



BOQ

1H17 RESULTS PRESENTATION

30 MARCH 2017

FOR THE HALF-YEAR ENDED 28 FEBRUARY 2017



RESULTS OVERVIEW

JON SUTTON
Managing Director & CEO

FINANCIAL DETAIL

ANTHONY ROSE
Chief Financial Officer

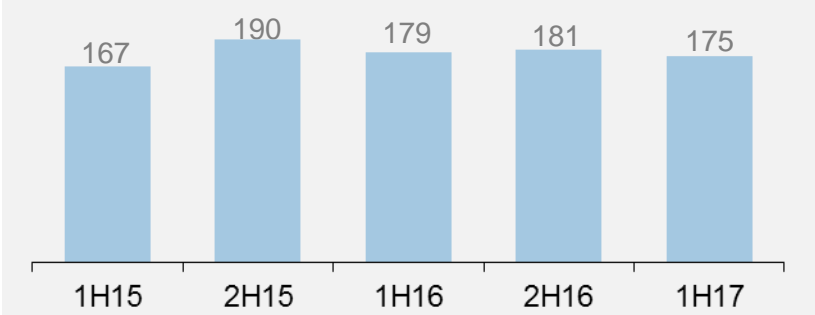
SUMMARY & OUTLOOK

JON SUTTON
Managing Director & CEO

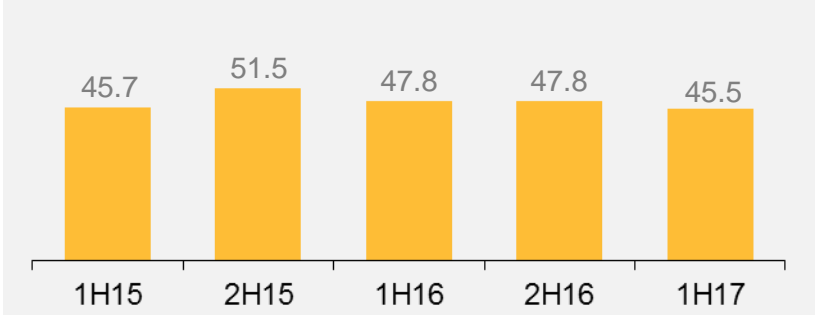
- 1 Earnings down, improved outlook for second half
- 2 Niche business segments continue to perform well
- 3 Further improvement in asset quality
- 4 Delivering on expense management targets
- 5 Strong capital and funding position provides opportunity for growth

KEY ELEMENTS OF THE RESULT

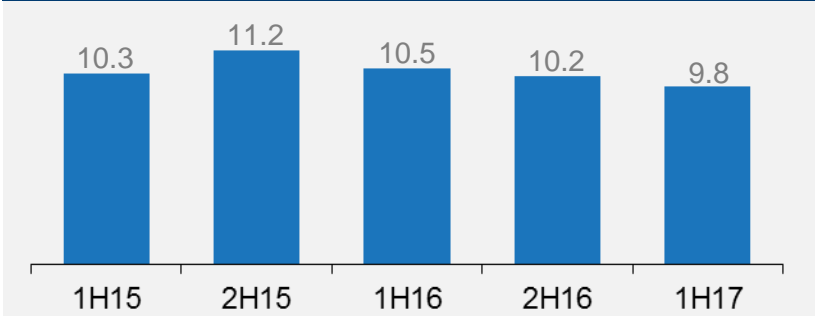
CASH EARNINGS AFTER TAX (\$M)



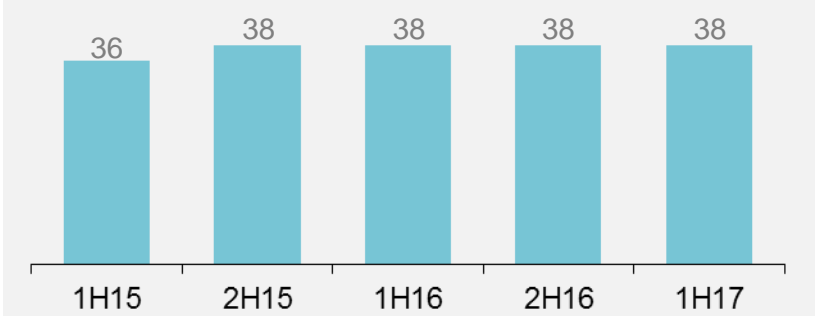
EARNINGS PER SHARE (CENTS)



RETURN ON EQUITY (%)

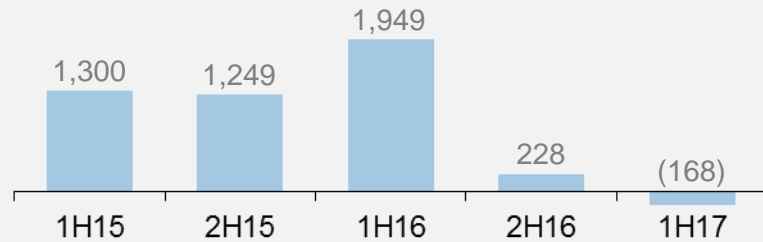


DIVIDENDS PER SHARE (CENTS)

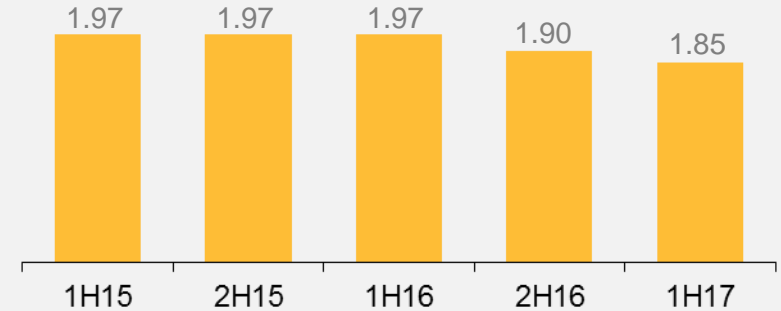


DRIVERS OF THE RESULT

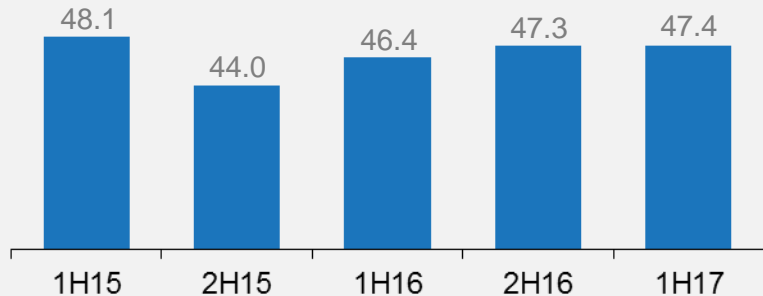
LENDING GROWTH (\$M)⁽¹⁾



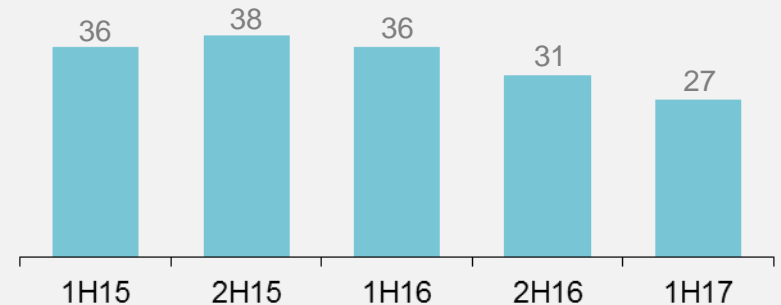
NET INTEREST MARGIN (%)



COST TO INCOME RATIO (%)



LOAN IMPAIRMENT EXPENSE (\$M)



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

BOQ SPECIALIST

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



BOQ FINANCE

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



BUSINESS BANKING NICHE SEGMENT GROWTH

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

VIRGIN MONEY

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

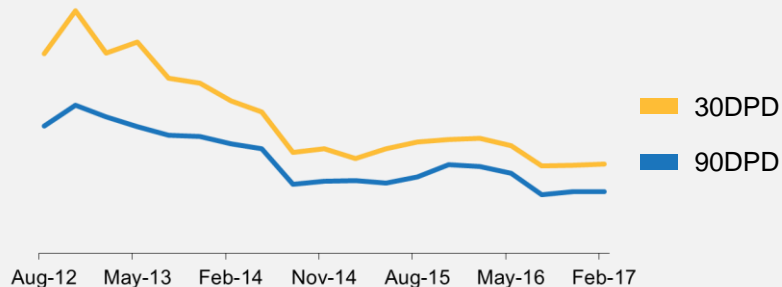


ASSET QUALITY REMAINS SOUND

SUMMARY

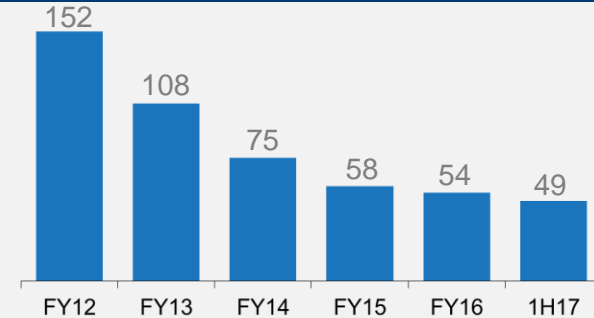
- Strong focus on meeting responsible lending obligations and prudential practice guide standards
- 100% validation of mortgages
- BOQ Specialist and Virgin Money mortgages providing further diversification
- Continued run-off of development exposures

COMMERCIAL LOAN ARREARS⁽¹⁾

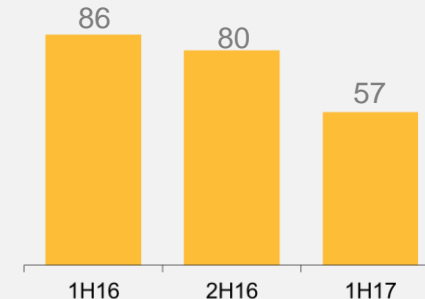


(1) Excludes BOQ Specialist

IMPAIRED ASSETS PROPORTION OF GROSS LOANS (bps)



NEW IMPAIRED ASSETS (\$M)



DELIVERING ON EXPENSE MANAGEMENT TARGETS

SUMMARY

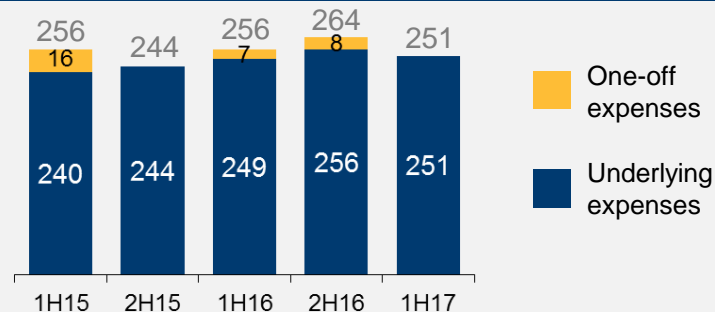
- Reaffirming 1% underlying expense growth target for FY17
- \$15m in run-rate savings delivered
- Active investigation of additional efficiency opportunities underway

EFFICIENCY INITIATIVES

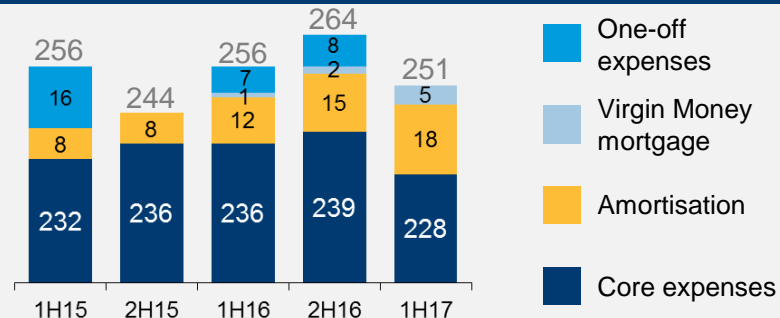
\$15m in ongoing savings delivered through:

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

UNDERLYING EXPENSES (\$M)⁽¹⁾



CORE EXPENSES LOWER (\$M)⁽¹⁾



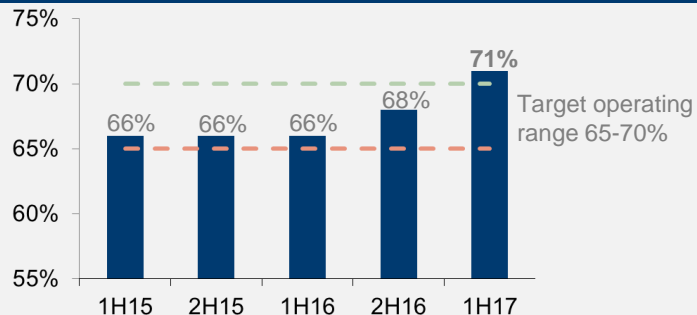
(1) 1H17 excludes the acquisition in December 2016 of BOQF Cashflow Finance Pty Ltd

STRONG BALANCE SHEET PROVIDING OPERATING LEVERAGE

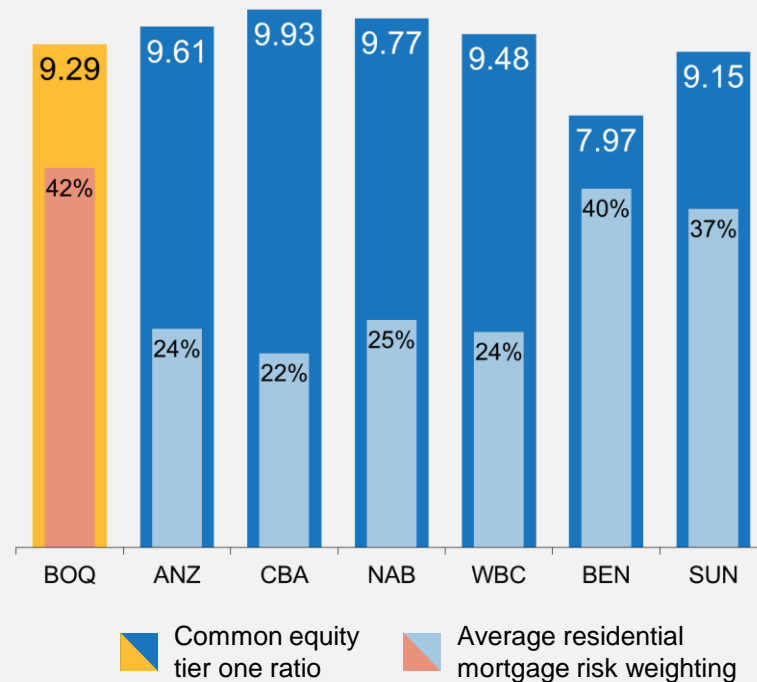
SUMMARY

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

DEPOSIT TO LOAN RATIO



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



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

1H17 SCORECARD: STRATEGIC PRIORITIES

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

Legend:





FINANCIAL OVERVIEW

ANTHONY ROSE
Chief Financial Officer



FINANCIAL PERFORMANCE

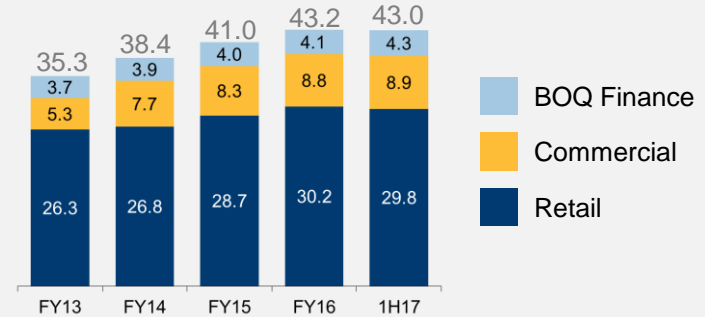
	1H17	1H17 v 1H16	1H17 v 2H16
Net interest income	\$452m	(3%) ▼	(4%) ▼
Non interest income	\$80m	(6%) ▼	(9%) ▼
Total income	\$532m	(4%) ▼	(5%) ▼
Operating expenses	(\$252m)	(2%) ▼	(5%) ▼
Underlying profit	\$280m	(5%) ▼	(5%) ▼
Loan impairment expense	(\$27m)	(25%) ▼	(13%) ▼
Profit before tax	\$253m	(3%)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

MARGIN & CREDIT QUALITY PRIORITISED OVER GROWTH

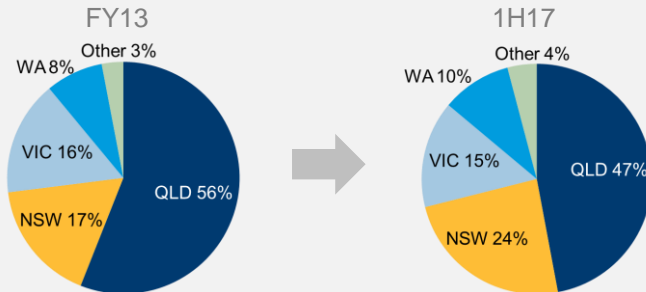
SUMMARY

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

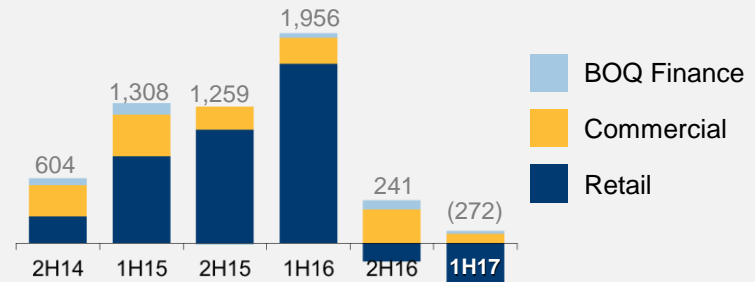
GROSS LOANS AND ADVANCES (\$B)



TOTAL LENDING GEOGRAPHIC MIX



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



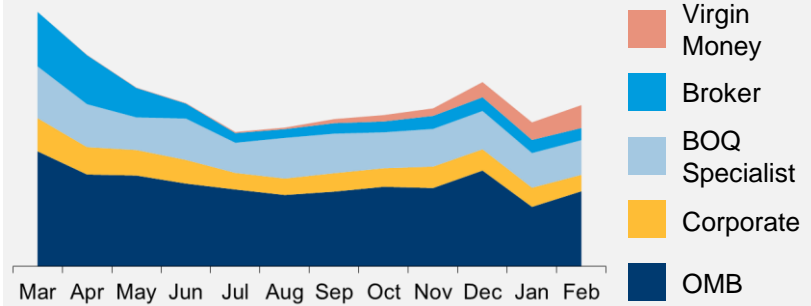
(1) Excludes consumer lending and BOQF Cashflow Finance Pty Ltd (acquired in December 2016)

RETAIL LENDING IMPACTED BY LOWER BROKER VOLUMES

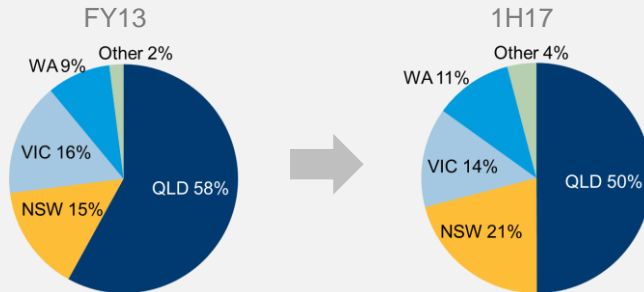
SUMMARY

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

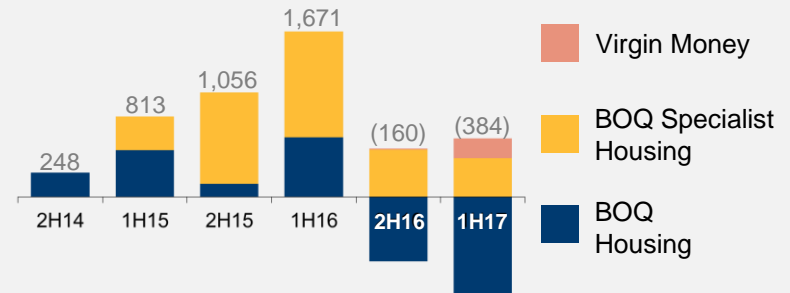
MONTHLY HOUSING LOAN SETTLEMENTS



HOUSING LOAN GEOGRAPHIC MIX



HOUSING LOAN GROWTH (\$M)



GROWTH IN COMMERCIAL LENDING NICHE SEGMENTS



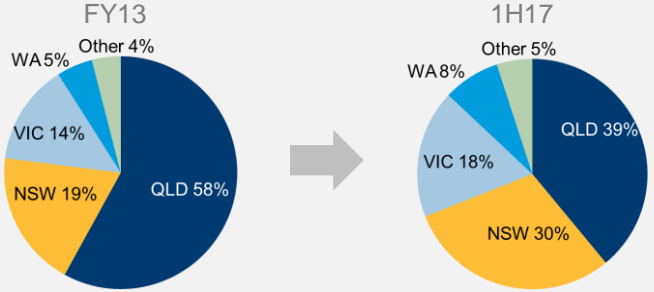
SUMMARY

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

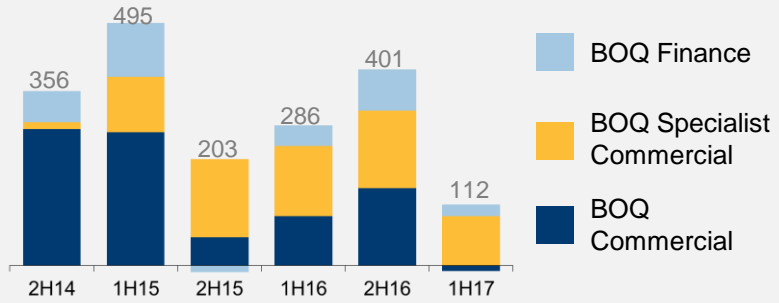
PREMIUM FUNDING ACQUISITION

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

COMMERCIAL LOAN GEOGRAPHIC MIX



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



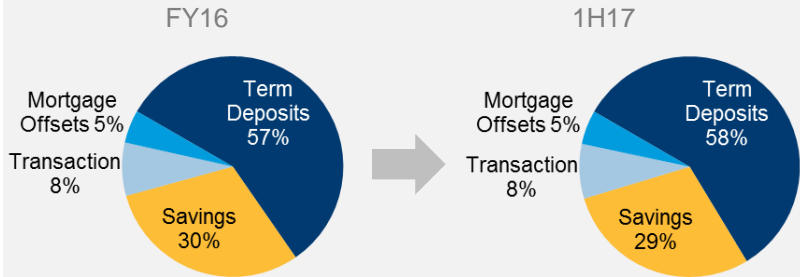
(1) Excludes BOQF Cashflow Finance (acquired in December 2016)

STRONG FUNDING MIX

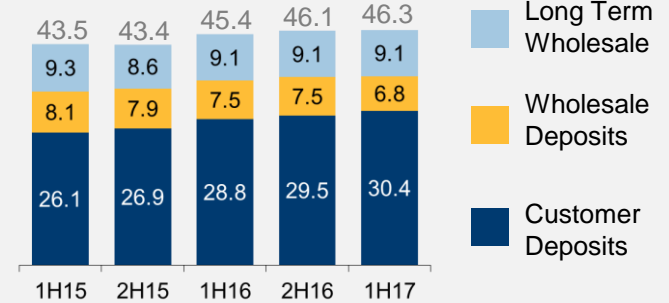
SUMMARY

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

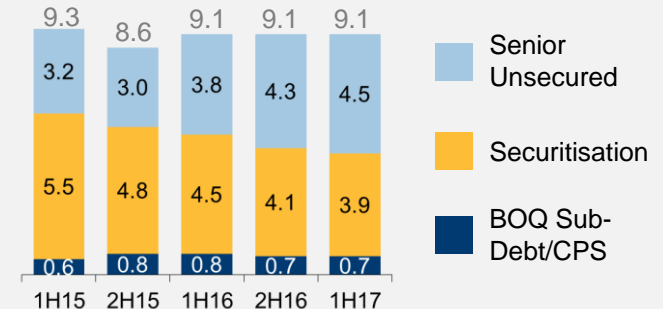
CUSTOMER DEPOSIT MIX



OVERALL FUNDING MIX (\$B)⁽¹⁾



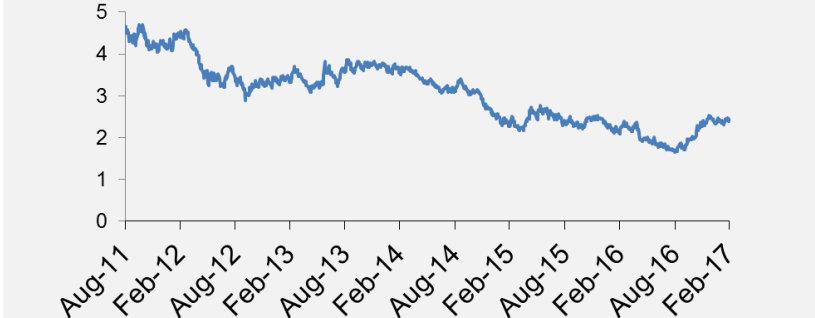
LONG TERM WHOLESALE FUNDING (\$B)



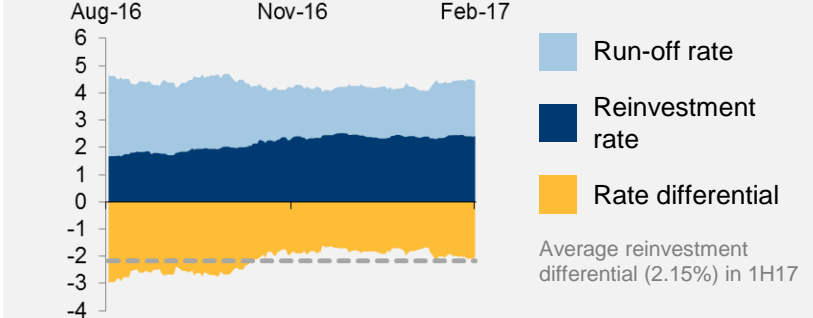
(1) 1H16 and 2H16 Customer and Wholesale Deposits have been restated to reflect reclassification aligned to industry practice

CHANGING DYNAMICS FOR NET INTEREST MARGIN

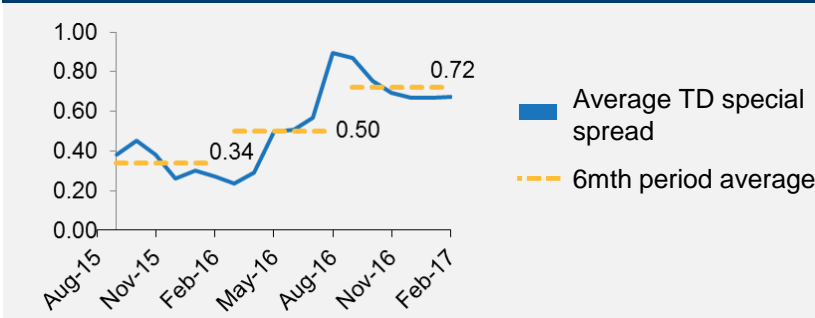
5YR SWAP (%)⁽¹⁾



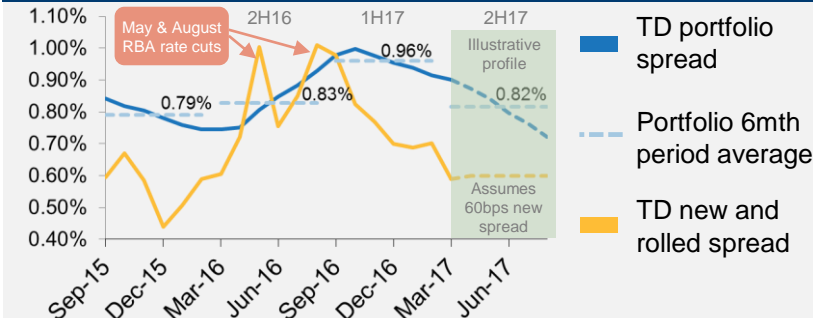
ROLLING 5YR SWAP RATE DIFFERENTIAL (%)⁽¹⁾



INDUSTRY TERM DEPOSIT SPREADS (%)⁽²⁾



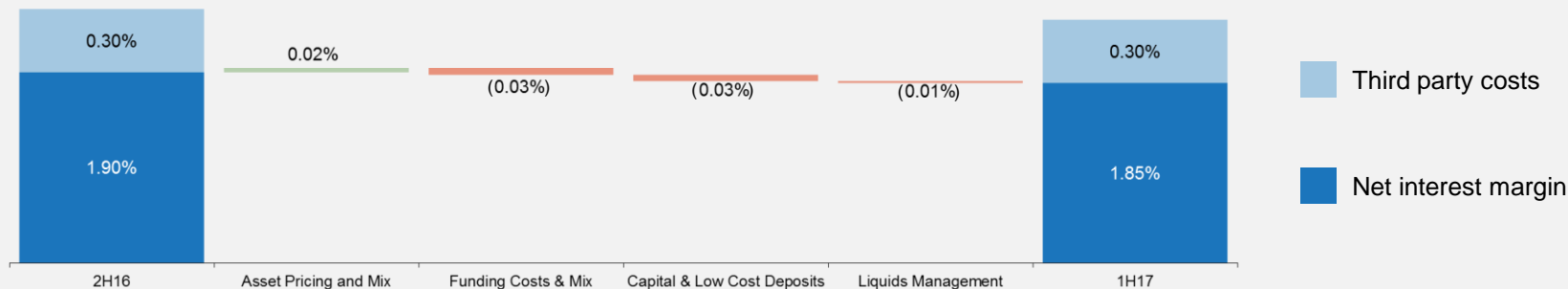
BOQ TERM DEPOSIT SPREADS (%)⁽³⁾



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

MOVEMENT IN NET INTEREST MARGIN

NET INTEREST MARGIN MOVEMENTS 2H16 TO 1H17



1H17 CONSIDERATIONS

- Front book vs back book housing impact ongoing
- Mortgage repricing has provided some offset
- Capital & Low Cost Deposits – returns on replicating portfolio impacted by lower yield curve
- Outlook improving:
 - Capital & Low Cost Deposits headwind reducing
 - Term Deposit portfolio spreads contracting

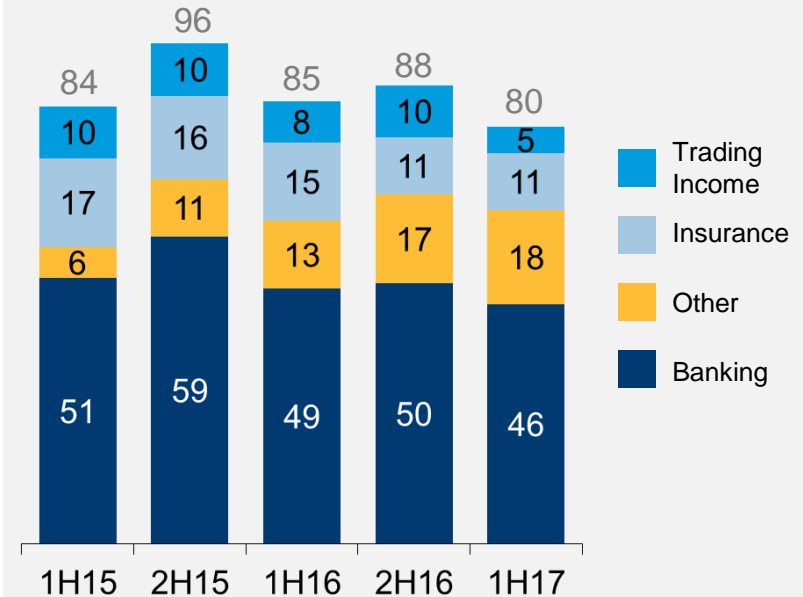
SUMMARY OF KEY MOVING PARTS

Element	1H16	2H16	1H17
Asset pricing benefits	+6bps	+9bps	+6bps
Front book pricing & mix	(4bps)	(5bps)	(4bps)
Funding costs & mix	+2bps	(4bps)	(3bps)
Hedging costs	(2bps)	(3bps)	-
Capital & LCDs	(3bps)	(4bps)	(3bps)

SUMMARY

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

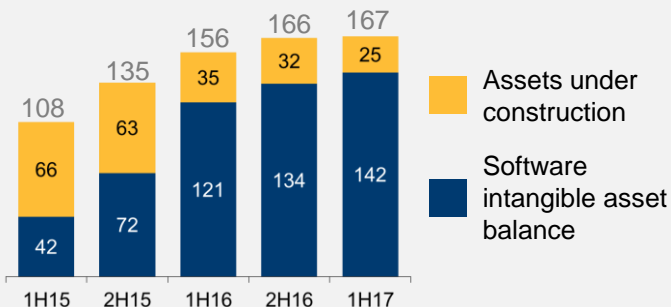
NON INTEREST INCOME BREAKDOWN (\$M): HALF YEAR



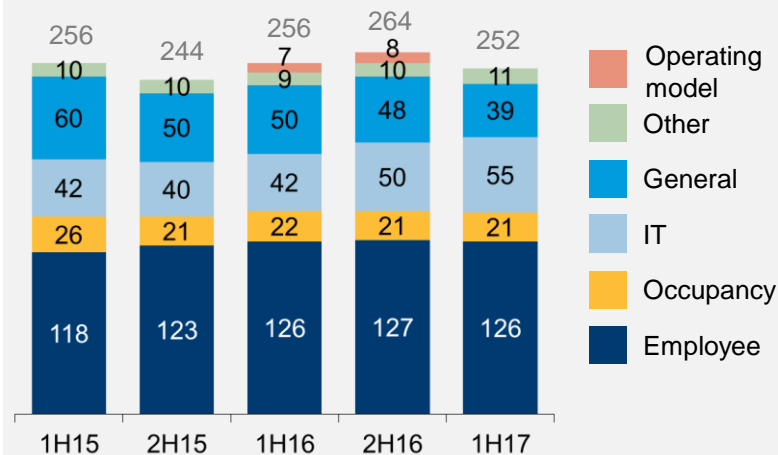
SUMMARY

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

CARRYING VALUE OF INTANGIBLE ASSETS (\$M)



OPERATING EXPENSE BREAKDOWN (\$M)

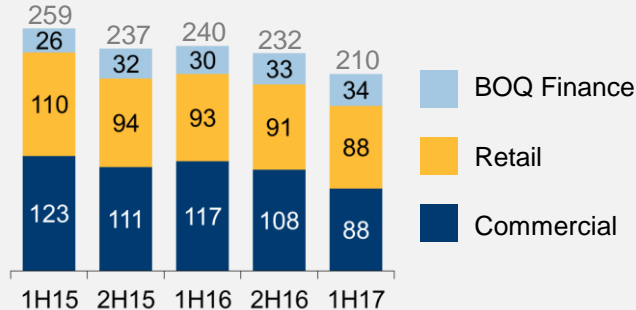


ASSET QUALITY METRICS FURTHER IMPROVED

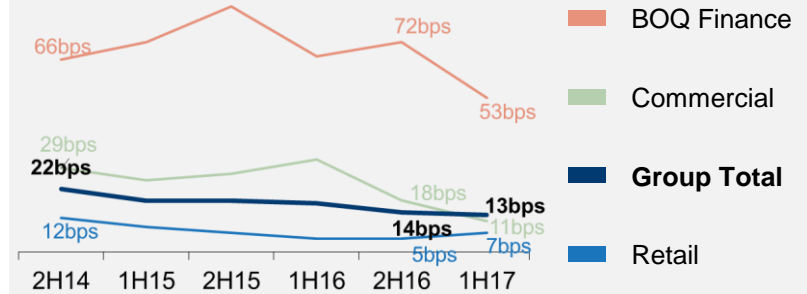
SUMMARY

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

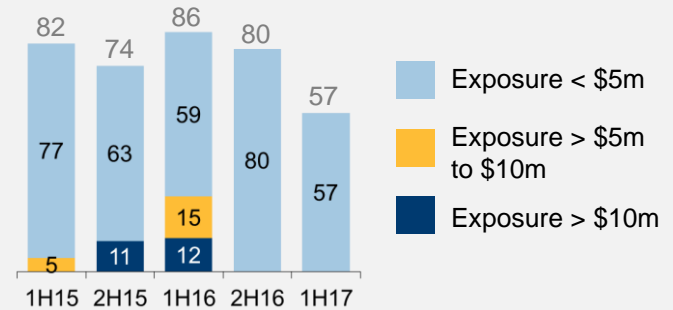
IMPAIRED ASSETS (\$M)



LOAN IMPAIRMENT EXPENSE BY PRODUCT



NEW IMPAIRED ASSETS (\$M)

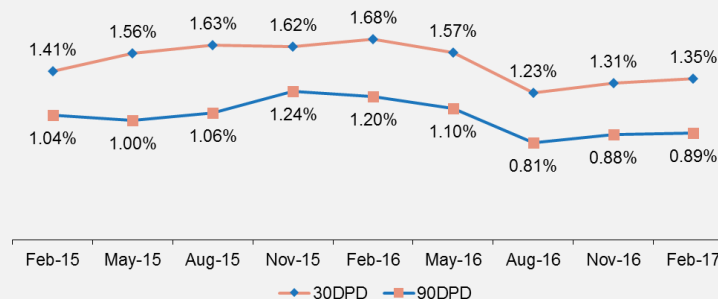


ARREARS DATA SHOW GOOD PORTFOLIO HEALTH

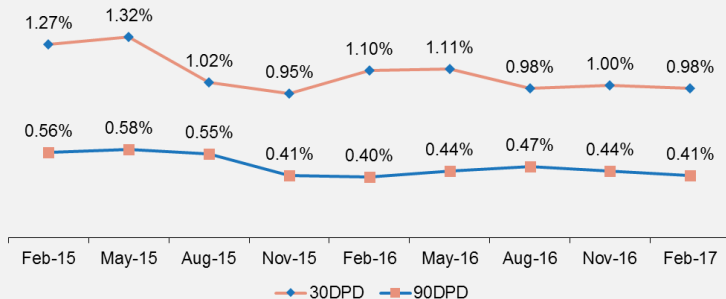
SUMMARY

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

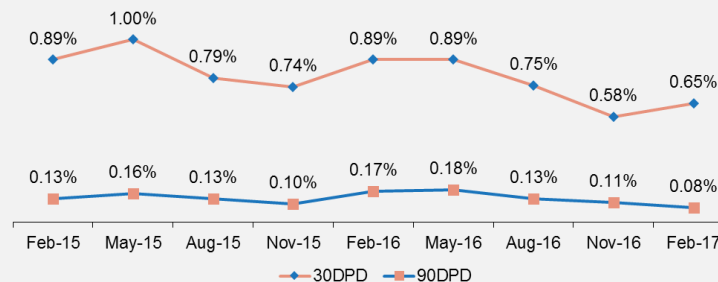
COMMERCIAL ARREARS⁽¹⁾



HOUSING ARREARS⁽¹⁾⁽²⁾



BOQ FINANCE ARREARS



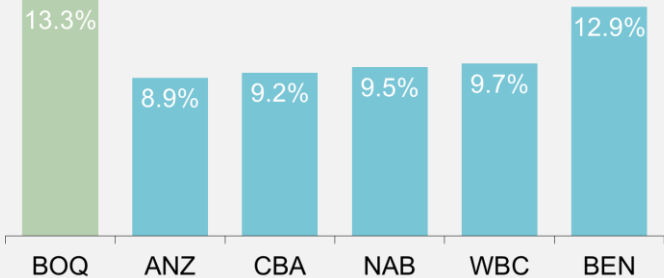
(1) Includes BOQ Specialist
(2) Housing excluding Lines of Credit

STRONG CAPITAL POSITION ON ANY MEASURE

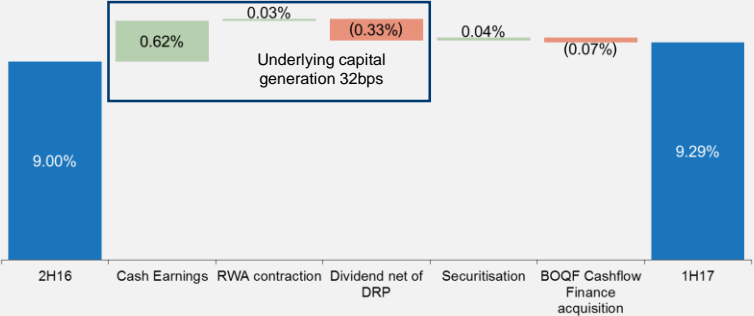
SUMMARY

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

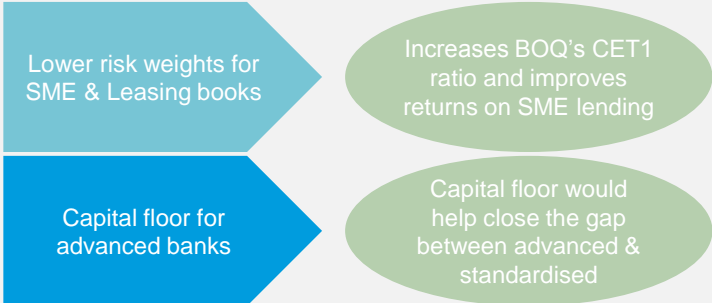
S&P RAC RATIO PEER COMPARISON⁽¹⁾



COMMON EQUITY TIER 1 RATIO MOVEMENTS⁽²⁾



OPPORTUNITIES FROM BASEL 4 REMAIN



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

PROGRESS TOWARDS ADVANCED ACCREDITATION

Initiatives in place

Initiatives to commence

Credit risk

- Credit policy framework
- Credit models & application scorecards
- Collective Provision/GRCL
- Lending origination systems
- Rating system

- Economic/regulatory modelling
- Collateral management
- Global credit limits system
- Data warehouse and data governance enhancement

Operational risk

- Operating model & framework
- Governance framework implementation
- Incident management system

- Data collection
- Scenario and capital modelling
- GRC system implementation

Market risk

- Asset Liability Management (ALM) System
- Policy review & governance framework
- Integration of Funds Transfer Pricing (FTP) into ALM

- Advanced capital modelling
- Validation of ALM models

Enterprise management

- Risk appetite statements
- Compliance gateways & Risk KPIs
- Stress testing framework

- Capital engine implementation

Application for Advanced



SUMMARY & OUTLOOK

JON SUTTON

Managing Director & CEO



Industry

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

Economic

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

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

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



BOQ

1H17 RESULTS PRESENTATION

30 MARCH 2017

FOR THE HALF-YEAR ENDED 28 FEBRUARY 2017





APPENDICES



SUMMARY

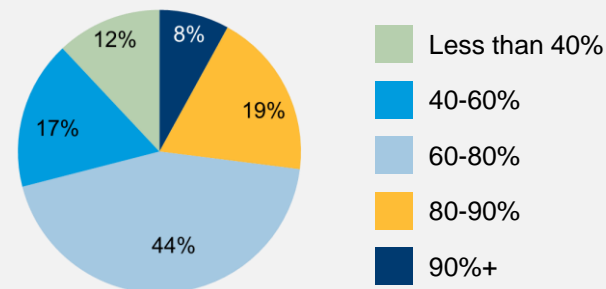
- Quality continues to improve under revised risk appetite
- Higher proportion of owner occupied lending in 1H17
- Broker settlement volumes supported by Virgin Money
- Line of credit portfolio continues to reduce

PORTFOLIO METRICS

Metrics (%)	1H16	2H16	1H17
Owner occupied	57	58	59
Investment	43	42	41
Broker originated ⁽¹⁾	7	8	9
Weighted avg LVR	62	63	67
Line of Credit	10	9	8
Avg loan balance	\$258k	\$262k	\$265k
Variable rate	77	75	74
Fixed rate	23	25	26

(1) Broker originated includes Virgin Money home loans

HOUSING PORTFOLIO LVR BANDS



SETTLEMENT METRICS

Metrics (%)	1H16	2H16	1H17
Owner occupied	56	59	70
Investment	44	41	30
Broker originated ⁽¹⁾	19	15	15
Weighted avg LVR	68	67	67
Line of Credit	3	3	2
Avg loan balance	\$356k	\$376k	\$370k
Variable rate	56	69	72
Fixed rate	41	31	28

MINIMAL EXPOSURE TO HIGH RISK SECTORS

Apartment construction exposures⁽¹⁾

- \$197m current exposure to residential construction
- 25 developments across 3 states, completing 2017 through 2018
- Highest concentration in VIC and NSW, well diversified intra-state

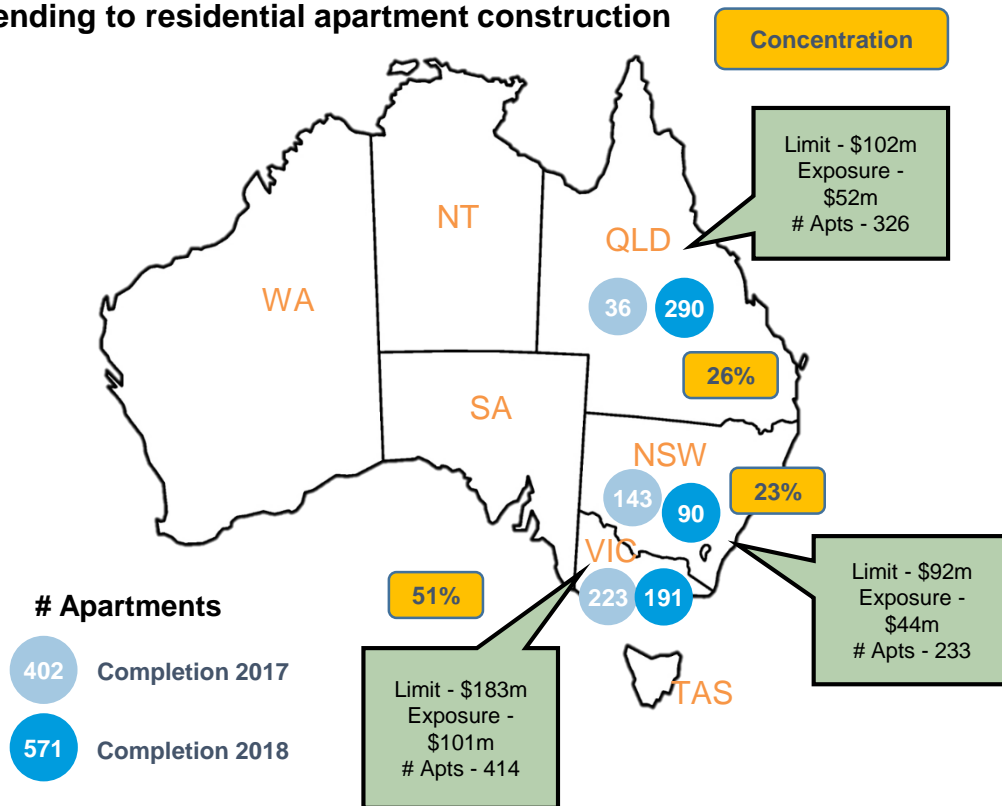
Regional Housing exposures

- No material regional housing exposures

Regional Commercial & Leasing exposures

- No systemic issues emerging
- Direct mining industry exposure ~\$100m

Lending to residential apartment construction



(1) Projects over \$5m. Data as at 28 February 2017

ABBREVIATIONS

1H: First half of financial year
2H: Second half of financial year
30DPD: 30 days past due
90DPD: 90 days past due
ALM: Asset & Liability Management
APRA: Australian Prudential Regulation Authority
Apts: Apartments
Avg: Average
BDD: Bad & Doubtful Debt Expense
bps: basis points
CET1: Common Equity Tier 1
cps: Cents per share
CPS: Convertible Preference Shares
CTI: Cost-to-income ratio
EPS: Earnings per share

FY: Financial year
GLA: Gross Loans & Advances
GRCL: General Reserve for Credit Losses
KPI: Key performance indicator
LCD: Low cost deposit
LOC: Line of Credit
LVR: Loan to valuation ratio
NIM: Net Interest Margin
OMB: Owner Managed Branch
RBA: Reserve Bank of Australia
ROE: Return on equity
ROTE: Return on tangible equity
SME: Small and Medium Enterprises
TD: Term deposit
VMA: Virgin Money Australia

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