



# FY2017 Results Presentation

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12 October 2017

FOR THE YEAR ENDED 31 AUGUST 2017

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

## Results Overview

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Jon Sutton  
Managing Director & CEO

## Financial Detail

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Anthony Rose  
Chief Financial Officer

## Summary & Outlook

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Jon Sutton  
Managing Director & CEO

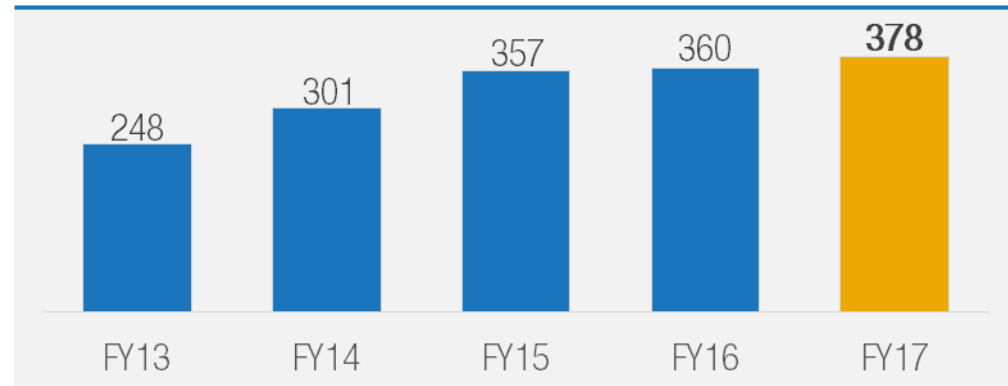
# FY17 HIGHLIGHTS



- 1 — Improved second half performance
- 2 — Niche segments continue to grow
- 3 — Asset quality remains sound
- 4 — Delivering ongoing cost savings to enable reinvestment
- 5 — Strong capital position provides flexibility

# KEY ELEMENTS OF THE RESULT

## CASH EARNINGS AFTER TAX (\$M)<sup>(1)</sup>



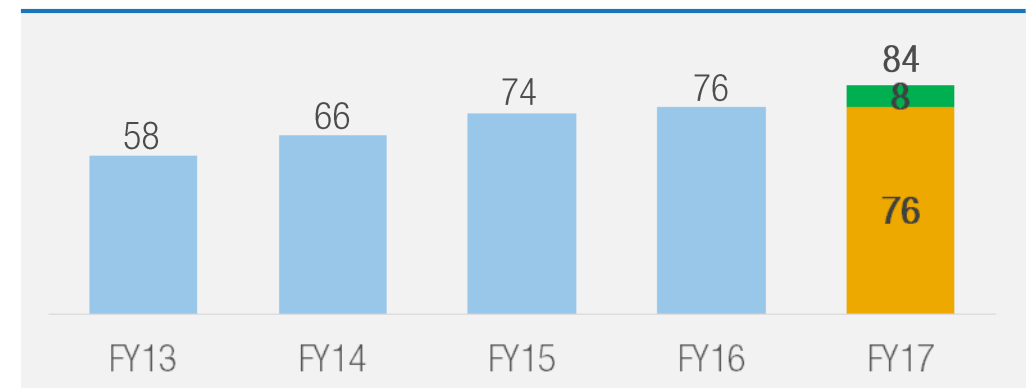
## EARNINGS PER ORDINARY SHARE (CENTS)<sup>(1)</sup>



## RETURN ON EQUITY (%)<sup>(1)</sup>



## DIVIDENDS PER ORDINARY SHARE (CENTS)

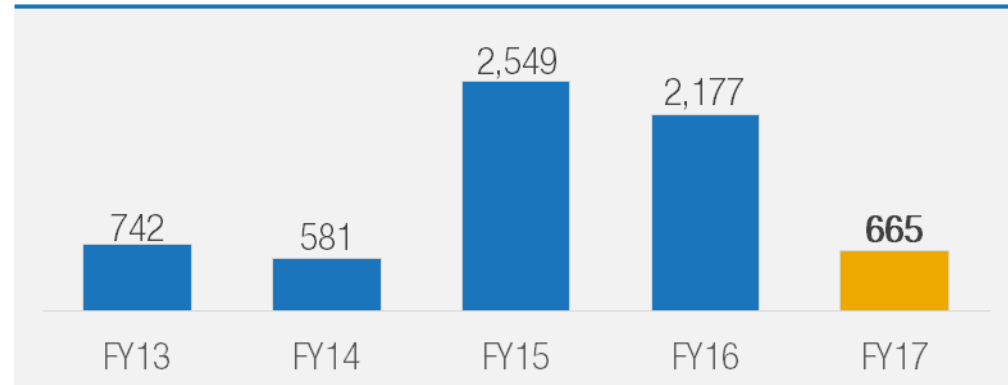


Special dividend



# DRIVERS OF THE RESULT

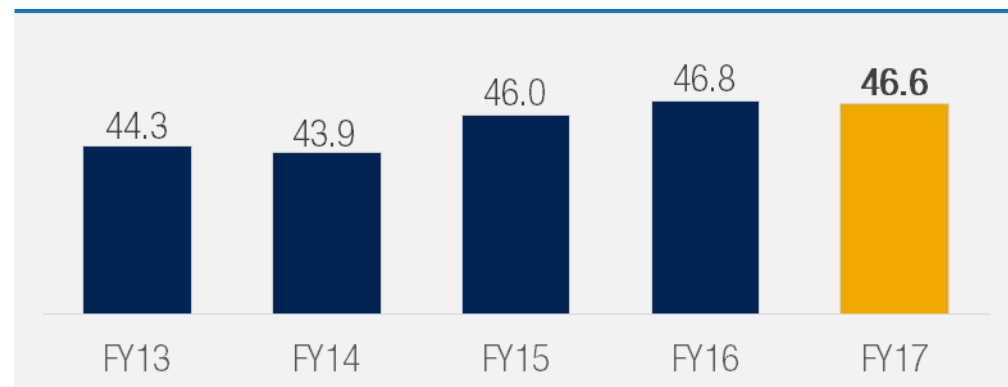
## LENDING GROWTH (\$M)



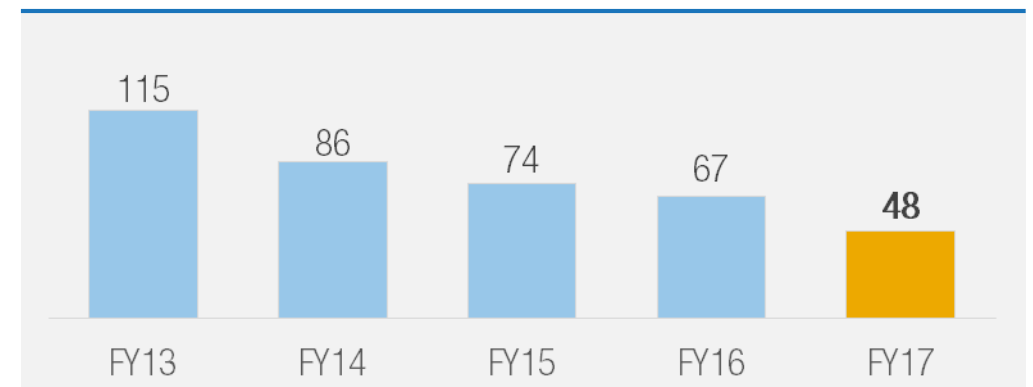
## NET INTEREST MARGIN (%)



## COST TO INCOME RATIO (%)<sup>(1)</sup>



## LOAN IMPAIRMENT EXPENSE (\$M)

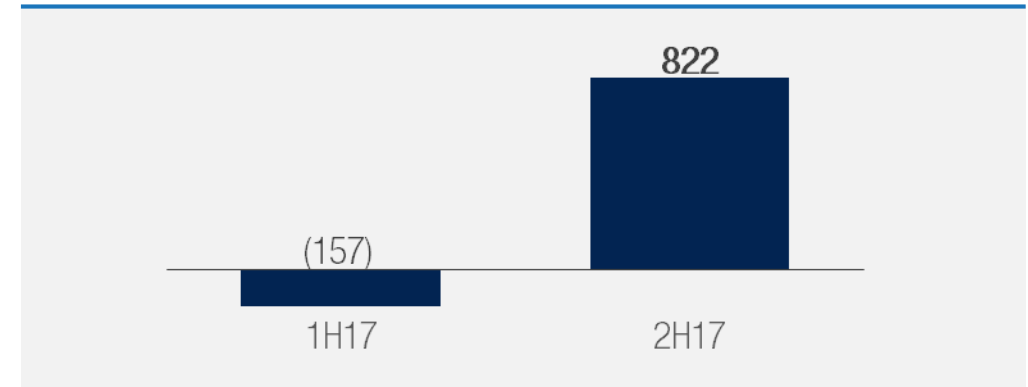


# IMPROVED SECOND HALF PERFORMANCE

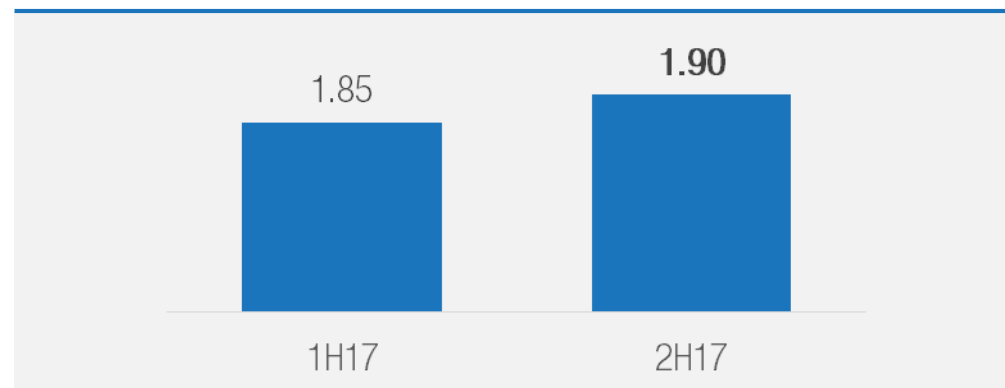
## SUMMARY

- Lending growth returned to positive
- 2H17 Net Interest Margin rebounded to 1.90% as forecast
- Loan Impairment Expense showed further improvement

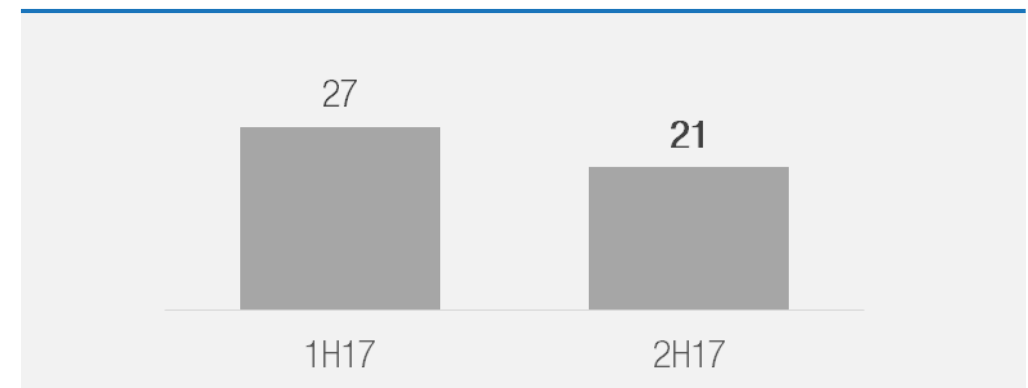
## LENDING GROWTH (\$M)



## NET INTEREST MARGIN (%)



## LOAN IMPAIRMENT EXPENSE (\$M)

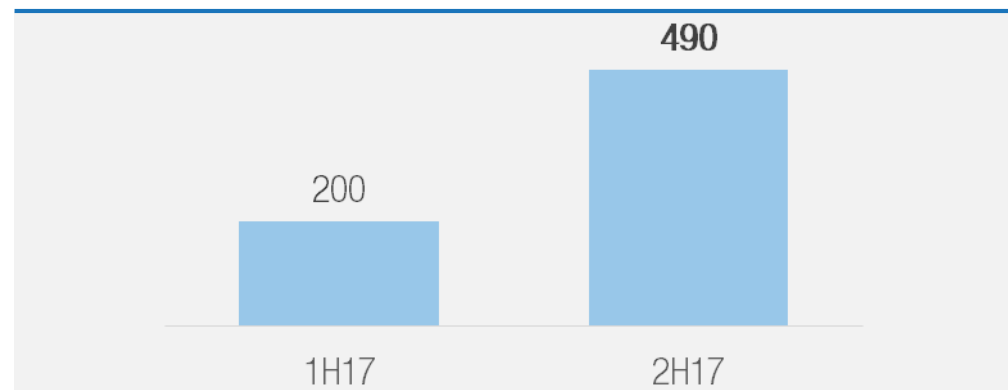


# 2H17 HOUSING LOAN GROWTH

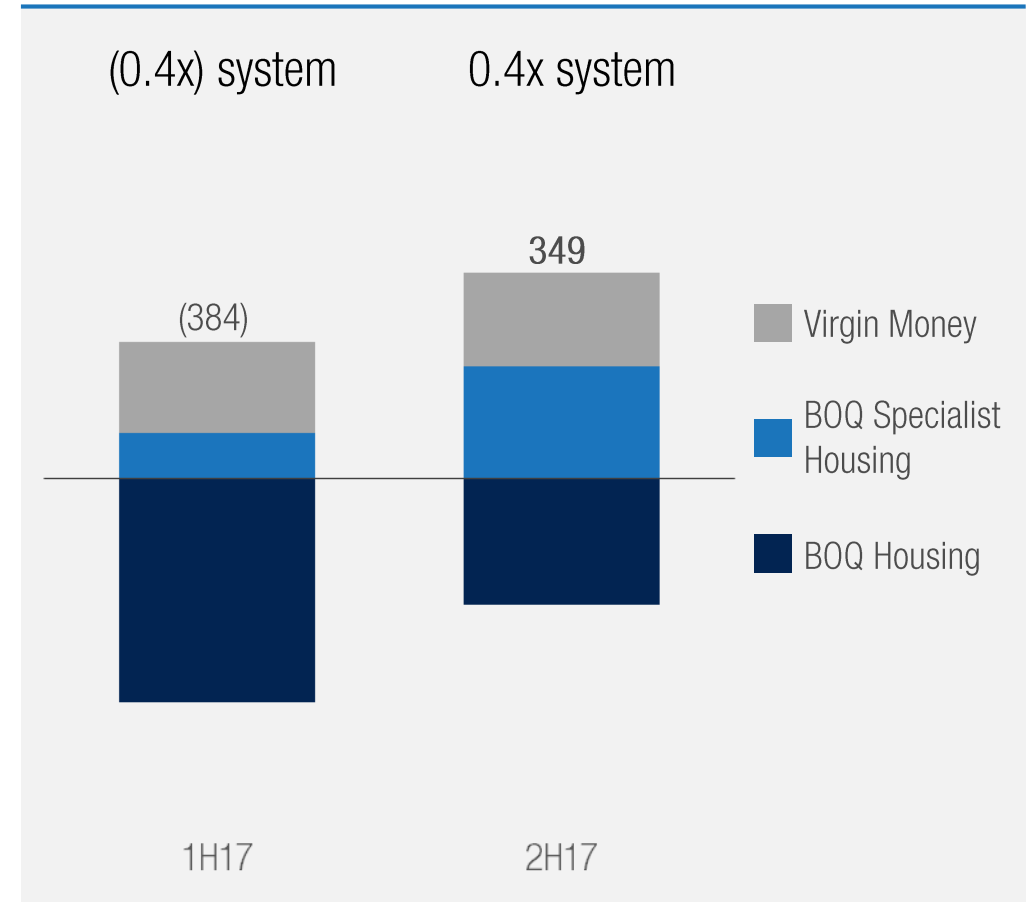
## SUMMARY

- Improved second half across all distribution channels
- Branch numbers now stabilising
- Broker volumes returned
- BOQ Specialist momentum maintained
- Virgin Money ahead of expectations

## VIRGIN MONEY HOUSING LOAN GROWTH (\$M)



## HOUSING LOAN GROWTH (\$M)



# NICHE BUSINESS SEGMENTS DELIVERING



## BOQ SPECIALIST



- Commercial loan book growth of \$188m (7%)
- Housing loan book growth of \$804m (26%)
- New commercial volumes remain at strong levels
- Customer numbers grown to over 30,000

## BOQ FINANCE

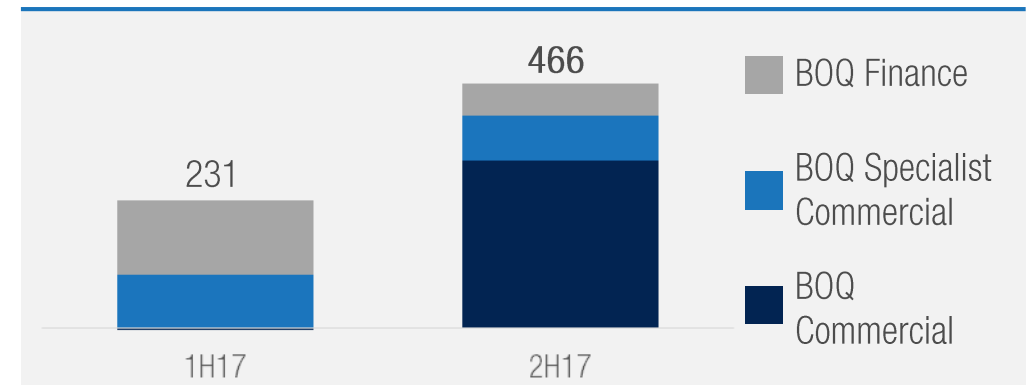


- FY17 organic growth of 4%
- Improving mix of higher margin business
- Impairment expense well below expected range
- Cashflow Finance acquisition successfully integrated

## BUSINESS BANKING SEGMENT GROWTH

- Target sectors of corporate healthcare & retirement living, hospitality & tourism, agribusiness and franchising
- Strong growth in niche business segments of \$309m
- Continuing to add further resources, attract new clients and diversify by geography

## GROWTH ACROSS ALL COMMERCIAL LINES (\$M)





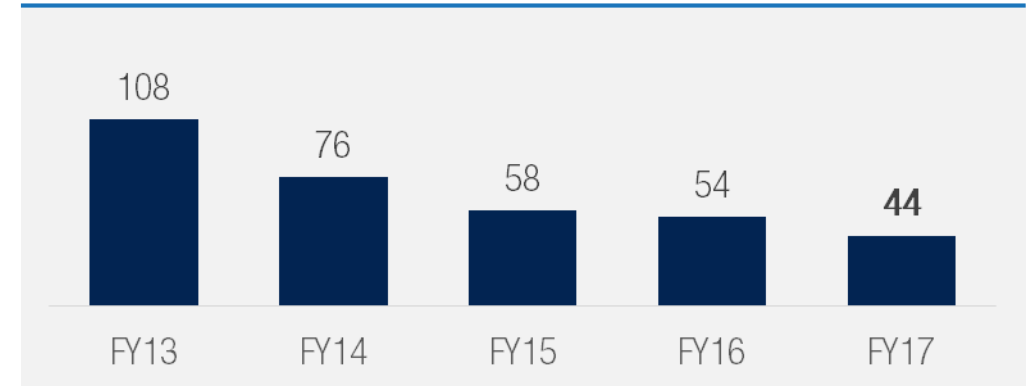
# ASSET QUALITY REMAINS SOUND



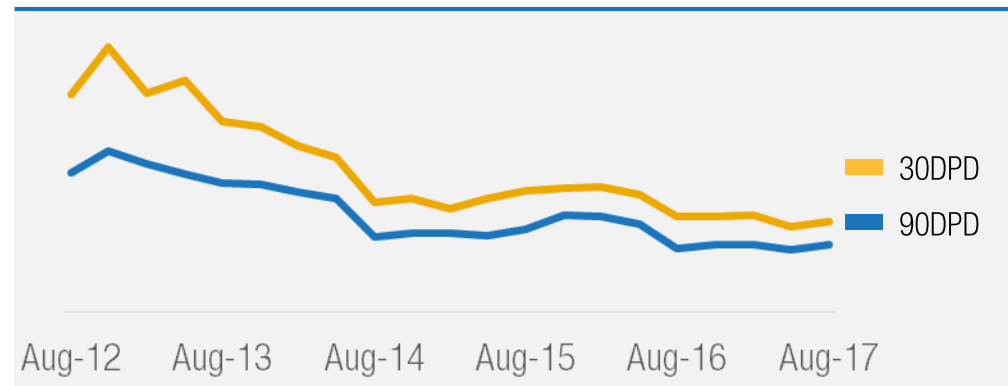
## SUMMARY

- Pleasing results across all portfolios
- Commercial and BOQ Finance performing particularly well
- Housing solid, with pockets of weakness concentrated in Central QLD & WA

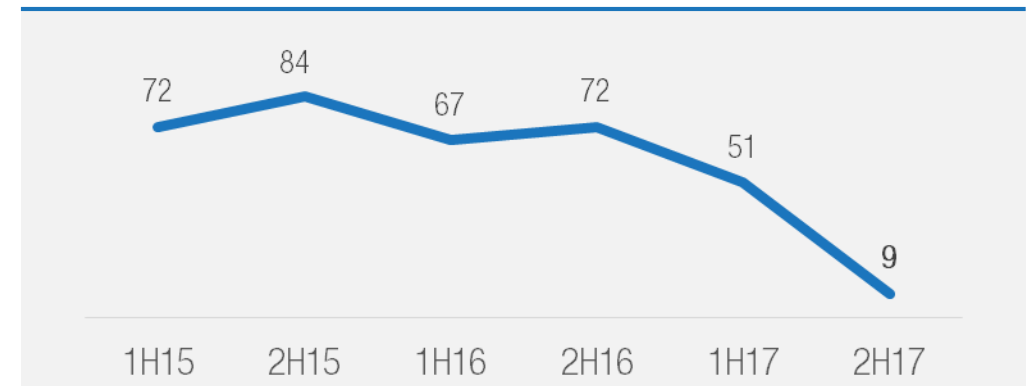
## IMPAIRED ASSETS % OF GROSS LOANS (bps)



## COMMERCIAL LOAN ARREARS<sup>(1)</sup>



## BOQ FINANCE IMPAIRMENT EXPENSE / GROSS LOANS (bps)

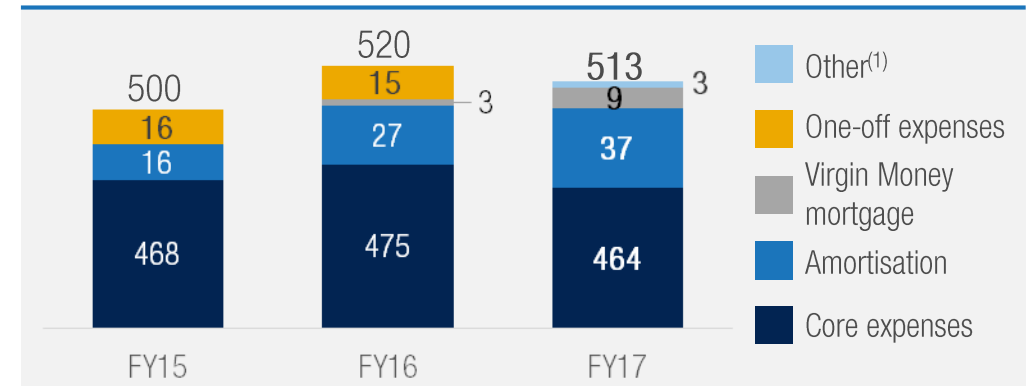


# DELIVERING ONGOING COST SAVINGS

## SUMMARY

- 1% underlying expense growth target achieved for FY17
- More than \$15m in ongoing savings delivered through efficiency programs
- Further efficiency gains will enable additional reinvestment

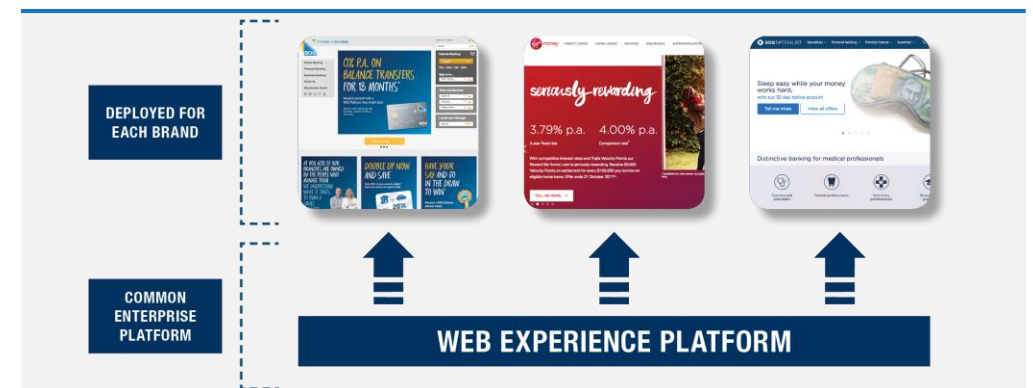
## UNDERLYING EXPENSES (\$M)



## CONTINUING TO INVEST FOR THE LONG TERM

- Investments made in BOQ Specialist and Virgin Money mortgage distribution
- Cost of branch network optimisation absorbed
- Retail Loan origination platform implemented
- First phase of enterprise web experience platform

## DIGITAL TRANSFORMATION



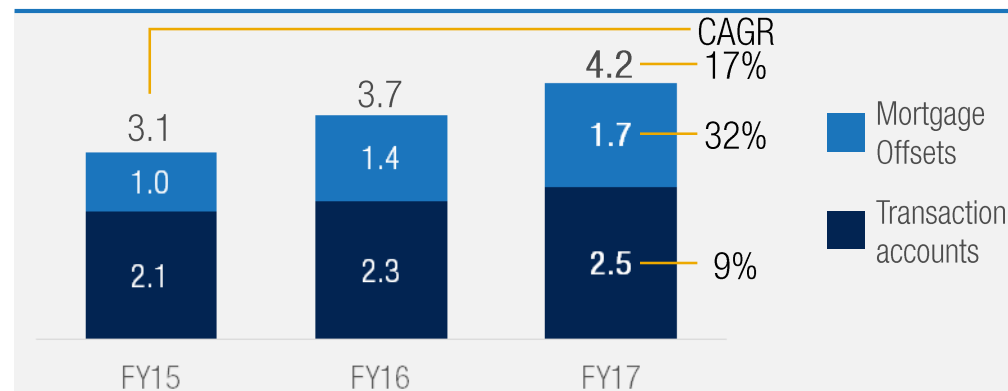
# STRONG FUNDING & CAPITAL POSITION



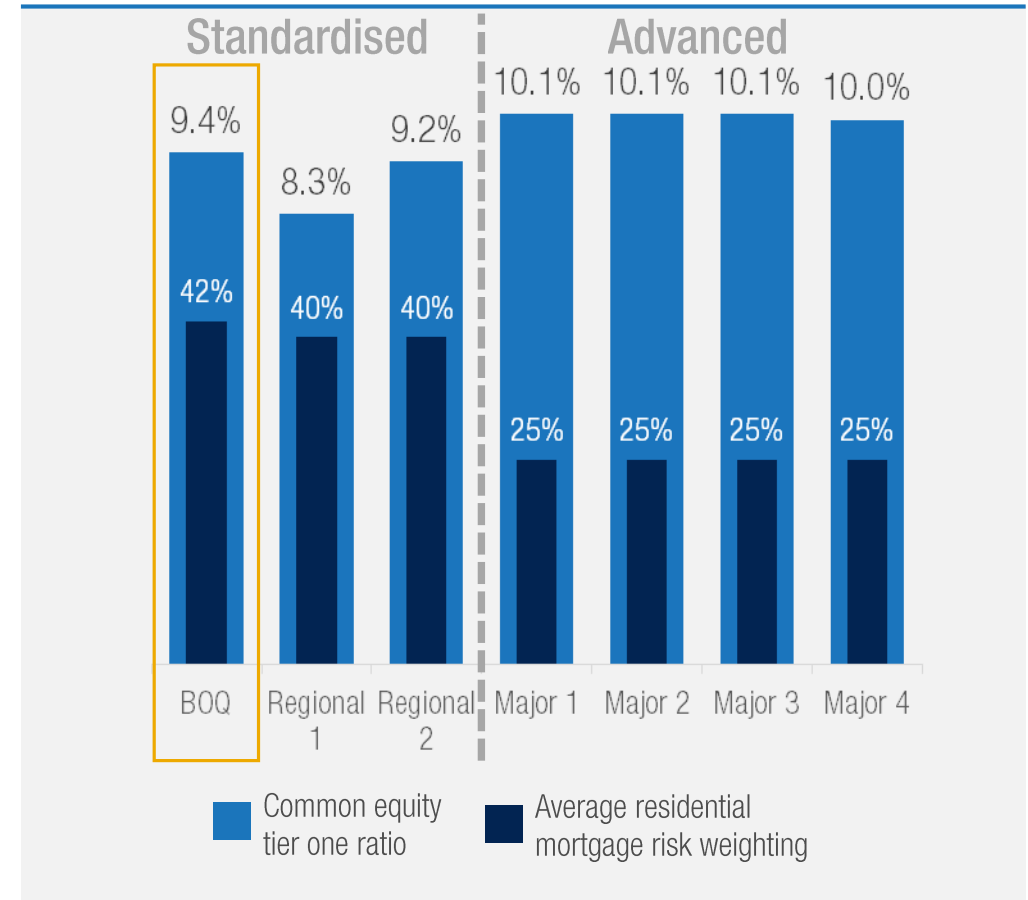
## SUMMARY

- Good progress in relationship deposit growth
- Strong capital position on any measure
- 8c special dividend and DRP suspension announced
- Additional capital management options available

## RELATIONSHIP DEPOSIT BALANCES (\$B)



## CET1 CAPITAL VS PEERS (%)



# FY17 SCORECARD: STRATEGIC PRIORITIES



Strategic pillar	FY17 priorities	FY17 progress	Highlights
Customer in charge	<ol style="list-style-type: none"> <li>Expansion of mortgage aggregators for Virgin Money</li> <li>Enhance digital customer experience</li> <li>Ongoing branch network optimisation</li> </ol>	  	Virgin Money mortgage growth of \$700m
Grow the right way	<ol style="list-style-type: none"> <li>Optimise deposit pricing using data analytics</li> <li>Develop specialist niche capability in franchising and hospitality</li> <li>Focus investment in high margin businesses</li> </ol>	  	Niche segment loan growth of \$1.3bn
There's always a better way	<ol style="list-style-type: none"> <li>Complete roll out of new origination &amp; leasing systems</li> <li>Deliver return on investment in efficiency programs</li> <li>Implement centralised mortgage hub</li> </ol>	  	>\$15m in savings generated
Loved like no other	<ol style="list-style-type: none"> <li>Invest in leadership and talent</li> <li>Build gender diversity towards 50% in senior management by 2020<sup>(1)</sup></li> <li>Complete ethics training roll-out</li> </ol>	  	39% of leadership roles held by women

Legend: Achieved Achieved & ongoing In progress





# Financial Detail

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Anthony Rose  
Chief Financial Officer



# FINANCIAL PERFORMANCE: YEAR ON YEAR



	FY17	FY17 v FY16	FY17 adjusted <sup>(1)</sup>	FY17 adjusted <sup>(1)</sup> v FY16
Net interest income	\$926m	(1%) ▼	\$926m	(1%) ▼
Non interest income	\$175m	1% ▲	\$159m	(8%) ▼
<b>Total income</b>	<b>\$1,101m</b>	<b>(1%) ▼</b>	<b>\$1,085m</b>	<b>(2%) ▼</b>
Operating expenses	(\$513m)	(1%) ▼	(\$513m)	(1%) ▼
<b>Underlying profit</b>	<b>\$588m</b>	-	<b>\$572m</b>	<b>(3%) ▼</b>
Loan impairment expense	(\$48m)	(28%) ▼	(\$48m)	(28%) ▼
<b>Profit before tax</b>	<b>\$540m</b>	<b>3% ▲</b>	<b>\$524m</b>	-
Income tax expense	(\$162m)	(1%) ▼	(\$162m)	(1%) ▼
<b>Cash earnings after tax</b>	<b>\$378m</b>	<b>5% ▲</b>	<b>\$362m</b>	<b>1% ▲</b>
Cash basic earnings per share	97.6c	2% ▲	93.5c	(2%) ▼
Return on average tangible equity	13.7%	(10bps) ▼	13.1%	(70bps) ▼

# FINANCIAL PERFORMANCE: HALF ON HALF



	2H17	2H17 v 1H17	2H17 adjusted <sup>(1)</sup>	2H17 adjusted <sup>(1)</sup> v 1H17
Net interest income	\$474m	5% ▲	\$474m	5% ▲
Non interest income	\$95m	19% ▲	\$79m	(1%) ▼
<b>Total income</b>	<b>\$569m</b>	<b>7% ▲</b>	<b>\$553m</b>	<b>4% ▲</b>
Operating expenses	(\$261m)	4% ▲	(\$261m)	4% ▲
<b>Underlying profit</b>	<b>\$308m</b>	<b>10% ▲</b>	<b>\$292m</b>	<b>4% ▲</b>
Loan impairment expense	(\$21m)	(22%) ▼	(\$21m)	(22%) ▼
<b>Profit before tax</b>	<b>\$287m</b>	<b>13% ▲</b>	<b>\$271m</b>	<b>7% ▲</b>
Income tax expense	(\$84m)	8% ▲	(\$84m)	8% ▲
<b>Cash earnings after tax</b>	<b>\$203m</b>	<b>16% ▲</b>	<b>\$187m</b>	<b>7% ▲</b>
Cash basic earnings per share	52.1c	14% ▲	48.0c	6% ▲
Return on average tangible equity	14.3%	130bps ▲	13.2%	20bps ▲

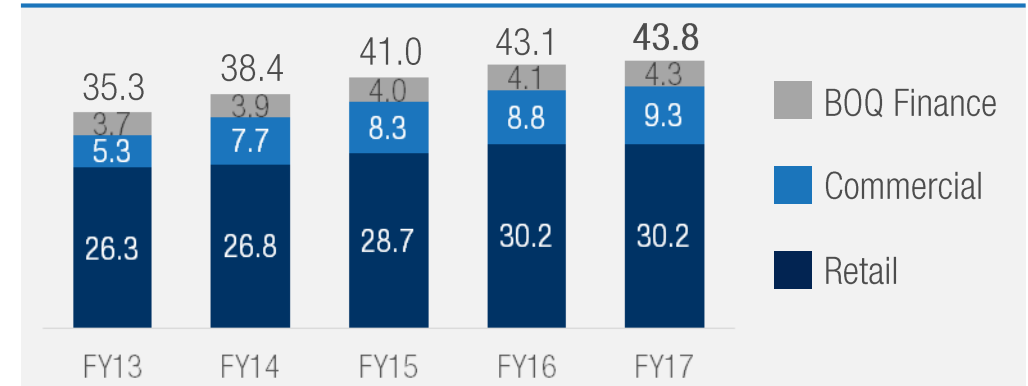
# GROWTH MOMENTUM RETURNED IN 2H17



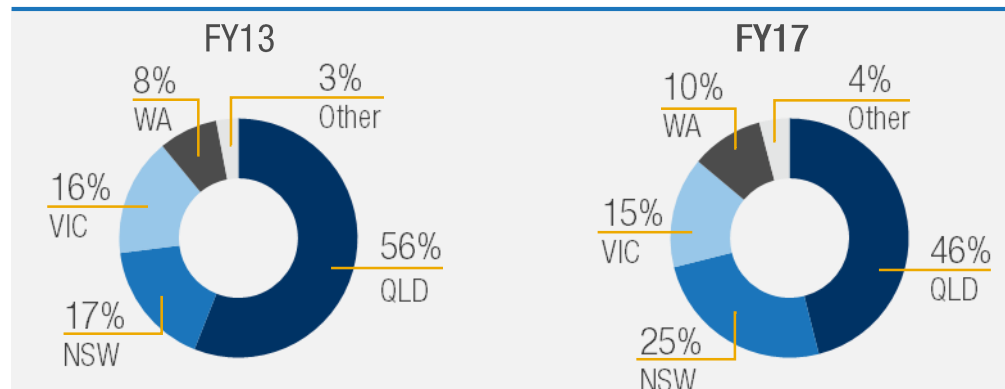
## SUMMARY

- Growth across all portfolios in 2H17
- Commercial loan growth a feature
- Geographic diversification continues

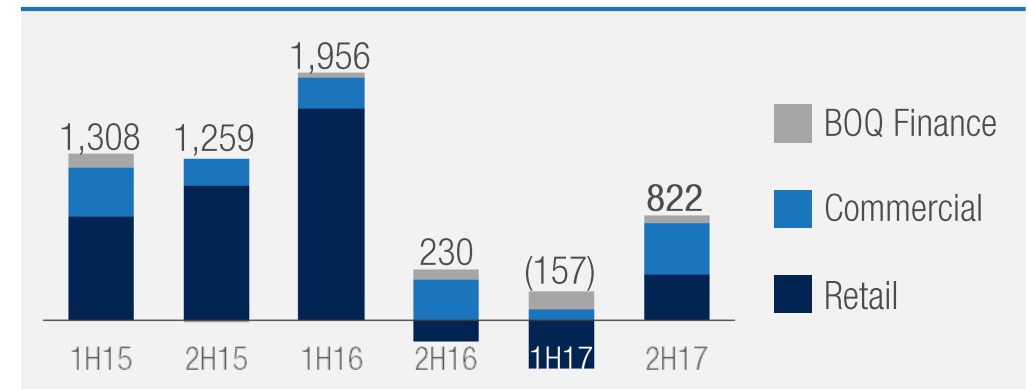
## GROSS LOANS & ADVANCES (\$B)



## TOTAL LENDING GEOGRAPHIC MIX



## HALF YEARLY GROWTH COMPOSITION (\$M)



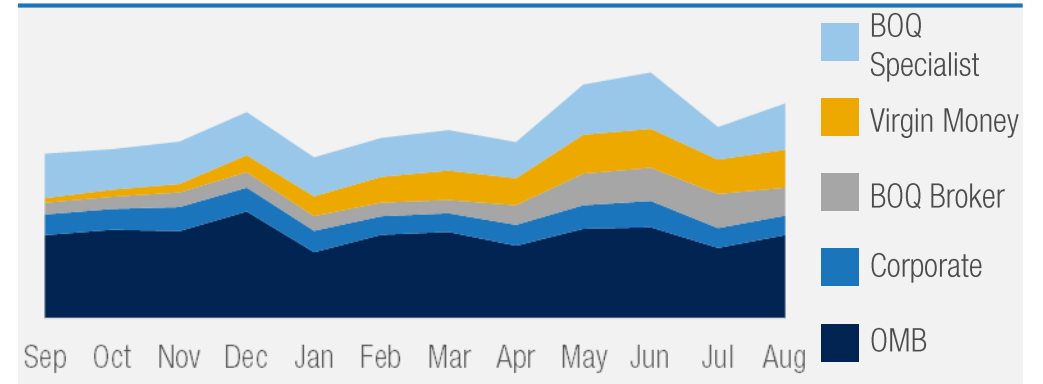
# DIVERSIFIED RETAIL LENDING DISTRIBUTION



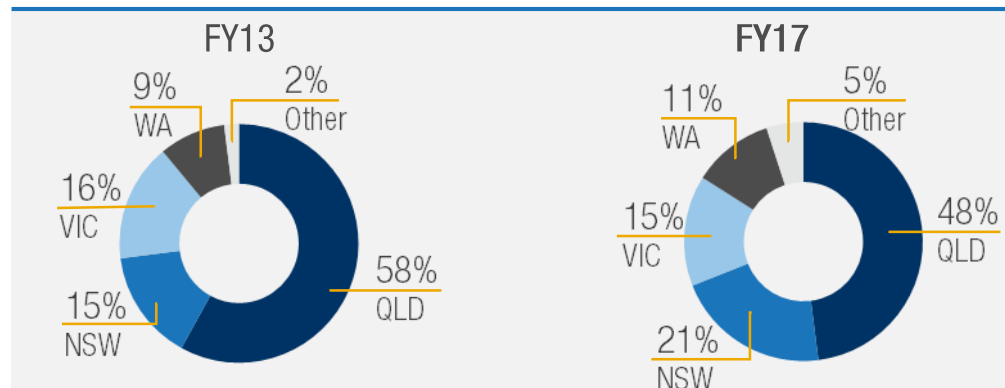
## SUMMARY

- Virgin Money made a significant contribution to growth
- Broker volumes improving – 2H17 BOQ settlements nearly doubled from 1H17
- BOQ Specialist continuing to deliver strong growth
- Branch network momentum improved in 2H17

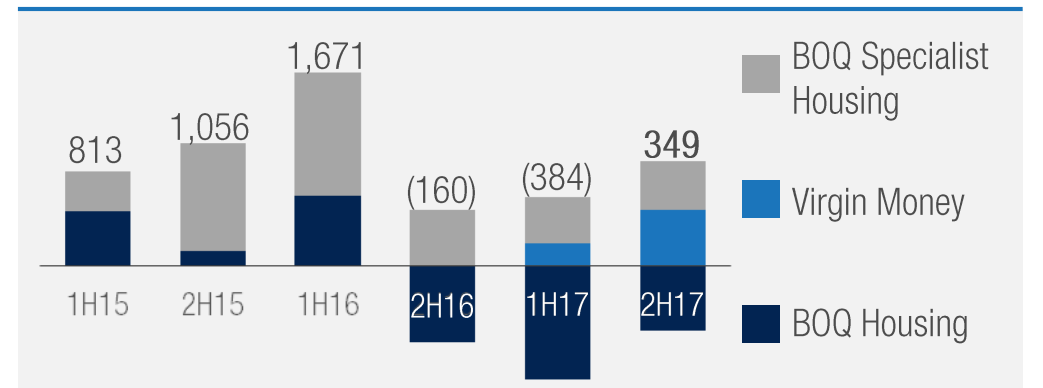
## MONTHLY HOUSING LOAN SETTLEMENTS



## HOUSING LOAN GEOGRAPHIC MIX



## HOUSING LOAN GROWTH (\$M)



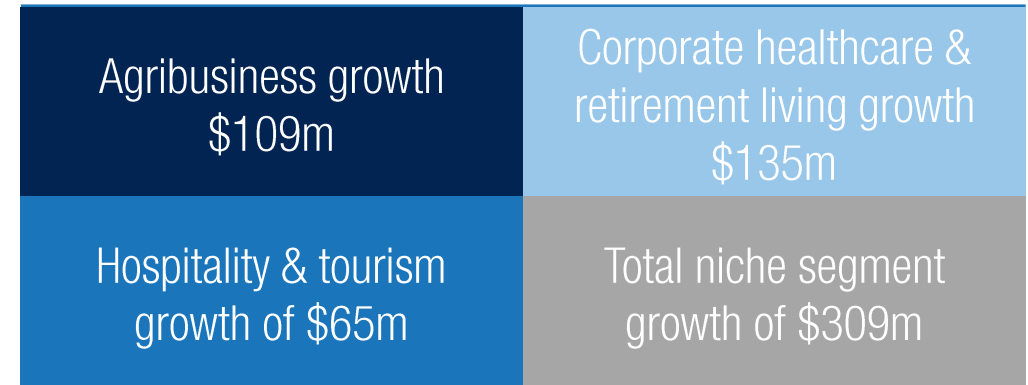
# NICHE COMMERCIAL LENDING STRATEGY



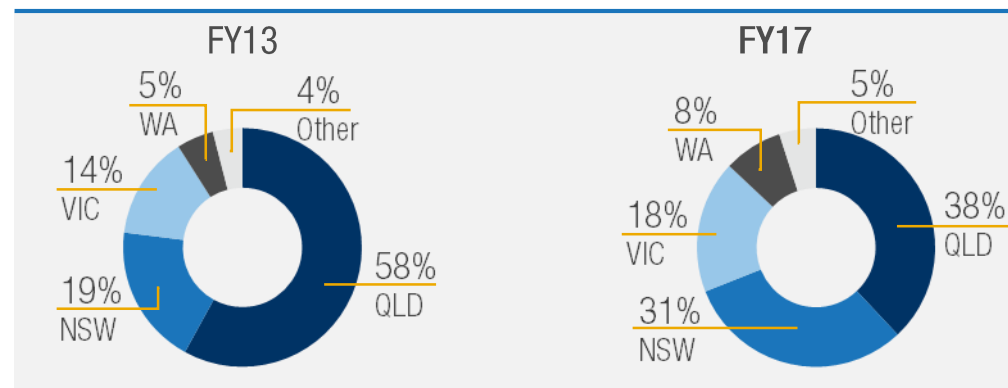
## SUMMARY

- Growth achieved across all portfolios
- BOQ Commercial delivered strong 2H17 growth
- Niche target segments strategy delivering
- BOQ Specialist growth lower at 7%

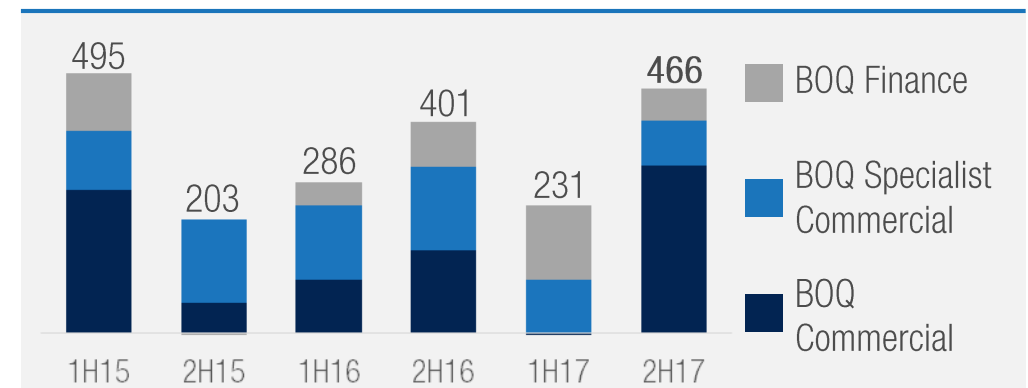
## NICHE SEGMENT FOCUS



## COMMERCIAL LOAN GEOGRAPHIC MIX



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



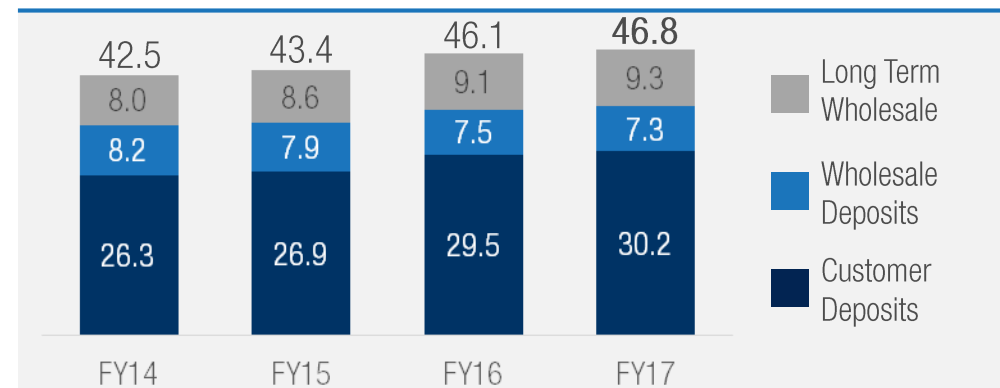


# IMPROVED FUNDING MIX

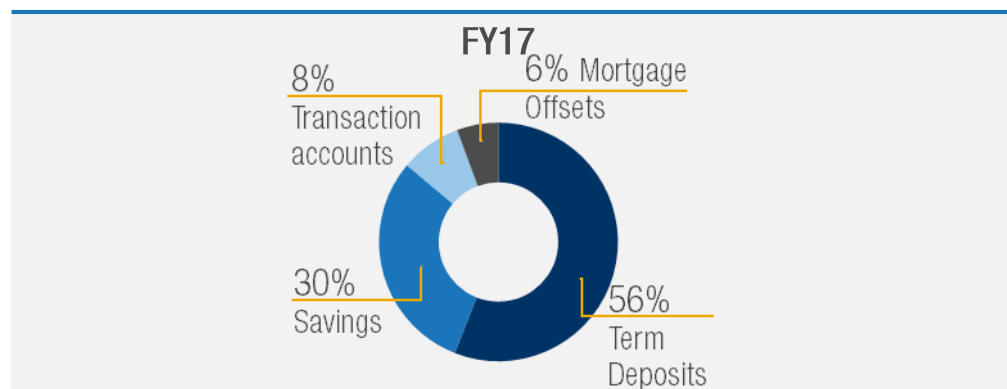
## SUMMARY

- Customer Deposit growth fully funded lending growth
- Deposit to Loan ratio of 69%
- Focus on growing transaction accounts – 10% FY17 growth or 15% including Mortgage Offsets
- Wholesale funding suite enhanced with inaugural Covered Bond issuance

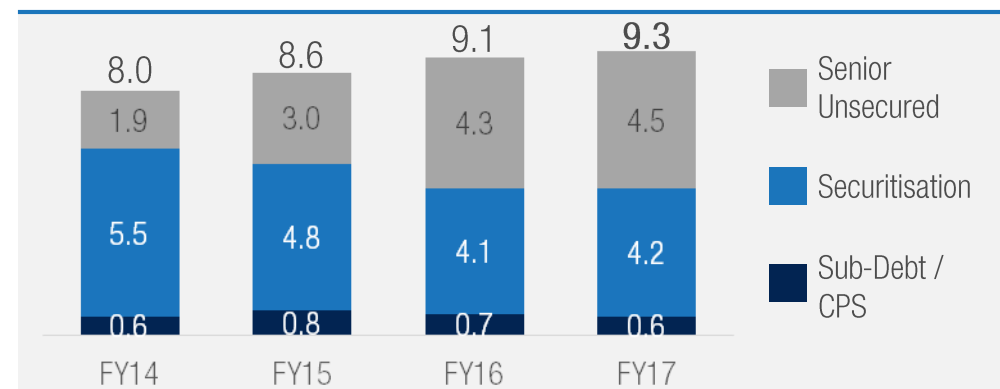
## OVERALL FUNDING MIX (\$B)



## IMPROVED CUSTOMER DEPOSIT MIX

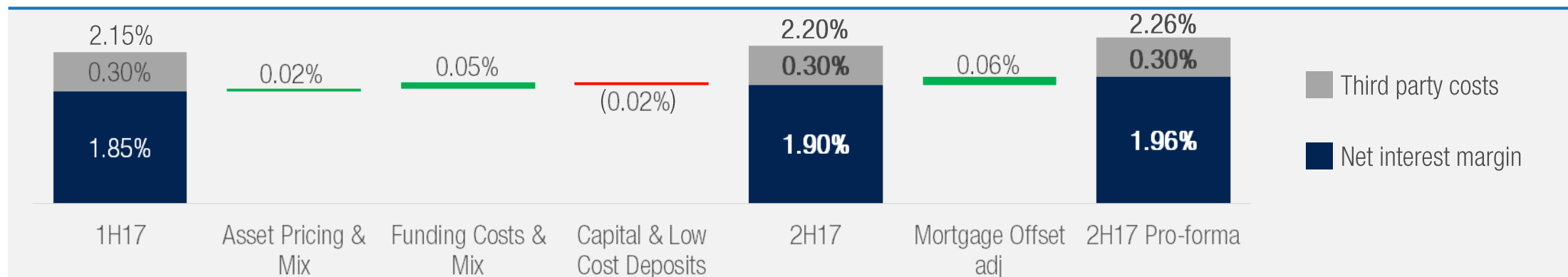


## LONG TERM WHOLESALE FUNDING (\$B)



# MOVEMENT IN NET INTEREST MARGIN

## NET INTEREST MARGIN MOVEMENTS 1H17 TO 2H17<sup>(1)</sup>



## 2H17 CONSIDERATIONS

- Front book vs back book housing impact ongoing
- Mortgage repricing has provided some offset
- Unwind of 1H funding cost increase occurred as expected in 2H

## SUMMARY OF KEY MOVING PARTS

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

# NON INTEREST INCOME



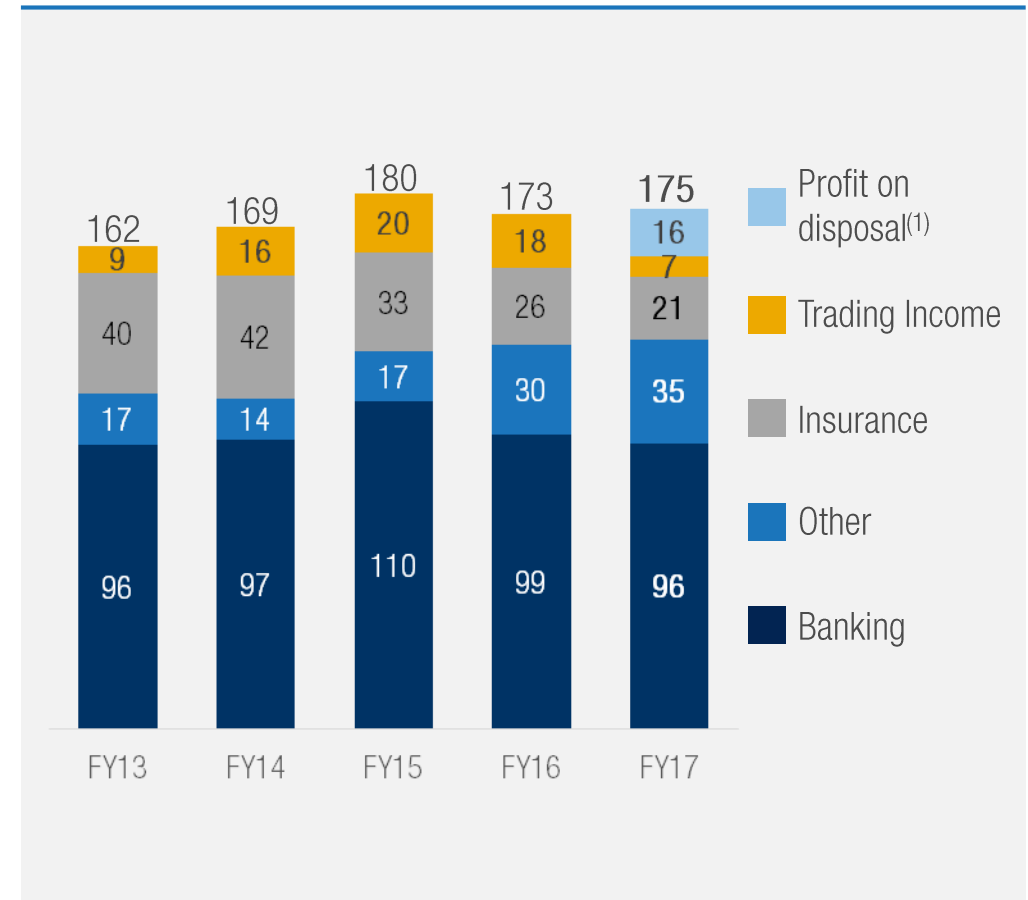
## SUMMARY

- Banking fees remain under pressure
- St Andrew's income now stabilised
- Trading income opportunities diminished
- Vendor finance entity disposal supported Other income

## VENDOR FINANCE ENTITY DISPOSAL

- Contractual arrangement with BOQ Finance vendor
- Option for vendor to acquire portfolio
- Effectively brings forward future portfolio earnings
- \$16m one-off profit on disposal
- Capital losses utilised to offset capital gain

## NON INTEREST INCOME BREAKDOWN (\$M)



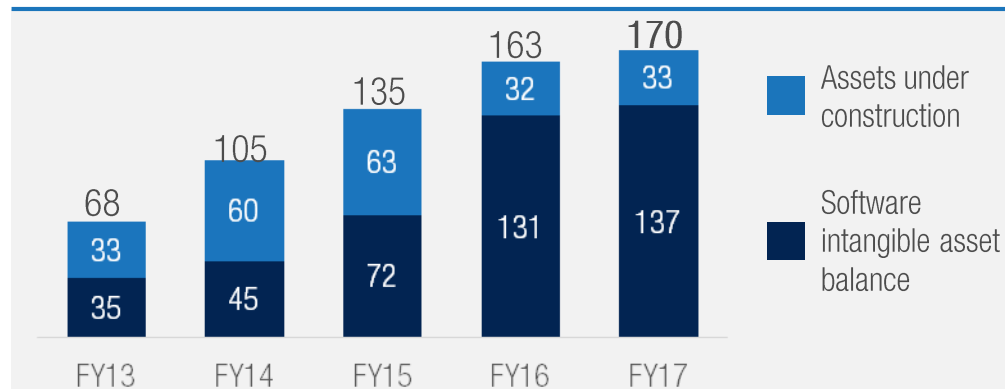
# EXPENSES



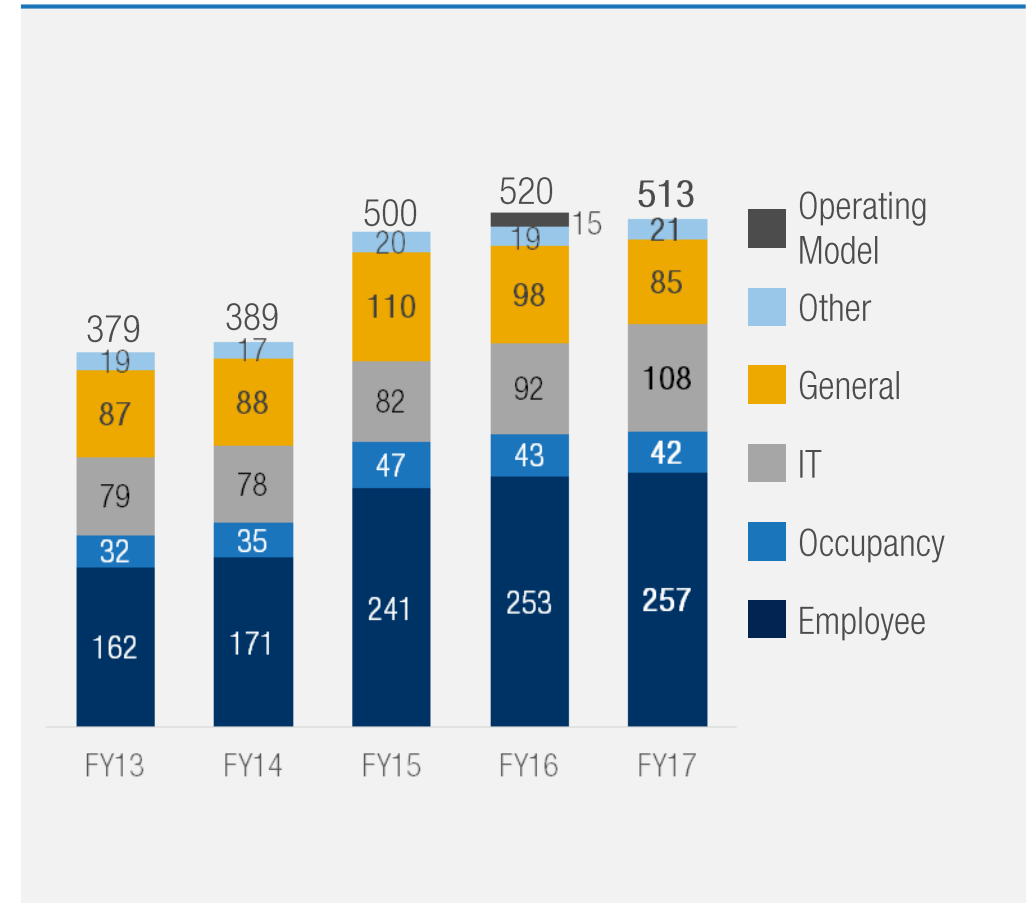
## SUMMARY

- 1% underlying growth from FY16
- \$3m additional costs from Cashflow Finance acquisition
- IT Expenses increased due to higher software amortisation
- Efficiency programs delivered targeted savings
- Investing in growth businesses of BOQ Specialist and Virgin Money

## CARRYING VALUE OF INTANGIBLE ASSETS (\$M)



## OPERATING EXPENSE BREAKDOWN (\$M)



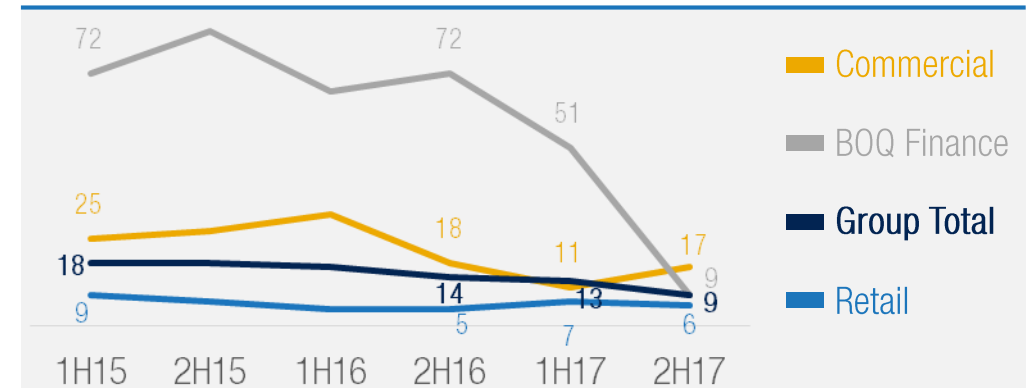
# ASSET QUALITY



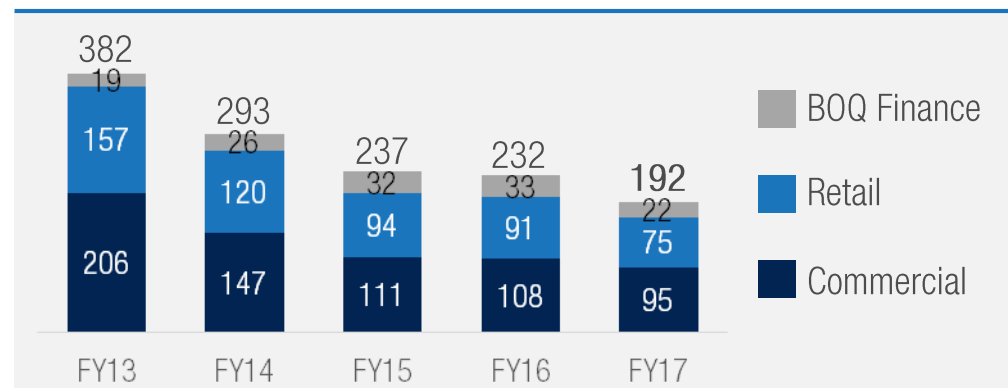
## SUMMARY

- Loan impairment expense down to 11bps of GLA in FY17
- Impaired assets down 17% on FY16
- Lower volume of <\$5m new impaired assets
- \$29m new impaired asset – last large legacy exposure, outside risk appetite at 2012 review

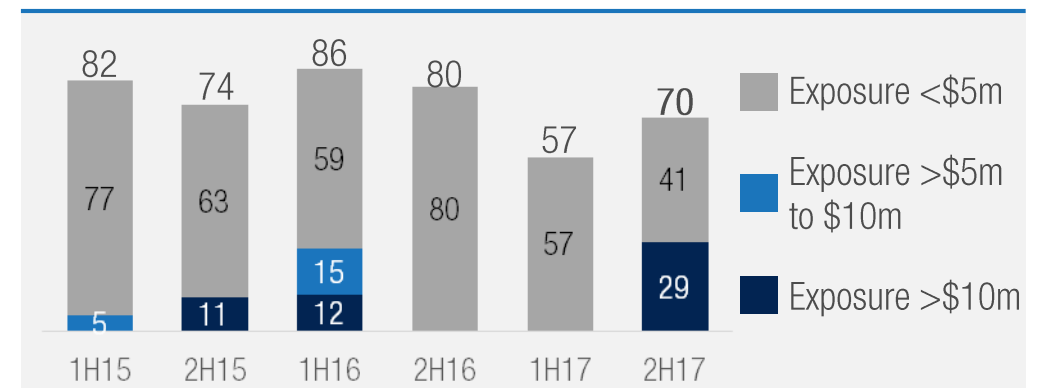
## LOAN IMPAIRMENT EXPENSE BY PRODUCT (bps)<sup>(1)</sup>



## IMPAIRED ASSETS (\$M)



## NEW IMPAIRED ASSETS (\$M)





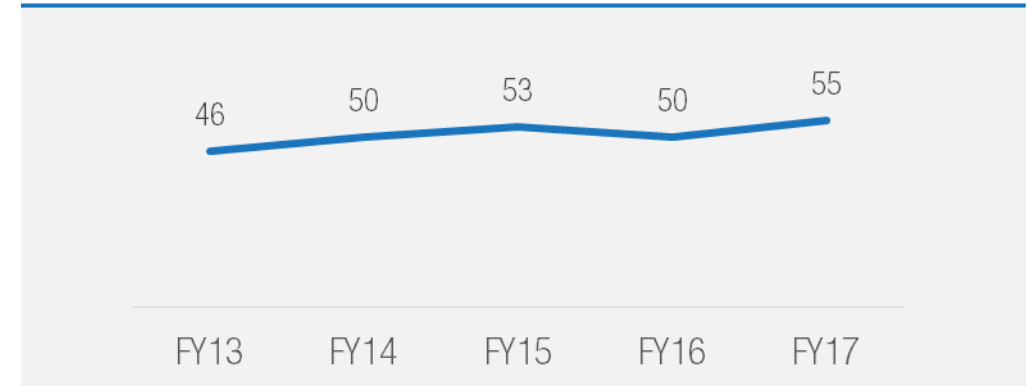
# STRONG PROVISION COVERAGE



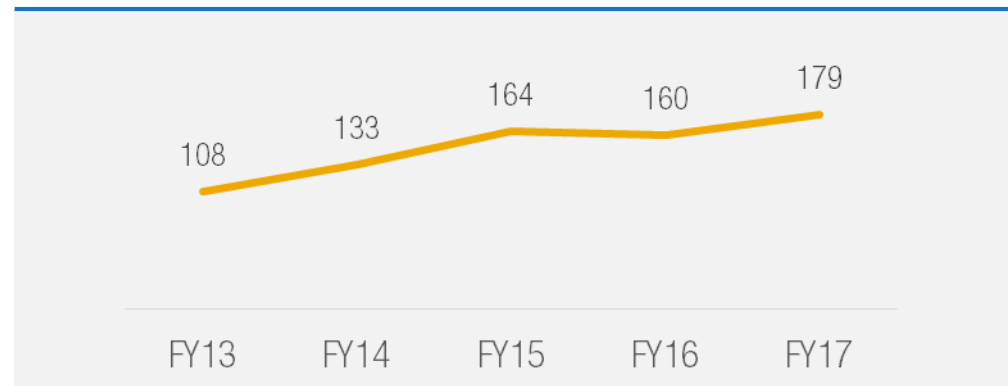
## SUMMARY

- Specific Provisioning and Total Provisioning coverage strong
- Final legacy watchlist exposure now specifically provisioned
- Provisioning coverage compares favourably with peers
- Reduction in legacy collective provision model adjustment
- New Collective Provision model introduced in 1H18

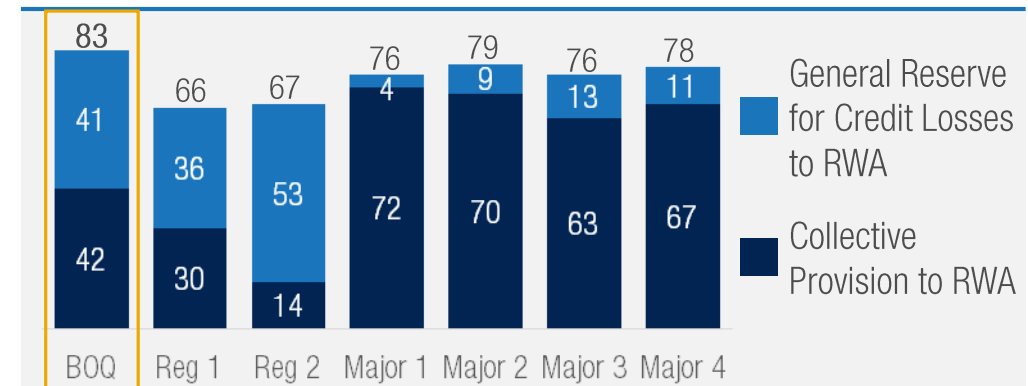
## SPECIFIC PROVISIONS / IMPAIRED ASSETS (%)



## TOTAL PROVISION & GRCL / IMPAIRED ASSETS (%)



## PROVISIONING COVERAGE VS PEERS (bps)



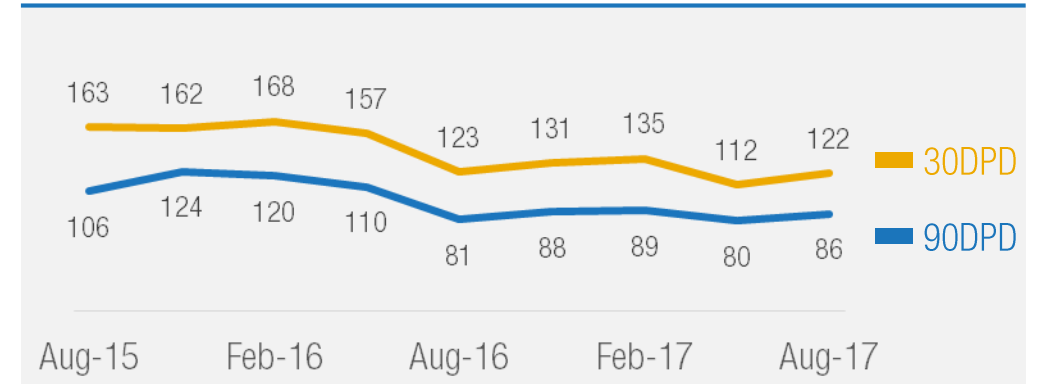
# ARREARS



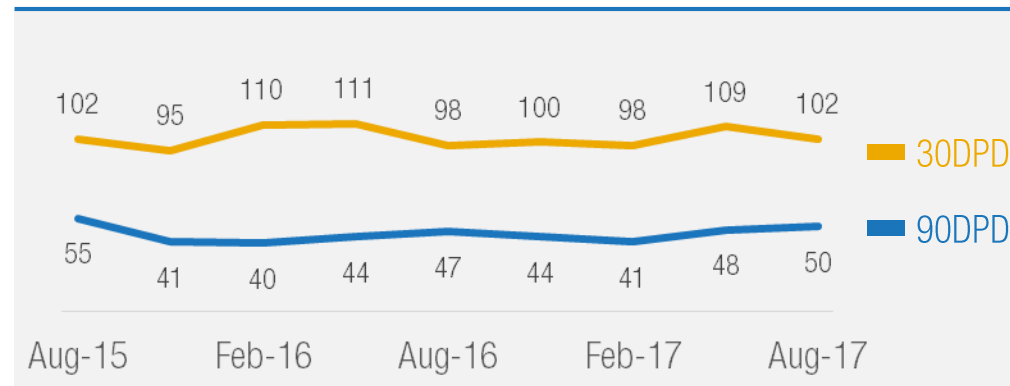
## SUMMARY

- Commercial arrears remain stable
- Housing portfolio continues to perform well
- BOQ Finance arrears below sustainable levels

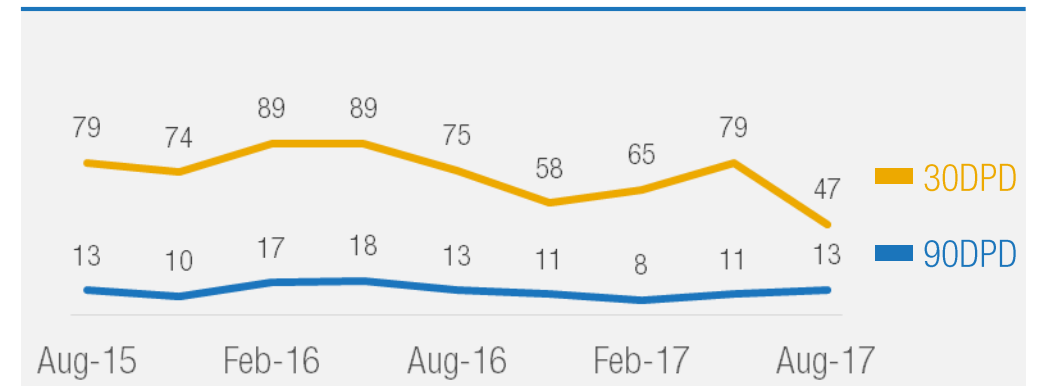
## COMMERCIAL ARREARS (bps)



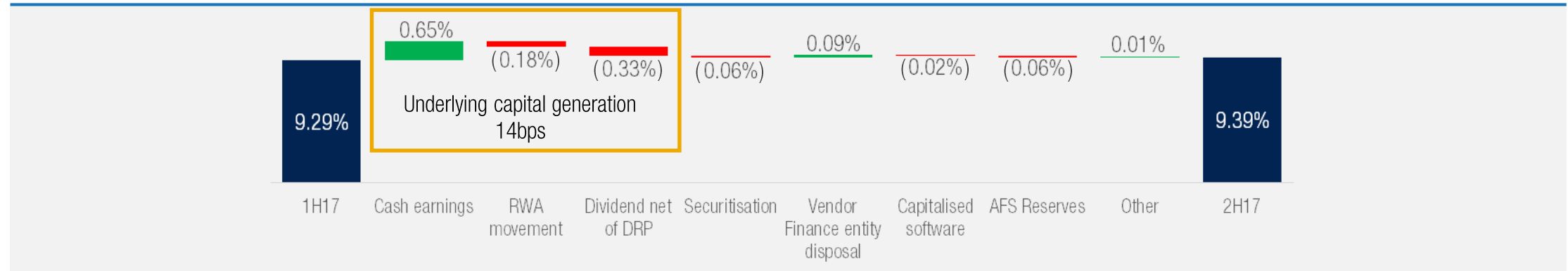
## HOUSING ARREARS (bps)



## BOQ FINANCE ARREARS (bps)



## COMMON EQUITY TIER 1 MOVEMENTS



## SUMMARY

- 9.39% Common Equity Tier 1 ratio
- Strong capital generation
- Expect 1H18 impact of +20-25bps (from APS 120 & GRCL reduction)
- 8c special dividend
- One-off DRP suspension

## CAPITAL MANAGEMENT

- 9.25% CET1 interim target post 'unquestionably strong'
- Other capital alternatives:
  - Organic growth
  - Accelerating digital transformation
  - Future returns of capital to shareholders



# Summary & Outlook

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Jon Sutton  
Managing Director & CEO



## Industry

- Conduct and culture focus intensifying
- Increasing regulatory & political scrutiny
- Technology transforming customer experience

## Economic

- National economy improving, but consumers cautious
- QLD doing well, but mixed across regions
- Slowing credit growth



# STRATEGIC FOCUS



## Strategic pillar

Customer in charge

Grow the right way

There's always a better way

Loved like no other

## Goals

- Achieving minimum digital parity and meeting more of our customers' digital needs
- Delivering a seamless customer experience across channels

- Improving deposit gathering and lifting MFI penetration across all business lines
- Growing assets with pricing based on risk profile and holistic relationship

- Overhauling key processes to align to our relationship proposition
- Creating capacity to invest by Bringing the Future Forward

- Delivering a differentiated service offering
- Investing in an engaged and capable team

## FY18 priorities

1. Upgrade customer facing digital platforms
2. Expand Virgin Money product offering
3. Increase frontline staff to support BOQ Business growth

1. Refocus distribution channels towards deposit gathering and MFI
2. Close key product gaps that support deeper relationships
3. Implement new FX digital platform

1. Operating model refresh and establish centres of excellence
2. Delivery of key transformation initiatives
3. Continuous improvement focused on productivity and customer experience

1. Delivery of the 'Customer Heartbeat' programme
2. Improve employee engagement
3. Implement a program to increase advocacy across key business partnerships

- 1 — Current market conditions favour niche segment strategy
- 2 — Virgin Money & BOQ Specialist provide avenues for growth
- 3 — Remain cautious about outlook for housing market
- 4 — Building momentum in transformation delivery
- 5 — Strong capital position provides flexibility



# Appendices

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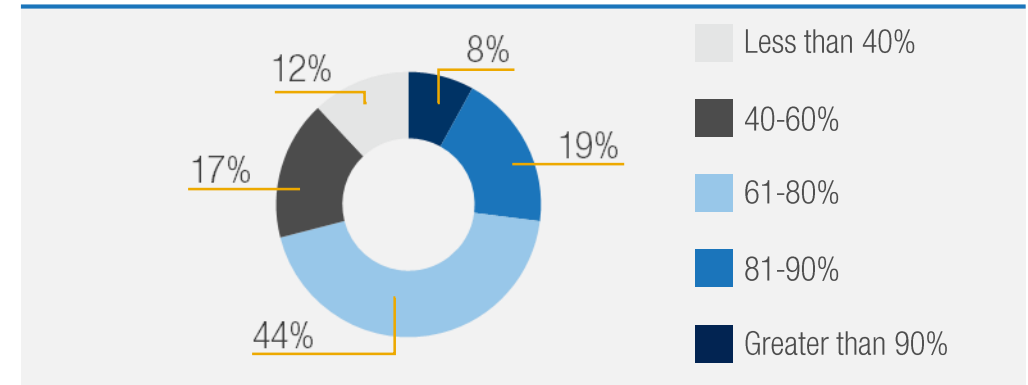
# HOUSING PORTFOLIO



## SUMMARY

- Broker settlements increased to 28% including Virgin Money
- Interest only settlements trending to less than 30%
- Room for growth under 10% investor cap

## HOUSING PORTFOLIO LVR BANDS



## PORTFOLIO METRICS

Metrics (%)	2H16	1H17	2H17
Owner occupied	58	59	59
Investment	42	41	41
Interest only	40	39	37
Broker originated <sup>(1)</sup>	8	9	11
Weighted avg LVR	67	67	67
Line of Credit	9	8	8
Avg loan balance	\$262k	\$265k	\$269k
Variable rate	75	74	72
Fixed rate	25	26	28

## SETTLEMENT METRICS

Metrics (%)	2H16	1H17	2H17
Owner occupied	59	70	63
Investment	41	30	37
Interest only	39	35	31
Broker originated <sup>(1)</sup>	15	15	28
Weighted avg LVR	67	67	69
Line of Credit	3	2	1
Avg loan balance	\$376k	\$370k	\$381k
Variable rate	69	72	72
Fixed rate	31	28	28



# EXPOSURE TO HIGH RISK SECTORS

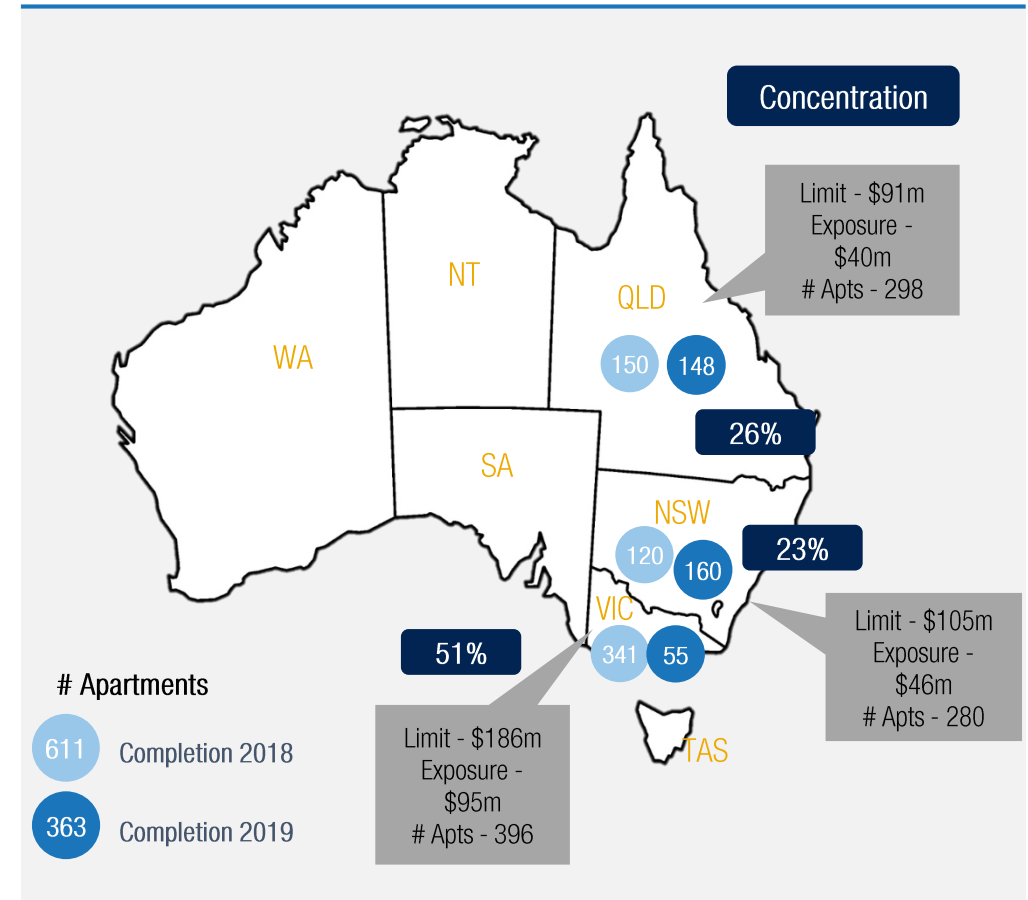
## APARTMENT CONSTRUCTION EXPOSURES<sup>(1)</sup>

- \$181m current exposure to residential construction
- 28 developments across 3 states, completing 2018 through 2019
- Well diversified intra-state

## OTHER HIGHER RISK SECTORS

- No material regional housing exposures
- No systemic issues emerging
- Direct mining industry exposure ~\$100m

## LENDING TO RESIDENTIAL APARTMENT CONSTRUCTION





# ABBREVIATIONS



1H: First half of financial year

2H: Second half of financial year

30DPD: 30 days past due

90DPD: 90 days past due

ADI: Authorised Deposit-taking Institution

ALM: Asset & Liability Management

APRA: Australian Prudential Regulation Authority

APS: ADI Prudential Standards

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

DPD: Days past due

DRP: Dividend Reinvestment Plan

EPS: Earnings per share

FX: Foreign exchange

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

MFI: Main Financial Institution

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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