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Bank of Queensland

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

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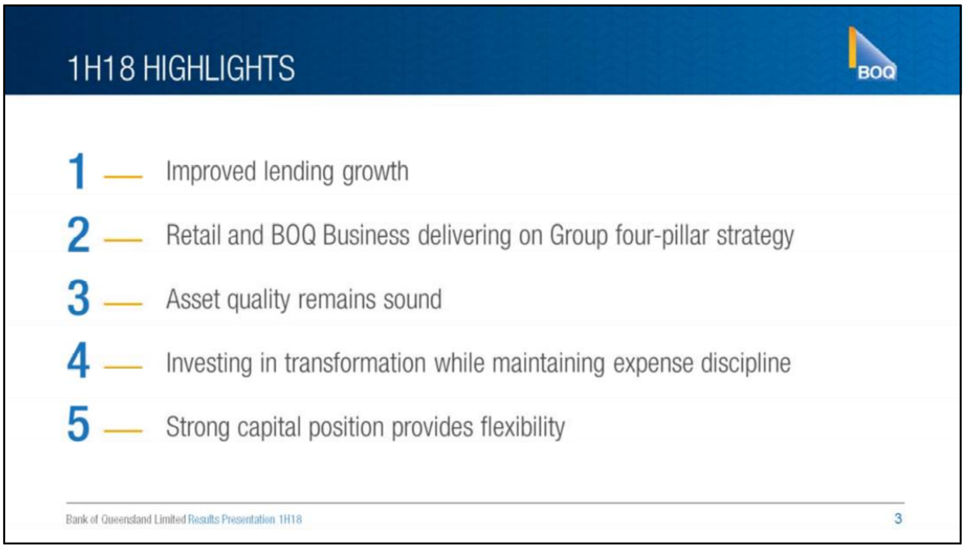
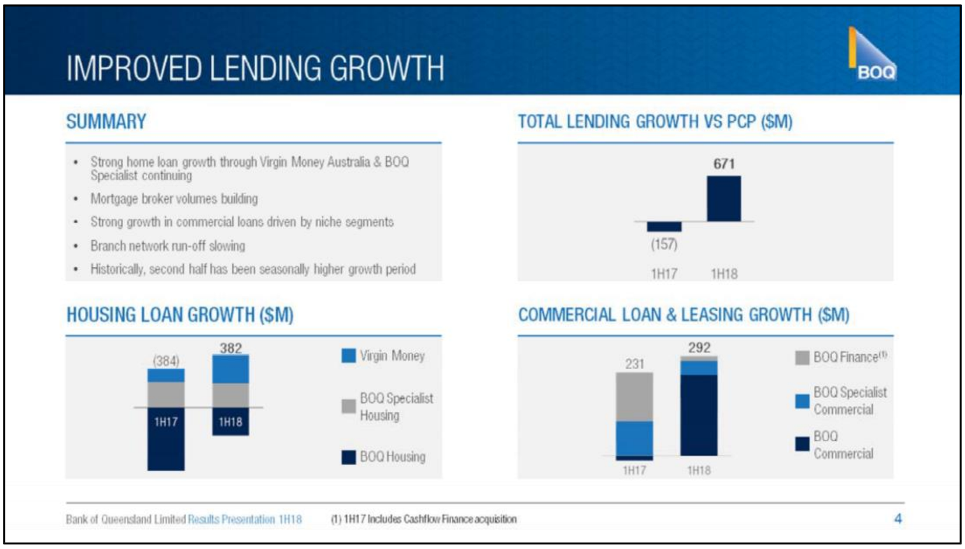


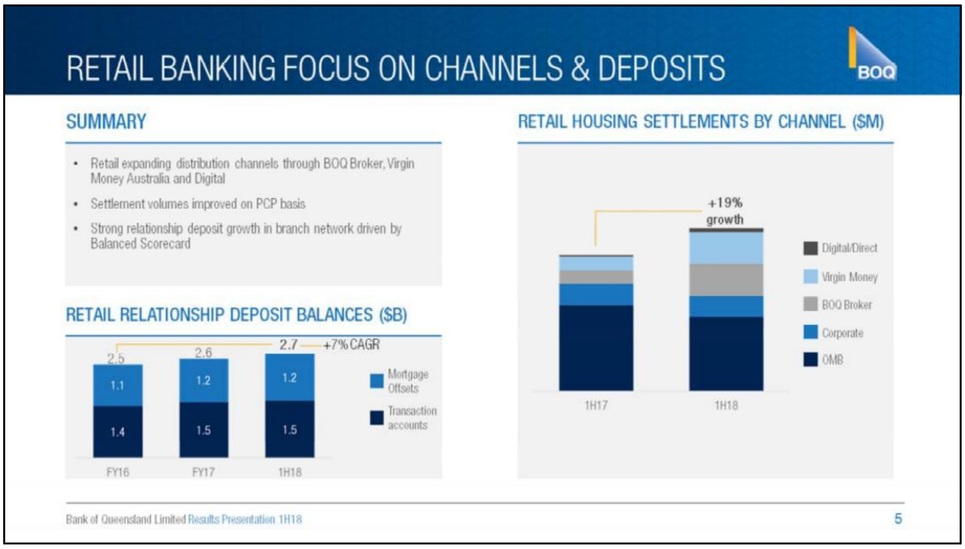
We recently reported our 1H18 results. The highlights included:

- Improved lending growth, supported by our commercial niche segments, as well as home loan growth through the Virgin Money, BOQ Specialist and BOQ Broker channels.
- Both the Retail Bank and BOQ Business are delivering against the Group's four pillar strategy.
- Our asset quality remains sound, which is evident across a range of metrics.
- We have maintained discipline in expense management. This has allowed us to continue investing for the future.
- Our capital position remains very strong, providing us with options to enhance shareholder returns for the long term.
- These results were achieved against a backdrop of changing regulatory and market conditions.

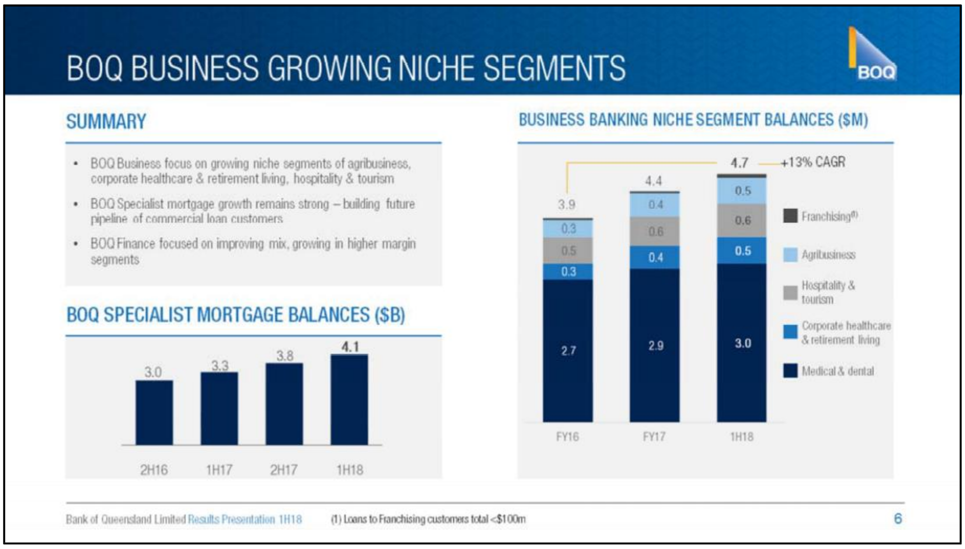


Looking at Lending growth

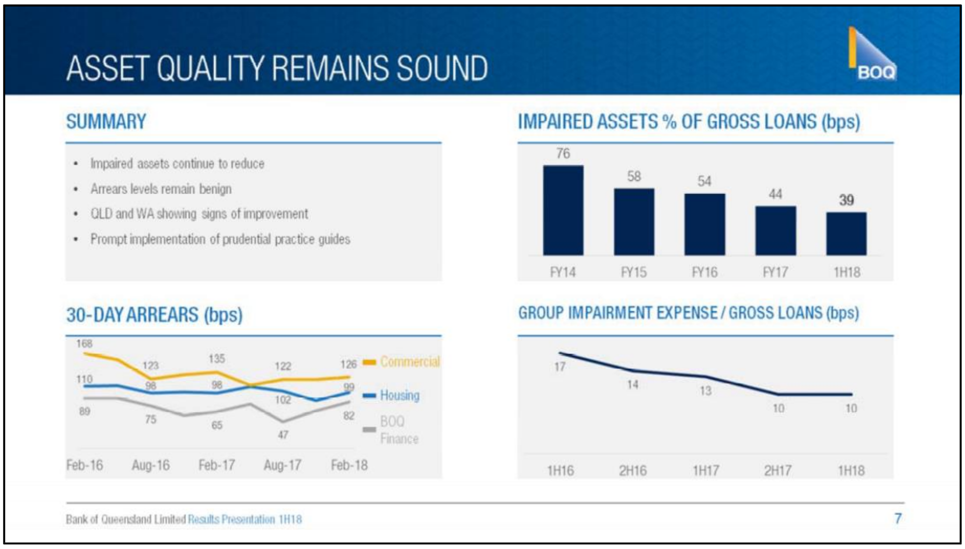
- We are seeing improvements in both housing and commercial loan growth.
- In housing, BOQ Broker, Virgin Money and BOQ Specialist have all made strong contributions.
- We have also seen improvement in the branch network as branch numbers stabilise. As we have previously stated, it will take more time for the branch network to return to lending growth; however, this remains the bank's deposit growth engine
- Our niche segments have delivered very good results, supporting commercial loan growth of 1.6 times system.
- The first half has traditionally been a lower growth period. We are pleased with the steady rate of growth since the prior corresponding period.



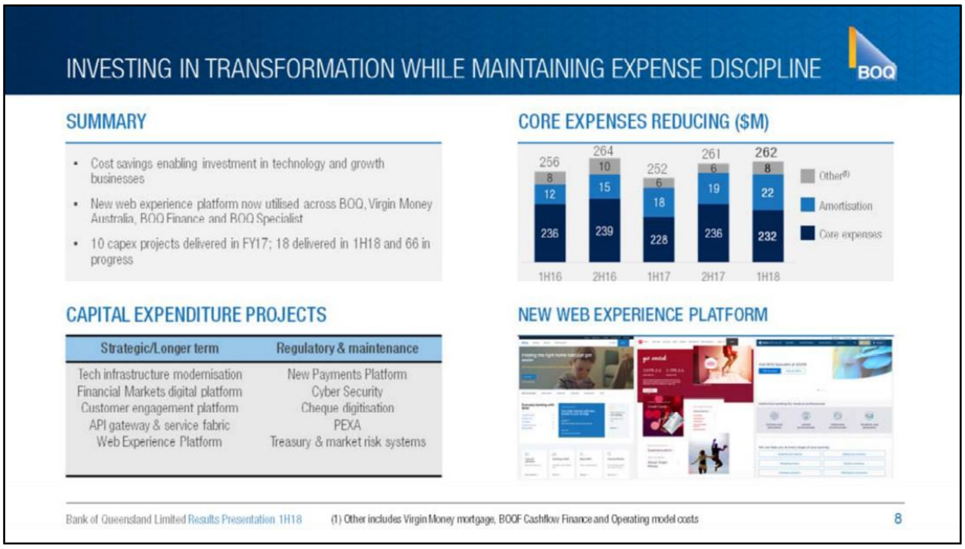
- Retail Banking has continued to diversify its channels. BOQ Broker and Virgin Money contributed 40 per cent of Retail's home loan settlements in the first half of 2018.
- Overall, housing loan settlements increased 19 per cent compared to the same time last year. This was achieved while continuing to fulfil our responsible lending obligations to our customers.
- Virgin Money continues to perform ahead of expectations. Since the launch of the Virgin home loan product just under two years ago, the portfolio has grown to 1.2 billion dollars.
- Even though it will take some time before our branch network returns to growth in lending, we have seen continued improvement through the network during this half.
- Our branch network remains a key driver for deposit gathering and is critical in funding BOQ's future growth aspirations.
- Pleasingly, transaction account deposit growth has been strong at ten per cent since the first half of 2017.



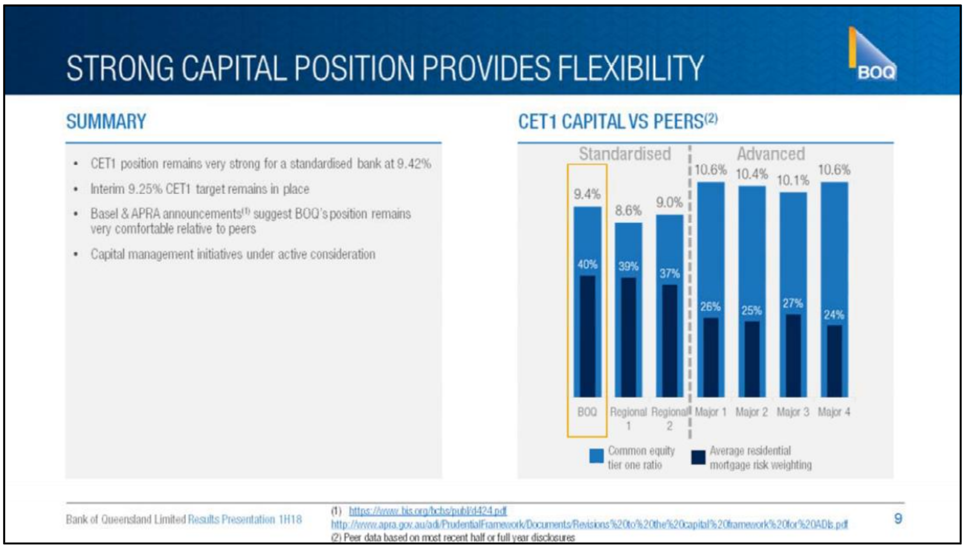
- The BOQ Business division has continued to benefit from maturing its niche strategy across commercial customer segments. It achieved commercial loan growth of nearly 300 million dollars.
- This has been delivered across target segments that seek a real relationship banking proposition and industry expertise. These include medical & dental, corporate healthcare & retirement living, hospitality & tourism and agribusiness.
- BOQ Specialist has delivered another strong period of housing loan growth. Total mortgage balances of this portfolio have grown to 4.1 billion dollars in just three and a half years.
- BOQ Finance has remained focused on margin and mix, successfully growing its structured vendor programs.



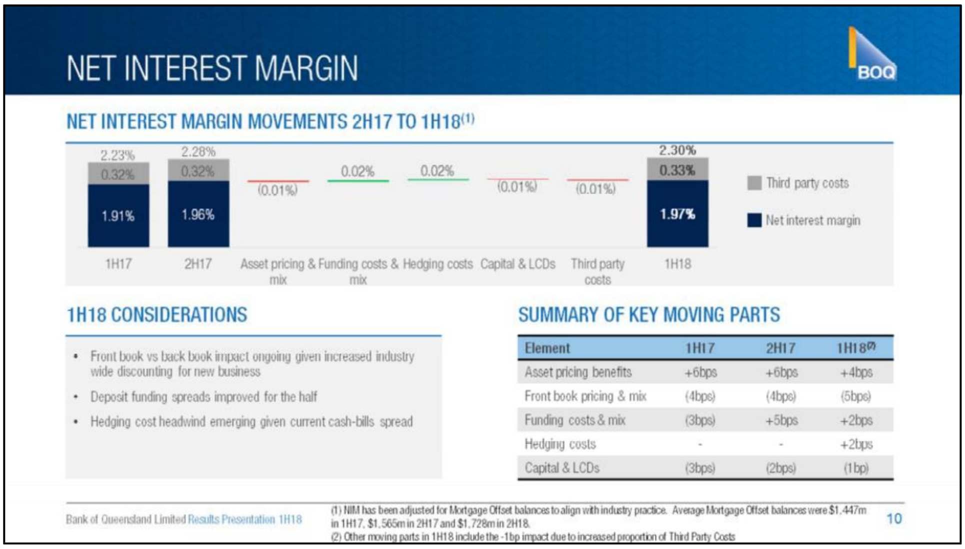
- Our asset quality remains sound, which is clearly evident across a number of metrics.
- Impaired assets have reduced to 39 basis points of total loans.
- Impairment expense has remained steady at 10 basis points of total loans.
- Our arrears trends remain benign, with the exception of the usual post-Christmas uptick. In March we have seen these levels reduce as expected.



- We have continued to search for and extract efficiencies across the business. This has enabled us to reduce core expenses by four million dollars compared to the last half.
- At the same time, we have been investing for the future with a large number of transformation initiatives underway across the group.
- We completed the rollout of our new web experience platform which enhances our customer connectivity. BOQ and BOQ Finance brands have now joined Virgin Money Australia and BOQ Specialist on the new platform. Since launch, we have seen positive feedback and engagement from customers.
- This is an important step in our journey to lift the standard of our digital assets to better meet our customers' expectations.
- There is still a lot more for us to do in this regard. Our internet and mobile banking offerings are high on the list to be refreshed into modern and more flexible platforms.



- Our capital levels remain very strong.
- Following the Basel and APRA papers released in the past few months, we remain very comfortable with our position. Relative to our peers, we are in a strong position as a standardised bank at 9.42 per cent CET1.
- The sale of our St Andrews' Insurance business – announced concurrently with our results – will add an additional 20 basis points to this position when the transaction is completed following the necessary regulatory approval process.
- Our interim CET1 target of 9.25 per cent remains in place until there is further certainty from the regulator.
- Therefore, our capital management options remain under active consideration.



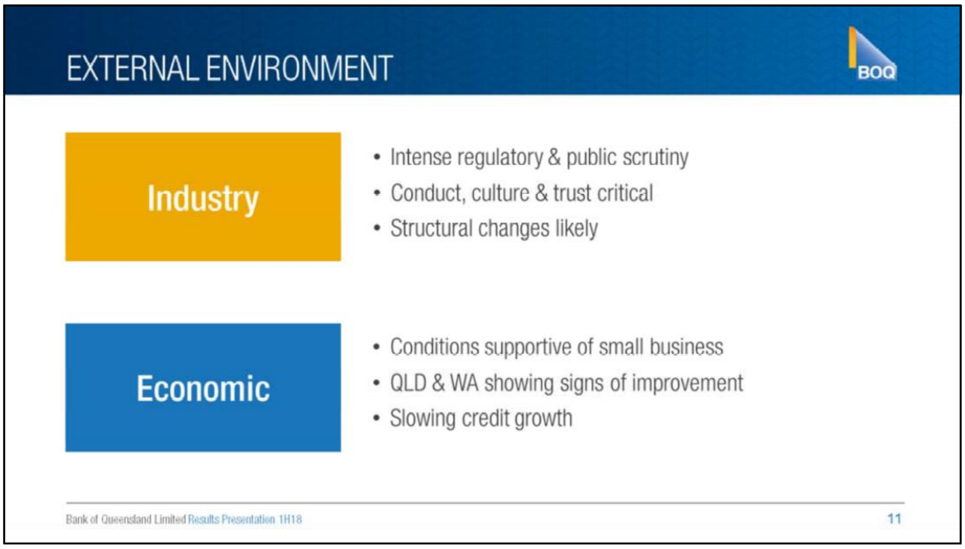
Net interest margin has been a key focus for the market and is a major driver of our performance, so it warrants some detailed attention.

- We did deliver an improvement of one basis point over the half to 1.97 per cent.
- Stepping through each of the moving parts here, and we saw a benefit of four basis points from asset repricing that was completed during 2017. This was fully offset, though, by the ongoing front to back book pricing dynamic we see in the market which means that new business is written at rates lower than the average of the portfolio. This dynamic has increased in some parts of the book, as competition for certain segments of loans has intensified. This also included a mix related impact as the flow of higher spread interest only mortgage lending slowed down dramatically to 16 per cent, from 37 per cent in the prior half.
- We did see a benefit from improved funding costs, as overall term deposit spreads improved compared to the prior period. This improvement was not as strong as we had hoped, given spreads did widen for a couple of months through the middle of the half.
- There was also a benefit of two basis points from the reduction that has occurred in the three month bank bills relative to the cash rate, which impacts the costs of hedging this element of the interest rate risk in our portfolio.

The average cost of hedging reduced from 29 basis points in 2H17 to 23 basis points in 1H18. This trend has reversed recently and I'll cover this in the outlook.

- Our NIM was reduced by one basis point due to the lower yield on the 4.2 billion dollar capital and low cost deposits replicating portfolio.
- With the increased mix of business being originated through third parties as well as an increase in payments to owner managers due to strong performance against the Balanced Scorecard, largely related to deposit gathering, the third party cost component decreased NIM by one basis point.
- In terms of the outlook, it is always very difficult to forecast margin but I can take you through some of the moving parts as we see them.
- We have not made any significant asset pricing changes since August 2017 so there are no benefits coming through for this element as we sit here today.
- The front to back book dynamic is ongoing, so we would expect a headwind of around five basis points in the second half from this component.
- Looking at funding costs, at this stage, on balance, we could see a reasonable benefit in the second half if rates stay consistent with where they are at the moment.
- The last significant element to cover is hedging costs, which is looking like it will become a headwind in the periods ahead if current bank bill rates are sustained. This could hit margin by between five to seven basis points over the next two periods, with a drag of three basis points likely in the second half of 2018 if rates remain at current levels. This is a theoretical analysis, and this part of the yield curve has recently been quite volatile. We have been sheltered from most of this impact to this point through the term hedging strategy that we employ and is why the full impact will extend into 2019.

- As always, industry pricing levels and general market conditions can impact products rates achieved on both assets and liabilities. It is difficult to provide clear guidance on the likely NIM outcome. But it is fair to say the various moving parts are larger than they've been more recently and the outlook is less certain.
- To give some perspective, our underlying NIM for the month of March was a couple of basis points higher than the 1H18 level, largely due to improved term deposit spreads.

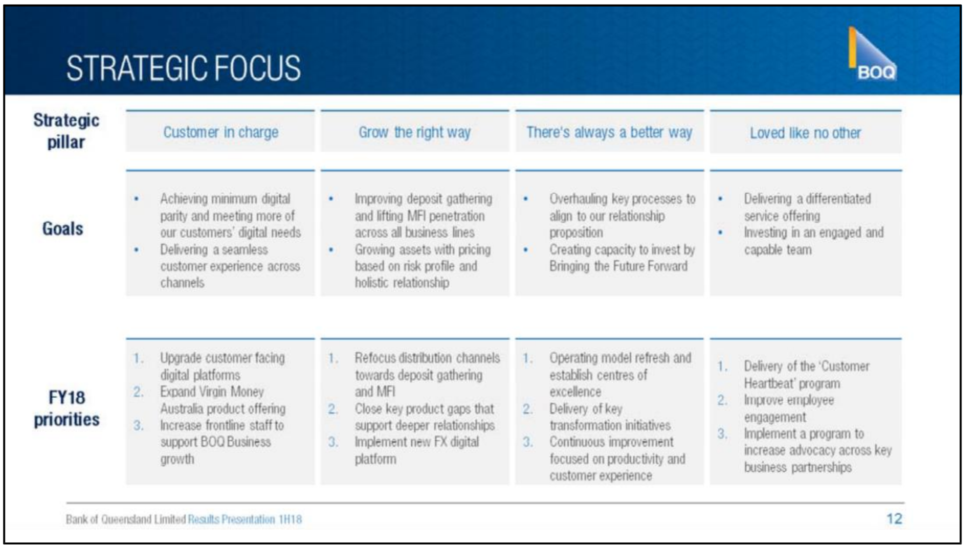


In terms of the external environment, there is a lot to talk about in the sector.

- With increased regulatory and public scrutiny of the banking sector, there is no doubt that conduct and trust remain a core focus for the industry. At BOQ we are very aware of these challenges. We have worked hard and will continue to work hard to look after our customers to ensure their needs are met and respected.
- There has been a heavy load of regulatory change with 57 external inquiries or reviews at a Federal level since 2007. BOQ has been and will continue to be an active participant in these processes. Together with a number of regional banks, we have also been calling for competitive neutrality.
- We expect there will be structural changes to the industry as a result of this scrutiny. However, we encourage the regulators to consider how any changes could unintentionally impact the competitive landscape of the sector.
- In terms of the economy, we remain cautiously optimistic. Although credit growth has been slowing, the other macro indicators are mostly heading in the right direction.
- There are signs of improvement in the Queensland and Western Australian economies, while New South Wales and Victoria continue to perform well. In regional Queensland, the unemployment rate has declined in Mackay,

Toowoomba and Townsville. The participation rate has risen across most regions, a sign that workers are becoming more confident about getting a job.

- Over the past year, stronger business conditions are being reported across all sectors. The combination of strong residential activity and the infrastructure boom has boosted the construction industry.
- Although system growth for commercial lending has been slower, we continue to find good opportunities in our niche segments which tend to be in higher growth sectors of the economy.



In this environment, our long term strategy remains the right one. We are building out our business bank and opening up new retail channels.

- We remain focused on improving user experience in our digital offering. To do this, we are upgrading our online platforms and partnering with fintechs to deliver better solutions for our customers.
- We will expand our product offering with a focus on increasing deposit gathering. This includes the rollout of an improved merchant capability and the launch of our partnership with a digital payments provider. These two products will make it easier for our SME customers to receive payments.
- One of the key transformation projects we are commencing in the second half is moving our technology infrastructure into a modern cloud environment. This will improve speed of project delivery and reduce costs.
- There are also a number of initiatives underway across the group that will bring us closer to our customers and enable us to provide them with a differentiated service offering.

In summary, since 2012 BOQ has consciously evolved.

- In the retail space, we have gone from being a mono-line distribution business to a diversified multi-channel retail bank. On the commercial side, we are now a niche specialist business bank with a focus on higher growth sectors of the economy. Across the Group, we have also expanded our geographical reach and have a national presence.
- Underpinning this expansion is our commitment to growing the right way. Meeting our responsible lending obligations remains core to our operating model.
- Our niche segment strategy is delivering in an ever changing operating environment. We are getting back to a steady rate of growth, with very solid results in our business bank.
- Virgin Money continues to exceed our expectations. We firmly believe this business will become a significant contributor to the overall Group in the future.
- We anticipate there will be structural changes in the industry given the issues that are emerging from the Royal Commission.
- Maintaining discipline around how we invest and spend remains a priority. Given the pace of change, this is essential so we can continue to invest for the future with a strong focus on improving customer experience.

- Our capital levels position us favourably to many others in the industry. This provides us with the flexibility to consider options to utilise excess capital in a way that will enhance shareholder returns.

Finally, we are well positioned to deliver on our core strategic priorities over the medium to long term.

Thank you for your time. I'm now happy to take any questions you may have.