specialisation of industry knowledge can deliver superior returns.

FUNDING MIX



SUMMARY

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

CUSTOMER DEPOSIT MIX



OVERALL FUNDING MIX (\$B)



LONG TERM WHOLESALE FUNDING (\$B)



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Moving to the liability side of the balance sheet on slide 17 - and I'm pleased to report that we fully funded the \$2.2bn in asset growth through deposits in 2016.

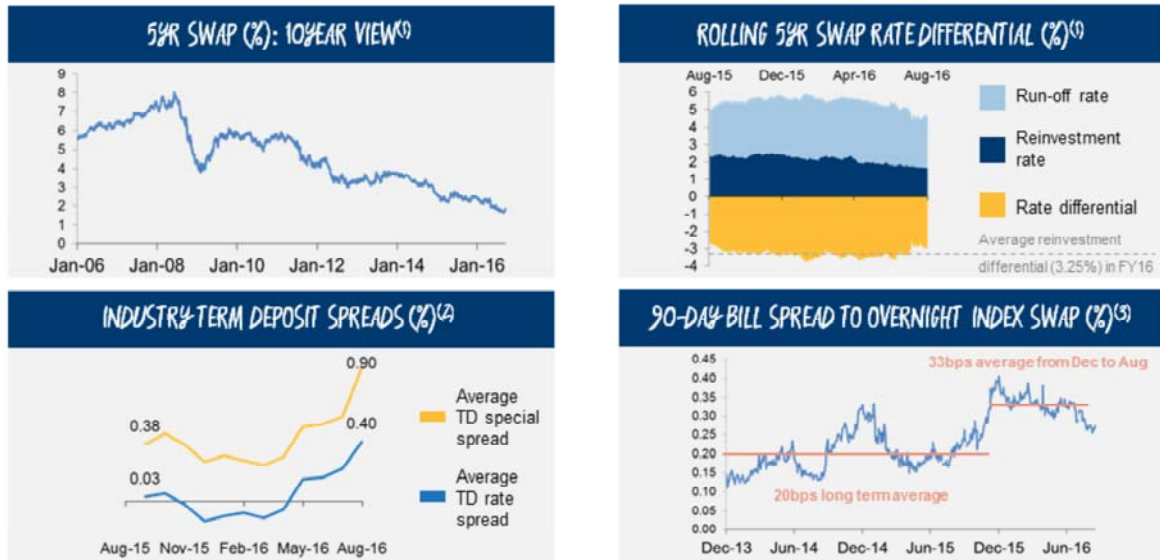
This lifted our deposit to loan ratio by 2% to 68%.

We continued to see good momentum in transaction account growth of \$320m - or 12% over the year and these figures do not include offset account balances. Transaction account growth is extremely important for building relationships with customers - as well as for the resilience of the balance sheet.

We remain comfortable with our funding profile, but given the industry dynamics, have increased the emphasis on deposit gathering in all of our distribution channels.

I'll cover the competitive nature of the retail deposit market on the next slide, slide 18.

CHALLENGING ENVIRONMENT FOR NET INTEREST MARGIN



On this slide we've provided a few charts which help to illustrate some of the changing dynamics facing banks in the current environment.

Starting with the two charts at the top. It's been well documented that interest rates are at historical lows, with the 5year swap rate - charted on the left – now down below 2%.

The chart on the right shows what this means for our replicating portfolio - which covers the investment of our capital and core low cost deposit portfolio – and has an investment profile of 5 years. Essentially one sixtieth of the portfolio reprices every month. As you can see, over the year, the reinvestment rate has on average been 3 and a quarter percent lower than the historical investment rate. I'll cover the impact this has had on our margin shortly.

The chart on the bottom left shows what has happened to term deposit spreads across the industry since May, when the RBA cut rates and the yield curve shifted down with expectations of further cuts. With term deposit rates hardly moving, and in some cases moving up rather than down, we saw average spreads blow out in the last quarter.

For any bank that sources a high proportion of its funding through term deposits, this is going to have an impact on margin.

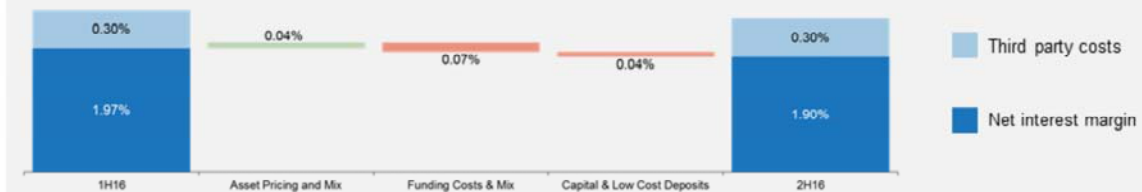
Finally, the chart on the bottom right is one that many of you have seen before. It shows the spread between 90-day bank bills and the overnight index swap. The chart shows that the cost of hedging increased from a long term average in the low 20s to over 30 basis points from December through to August.

Thankfully we have seen this spread stabilise, but the impact of this on our hedging cost over the 2016 financial year has been significant. Whilst there does seem to be some easing in this dynamic towards the end of the year, we have seen a worsening of 6 month to 3 month hedging costs that is used to manage our retail and wholesale term deposits, so we do not expect any benefit in the short term.

MOVEMENT IN NET INTEREST MARGIN



NET INTEREST MARGIN MOVEMENTS 1H16 TO 2H16



2H16 IMPACTS

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

SUMMARY OF KEY MOVING PARTS

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

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Turning to how these and some of the other moving parts have impacted our net interest margin on slide 19. We've provided a high level half on half walk. I'll take you through each of these buckets in more detail.

Asset pricing and Mix provided a 4 basis point benefit over the half. This included the repricing actions taken during the year on the mortgage portfolio that positively impacted NIM by 9 basis points.

The front to back book pricing dynamic that has prevailed in the market, combined with retention repricing activity, had a 3 basis point contractionary impact on NIM, similar to the impact in the prior half.

A reduction in equipment finance renewal income over the half reduced NIM by a further basis point. However this resulted in higher equipment sales income generated on this portfolio that is reported in other income.

A further basis point of NIM degradation was caused by a combination of product mix and the impact of a higher proportion of lower yielding government bonds in the Bank's Liquids portfolio to satisfy APRA's APS 210 Liquidity Standard requirements.

Within funding costs and mix, as highlighted on the previous slide, we saw competition for funding intensify over the half at the same time as the yield curve contracted. This caused a 4 basis point negative impact to NIM.

Half of this impact was evident in retail liabilities as increased competition meant absolute term deposit rates did not fall in line with movements in the yield curve. The majority of this impact occurred in the last quarter.

A further 2 basis points of impact occurred in wholesale funding costs. As global market volatility increased, funding costs widened in the domestic short term wholesale and middle markets. This was

coupled with the industry push to increase duration across all funding segments, including shifting short term wholesale funding beyond six months duration, in preparation for the impending introduction of the Net Stable Funding Ratio regulatory requirements in January 2018.

Hedging costs are also included in this bucket and increased by 3 basis points over the half as forecast at the first half results release.

Looking at capital and low cost deposits, the lower yield curve impacted returns on the Bank's replicating portfolio, as shown on the previous slide, causing a 4 basis point reduction in the half. That was a basis point higher than we had previously flagged due to the further contraction in the yield curve as the RBA reduced the cash rate.

The outlook for NIM remains difficult to forecast, given the number of moving parts and dynamic nature of the markets we are operating in. As I showed on the previous slide, hedging costs have stabilised since August, so this headwind should not be present in 2017, assuming the current market position is maintained.

The front book versus back book pricing differential will continue to come through given the current market structure and nature of competition, although pleasingly we have started to see some evidence of reductions in new business discounts since the August rate cut.

We expect a similar magnitude of impact from the return on capital and low cost deposits in 2017.

This leaves the competitive dynamic in funding markets as a key variable which is difficult to predict. Based on current market conditions we would expect this to remain a headwind for us into 2017.

So to sum up, the margin outlook will really depend on to what extent the industry looks to shelter the ongoing headwinds that are currently impacting margins.

We'll have to see what the competitive environment brings for new business acquisition and back book pricing in both loans and deposits – this is against a backdrop of regulatory capital changes - whilst the industry ensures it maintains its unquestionably strong status.

We would advocate solid returns are an important element of the industry's unquestionably strong status and is essential, given Australia's reliance on offshore funding sources to fund its banking system.

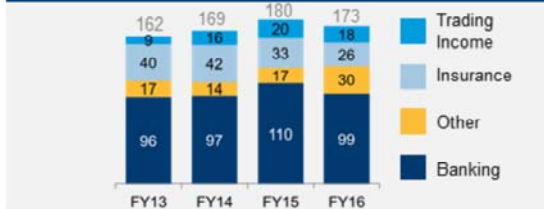
NON INTEREST INCOME



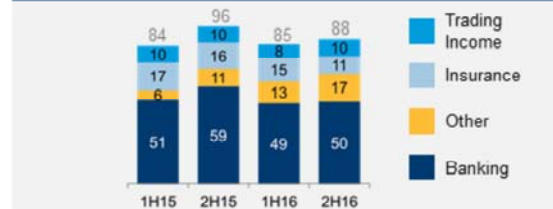
SUMMARY

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

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



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



Bank of Queensland Limited FY16 Results Presentation

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Moving to Non Interest Income on slide 20. This line item usually has some noise attached to it and this year is no exception.

We provided commentary at the first half around movements impacting that half, including a \$3m interchange fee impact that hit Banking income, and a \$2m benefit from improved equipment sales realisations in BOQ Finance in the Other Income bucket.

The increase in BOQ Finance equipment realisations lifted a further \$2m over the second half and contributed an increase of \$6m over the year in aggregate.

In the Banking Income line, over the year we have also seen a \$3m reduction in third party brokerage received due to BOQ Specialist's shift towards on-balance sheet mortgage originations.

Now, covering St Andrew's. We have previously flagged a \$3m expected reduction in the underwriting result, resulting from the shift in product mix occurring in the business, as well as the impact of a renegotiated distribution agreement with their major partner. In 2016 we've seen this impact slightly higher at \$4m, with an accelerated shift in product mix through the period.

Looking at the half on half comparison, we saw a low level of claims in the first half, but this reversed in the second half. Overall though, claims expense was in line with full year expectations. The other element that has impacted the St Andrew's result is the investment income component which has reduced as you would expect in a lower rate environment. This was a \$2m impact over the full year.

Going into 2017, we expect the shift in business mix has largely now occurred and the contribution from the growing wholesale partnerships is expected to largely offset the residual impact of the refreshed corporate alliances.

Looking at non interest income in total, as we have been saying for some time, the business is working hard to deliver a flat profile.

EXPENSES



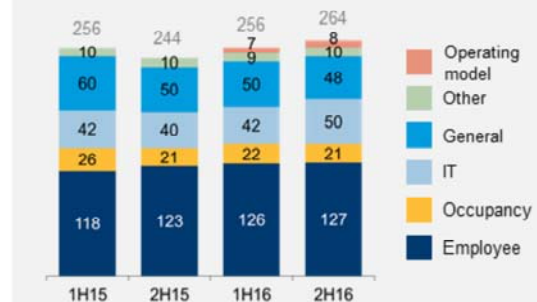
SUMMARY

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

CARRYING VALUE OF INTANGIBLE ASSETS (\$M)



OPERATING EXPENSE BREAKDOWN (\$M)



Bank of Queensland Limited FY16 Results Presentation

21

Turning to expenses on slide 21, there are a number of items to consider.

The \$15m investment we flagged in February to refine our operating model is one-off in nature but we have included it in our cash earnings numbers. Given we had \$16m of one-offs in 2015 also above the line, it doesn't really matter whether you include or exclude these one-offs, our expense growth was 4% for the year. This is in line with the guidance we gave last year and is predominantly driven by higher amortisation resulting from an increase in capitalised software, as we've sought to reinvest in the business over the last 3 years.

If we were to exclude the increase in amortisation, our underlying expense growth would be 2%. This includes the \$3m increase in costs associated with supporting the roll out of the Virgin Money home loan product. We expect the full year cost of supporting the roll-out of this channel to be \$12m in 2017.

The \$15m investment to reshape the operating model and organisational structure is on track to deliver the planned 100% payback through cost savings within twelve months.

Other initiatives underway include the creation of a centralised Lending Hub model which will deliver a customer centric and cost effective end to end process for lending services across a majority of the broader BOQ Group. We are also looking at better leveraging shared service centres of excellence across the Group.

We are confident that further savings will be generated from this initial investment, which will enable us to implement these and other efficiency initiatives within our current expense profile. So, even with an increase in the cost of the Virgin Money mortgage offering I've already covered and a further uplift in IT amortisation expense in FY17 of \$10m, we are targeting underlying expense growth of 1% from the \$505m underlying result we've delivered in FY16.

ASSET QUALITY



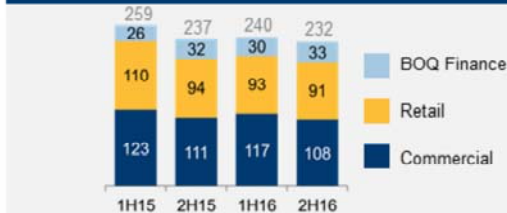
SUMMARY

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

LOAN IMPAIRMENT EXPENSE BY PRODUCT (BPS)



IMPAIRED ASSETS (\$M)



NEW IMPAIRED ASSETS (\$M)



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22

If we now move on to slide 22 and I'll cover asset quality.

The Bank's strong credit metrics are clearly evident across the portfolio. Both loan impairment expense and impaired asset balances have trended favourably.

Looking across the portfolios, Retail has continued its improvement, with BOQ Specialist mortgages providing an important contribution to this increase in quality. The retail portfolio has also been aided by record low interest rates, strong property market conditions and faster clearance rates.

In the commercial book, we've seen a good reduction in impairment expense over the second half, with no new impaired assets greater than \$5m being recognised.

Meanwhile, BOQ Finance has continued to track around the levels we would expect in terms of impairment expense as a proportion of gross loans. The majority of this book continues to perform extremely well, with the tail in QLD and WA regional exposures driving the impairments we are seeing, as the economy continues its transition away from its previous reliance on mining investment.

Overall we are reaping the benefits of a disciplined approach to risk management since 2012 and are seeing the echoes of the past continue to diminish.

ARREARS



SUMMARY

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

COMMERCIAL ARREARS⁽¹⁾



Aug-14 Nov-14 Feb-15 May-15 Aug-15 Nov-15 Feb-16 May-16 Aug-16
 — 30DPD — 90DPD

HOUSING ARREARS⁽²⁾



Aug-14 Nov-14 Feb-15 May-15 Aug-15 Nov-15 Feb-16 May-16 Aug-16
 — 30DPD — 90DPD

BOQ FINANCE ARREARS



Aug-14 Nov-14 Feb-15 May-15 Aug-15 Nov-15 Feb-16 May-16 Aug-16
 — 30DPD — 90DPD

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

Similarly, our arrears trends on slide 23 also demonstrate sound performance across all portfolios.

Retail arrears performance remains sound. We have seen some increases in delinquencies in mining and regional towns, but we remain comfortable with the portfolio position.

Commercial arrears have improved substantially over the full year in both 30days and 90days past due – each down approximately 30%. The benefits of the new risk appetite and credit practices established in 2012 are evident.

During the period the business has had excellent success in early identification, intervention and rectification of troubled accounts. This evidences the risk management capability of the Group that is a key strength.

STRONG CAPITAL POSITION MAINTAINED



SUMMARY

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

PEER CET1 COMPARISON⁽¹⁾



COMMON EQUITY-TIER 1 RATIO MOVEMENTS



OPPORTUNITIES FROM BASEL 4



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

Bank of Queensland Limited FY16 Results Presentation

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Moving to capital, and I'm now on slide 24.

We remain very comfortable with a 9% common equity tier one ratio as a standardised bank. If you were to equalize the average risk weightings in the denominator between us and our advanced accredited peers, we would show a far superior position.

In terms of the movement over the half, we had very strong capital generation, benefiting from the lower level of risk weighted asset growth.

Over the next 6 to 12 months we look forward to gaining clarity on the next evolution of the Basel Committee's approach to risk weightings and capital - and the way this is interpreted by APRA here in Australia.

There are a number of areas we are watching closely.

Based on the most recent consultation paper, there appears to be some potential benefit for us in our SME/Commercial portfolio and our leasing portfolio, with lower risk weightings – in the order of 75% - appearing to be proposed compared to the 100% risk weighting we apply today. We would hope changes in this space open up more areas of the market where we can compete for a broader set of customers that deliver us appropriate returns.

Levelling the playing field has been a key driver of these global changes and a lot has been spoken about as it relates to mortgages here in Australia. We do believe the interim changes that APRA has already introduced - with the advanced bank floor of 25% - do not level the playing field sufficiently and that more is required to achieve that objective.

The big swing factor that the industry is watching in relation to mortgage risk weights is the setting of risk weightings for investor loans that are materially dependent on cash flows from the collateral property to make repayments. The definition of materially dependent is still to be agreed as far as we're aware, but expect the industry will adapt to the new regime regardless of what the outcome is.

We remain optimistic that there will be further convergence between standardised and advanced approaches to risk weightings, which would improve BOQ's relative competitiveness with advanced banks.

PROGRESS TOWARDS ADVANCED ACCREDITATION



Initiatives in place

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

Application for Advanced

Bank of Queensland Limited FY16 Results Presentation

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If I could ask you to move on to slide 25...

Depending on where things land - and we hope to have clarity on this sometime in 2017 - we should be in a better position to assess what benefits could be obtained from moving to advanced accreditation.

As we've said a number of times before, although we haven't had a formal program in place, we have been implementing a number of initiatives that would be required as part of our journey to achieving advanced accreditation.

We've made good progress on a number of these initiatives, but there are still a number of outstanding steps we would need to take before being in a position to make an application to the regulator. Once we are able to assess the size of the prize, we will be able to determine whether acceleration of these steps and the associated investment required, is warranted.

With that, I'll hand back to Jon.



SUMMARY & OUTLOOK

JON SUTTON
Managing Director & CEO



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

MACRO ENVIRONMENT



Economic

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

Industry

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

Regulatory

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

Bank of Queensland Limited FY16 Results Presentation

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Thanks Anthony.

Before talking about the outlook for BOQ, it is important to set the scene with the macro environment we are operating in. Firstly, the broader economic environment. Overall the Australian economy is performing reasonably well. Low interest rates and relatively low unemployment is supporting GDP growth. Economic performance has remained mixed across the states. WA is still struggling with the end of the mining boom, while low interest rates and strong population growth are helping the NSW and Victorian economies.

The Queensland economic performance has been mixed, with strength in the South-East offset by weaker activity in areas influenced by mining such as Townsville, Gladstone and Mackay.

Tourism has been a plus. Three of the four fastest growing airports in Australia have been in the tourist areas of Gold Coast, Cairns and the Sunshine Coast.

Net interstate migration to QLD is at its highest level since December 2012.

And export services of tourism and education from QLD have risen to more than 12% in dollar terms. In its most recent Budget, the QLD State Treasury projected export growth would help the state economy increase by a strong 4% in the 2017 financial year. LNG production will be a key contributor.

As I have already indicated, the outlook for the banking sector remains subdued. Lower interest rates, low growth environment, increasing regulatory requirements, volatile funding markets and increased competition for loans and deposits all impact the sector's ability to maintain revenue growth as it has in the past.

With record low interest rates, deposit holders want better returns on their cash. This creates an

interesting dynamic for banks looking to increase deposit balances and reduce dependency on wholesale funding.

Conduct and culture is a huge focus across the industry at the moment. At BOQ, we understand that banks have a social license to operate and we take this very seriously. We are committed to operating with the highest ethical standards. Our Executive team and many of our staff have voluntarily adopted the Banking and Finance Oath. We also established our very own Ethics Committee in 2015 and have commenced the roll out of Ethics training. Add to this our support of the ABA six point plan and ASIC's extension of powers, we remain focused on running a bank based on trust and ethics.

Bank customers are increasingly adopting digital and mobile channels. The number of Fintech start-ups are growing by the day, as technology creates opportunities for disruption across different parts of the value chain. We see this as an opportunity to partner with Fintechs and to accelerate our digital enablement.

On the regulatory front, as Anthony said we look forward to seeing some certainty around the revised standardised and advanced approaches to capital management. We await eagerly the outcomes of Basel IV at the end of the year. This will provide clarity on the benefits that will be obtained in moving from standardised to advanced accreditation.

Meanwhile the Net Stable Funding Ratio requirements are contributing to increased competition in the deposit market.

STRATEGY & FY17 PRIORITIES

IT'S POSSIBLE to LOVE A BANK BOQ

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

Bank of Queensland Limited FY16 Results Presentation

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Turning now to our priorities in 2017, on slide 28.

We have successfully transformed from a mono-line distribution business to one with multiple distribution channels.

The Virgin Money brand currently has 800 accredited mortgage brokers from Plan and Fast. This is about to expand with the signing of two large aggregator groups. Combining this with BOQ's existing broker channels, this will increase BOQ's overall access to 75% of the broker market.

Further expansion of our broker channels combined with our ongoing network productivity will strengthen the quality of our book by attracting a more diverse customer base.

We will continue to grow the right way by optimising our deposit growth with the help of data analytics. We will also continue to invest in building capability across our niche target business segments and in high margin businesses.

Our strong focus on managing costs will be delivered through a number of initiatives which form part of our efficiency program.

Aligning our people with our vision to be Australia's most loved bank is important to our success. We will continue to invest in our leadership, diversity and ensuring all of our staff understand the importance of maintaining the highest ethical standards possible.

All these priorities position us to deliver our goal of EPS outperformance over the long term.

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

In summary, we have delivered today a set of results that highlight the progress we are making against our strategic objectives.

Our increased profit for the fourth consecutive year has been achieved in a changing operating environment.

The strong contribution from our specialist niche commercial businesses is pleasing.

Our disciplined approach to risk management has improved the asset quality across all portfolios.

And the one-off \$15 million investment to refine our operating model has delivered ahead of its targeted 12 month payback period.

Looking ahead, the outlook for revenue growth across the industry remains subdued, but we are well positioned to operate and adapt to this new environment.

We will continue to focus on growing in higher margin segments while maintaining our risk discipline.

Managing our costs remains key to our success. This will be supported by the rollout of further efficiency initiatives.

We are committed to our strategy which provides significant opportunities for growth which the bank has not had in the past.

I'll now hand over to Tanny to moderate the Q & A. Thank you.

Disclaimer

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