



ASX CEO Connect
15 May 2018

Bank of Queensland

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Managing Director & CEO

DATA FOR THE HALF YEAR ENDED 28 FEBRUARY 2018
Bank of Queensland Limited ABN 32 009 656 740. AFSL No 244616.

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STRATEGY



Vision

Our dream is to create AUSTRALIA'S MOST LOVED BANK

Strategy

Focus on niche segments that value a more intimate banking relationship

Brands



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

Good morning everyone, it's great to be here. For those not familiar with the Bank of Queensland (BOQ), I'll provide a brief overview of our history and strategy:





- BOQ was established in 1874 as the first Permanent Building Society in Queensland. Today it has evolved into a business with a network of over 180 retail branches and more than 7,000 brokers spanning every state and territory in Australia.
- Our vision is to create Australia's most loved bank, and we are aiming to do this by focusing on niche customer segments that value a more intimate banking relationship.
- Most of BOQ's retail branches are run by local owner managers, meaning the person running the branch owns the branch. As small business owners, owner managers know what it means to deliver personal service.
- Through our specialisation in niche commercial segments, including medical & dental, corporate healthcare & retirement living, hospitality & tourism and agribusiness, BOQ provides a

level of support to business banking customers which is unique to that offered by other banks.

- We operate a number of brands including BOQ, Virgin Money Australia, BOQ Finance and BOQ Specialist.
- We acquired Virgin Money Australia in 2013, and at the time it was a distributor of white-label products including credit cards, insurance and superannuation. Since acquisition the business has begun distributing BOQ-manufactured home loans under the Virgin Money brand, and we plan to expand its banking product offering.
- BOQ Finance is a relationship-based asset finance specialist, providing equipment, dealer and vendor finance.
- BOQ Specialist is the former Investec medical finance business we acquired in 2014, which could be described as a private bank for doctors, dentists and vets, taking care of all of their banking needs.

BOQ REPORTING SEGMENT OVERVIEW



	Retail Banking	BOQ Business
Brands	 	  
Summary	<ul style="list-style-type: none"> Housing loans and deposits originated through the branch network, direct channels, Virgin Money Australia and mortgage brokers. Excludes home loans originated by BOQ Specialist and SME loans originated through branches. 	<ul style="list-style-type: none"> Commercial loans, SME loans, housing loans, asset finance and deposits originated through BOQ Business, BOQ Specialist and BOQ Finance. Includes SME loans originated through the BOQ branch network.
Balance sheet	Housing loans: \$25bn Deposits: \$17bn	Housing loans: \$5bn Commercial loans: \$10bn BOQ Finance: \$4bn Deposits: \$13bn
Cash earnings	\$75m	\$107m

Bank of Queensland Limited Investor Presentation May 2018 Note: The Other segment includes Treasury, head office functions and St Andrew's

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It's also worthwhile talking through our reporting segments, which reflect the way we manage the business day to day.

- Retail Banking includes housing loans and deposits originated through the branch network, direct channels, Virgin Money Australia and our mortgage broker distribution. This represents around 25 billion dollars in lending assets and 17 billion dollars in deposits.
- For clarity, it excludes home loans originated by BOQ Specialist and SME loans originated through branches.
- These sit within BOQ Business which is also comprised of our BOQ branded commercial loans as well as BOQ Specialist and BOQ Finance.
- BOQ Business currently has around 19 billion dollars in lending assets and 13 billion dollars in customer deposits originated through our BOQ Business relationship managers, finance brokers and BOQ Specialist.
- The third segment 'Other' comprises our St Andrew's insurance business, as well as a number of head office activities.

- 1 — Improved lending growth
- 2 — Retail and BOQ Business delivering on Group four-pillar strategy
- 3 — Asset quality remains sound
- 4 — Investing in transformation while maintaining expense discipline
- 5 — Strong capital position provides flexibility

We recently reported our 1H18 results, of which the highlights included:

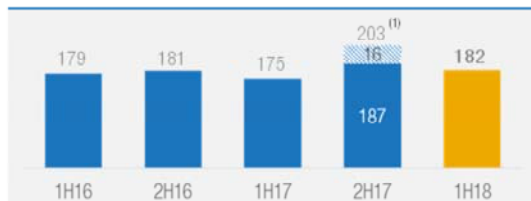
- Improved lending growth, supported by our commercial niche segments, as well as home loan growth through the Virgin Money, BOQ Specialist and BOQ Broker channels.
- Both Retail Bank and BOQ Business are delivering against the Group's four pillar strategy.
- Our asset quality remains sound, which is evident across a range of metrics. We are not seeing any areas of concern arise across the portfolio.
- 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.

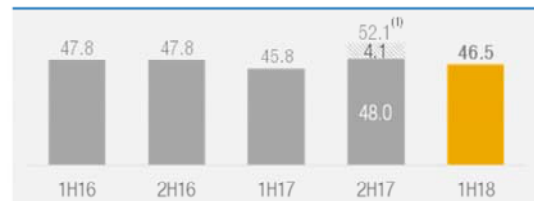
KEY ELEMENTS OF THE RESULT



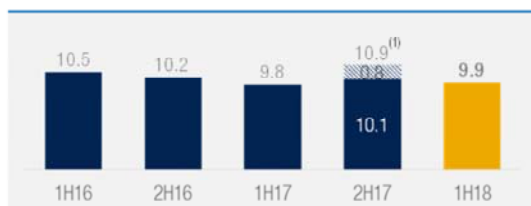
CASH EARNINGS AFTER TAX (\$M)



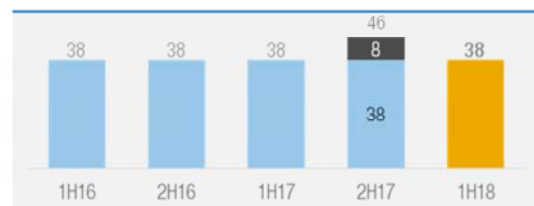
EARNINGS PER ORDINARY SHARE (CENTS)



RETURN ON EQUITY (%)



DIVIDENDS PER ORDINARY SHARE (CENTS)



■ Special dividend

Bank of Queensland Limited Investor Presentation May 2018 (1) 2H17 includes the benefit of a \$16m profit on disposal of a vendor finance entity

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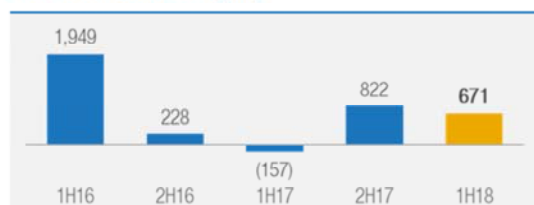
Looking at the key financial elements of the result:

- Cash earnings after tax of 182 million dollars increased four per cent on 1H17.
- Earnings per share was 46.5 cents. This represents an increase of two per cent on 1H17.
- Return on equity increased 10 basis points to 9.9 per cent.
- The ordinary dividend was maintained at 38 cents per share.

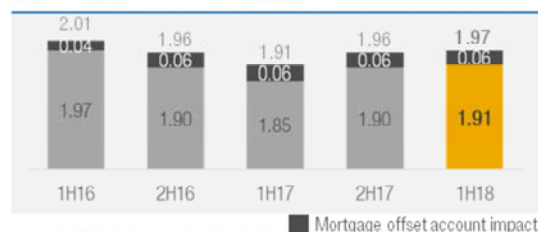
DRIVERS OF THE RESULT



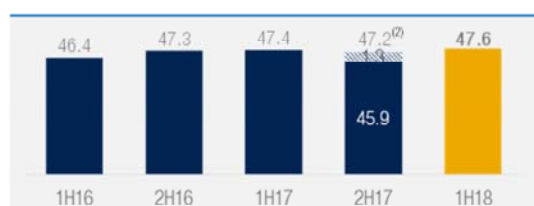
LENDING GROWTH (\$M)



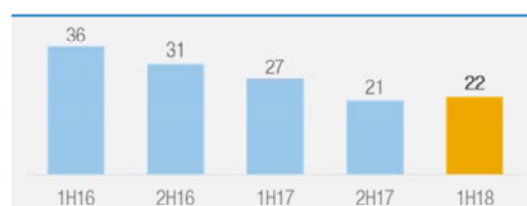
NET INTEREST MARGIN (%)⁽¹⁾



COST TO INCOME RATIO (%)



LOAN IMPAIRMENT EXPENSE (\$M)



Bank of Queensland Limited Investor Presentation May 2018 (1) NIM net of mortgage offset accounts has been shown to align with industry practice
(2) 2H17 includes the benefit of a \$16m profit on disposal of a vendor finance entity

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The key drivers of these results included:

- Total lending growth of \$671 million in the half representing an uplift of more than \$800 million compared to the contraction of \$157 million in the first half of 2017.
- Net interest margin increased one basis point from last half to 1.97 per cent against a backdrop of intensified price competition for lending and deposits.
- Our cost to income ratio was 47.6 per cent, with operating expense growth of just one million dollars on the prior half.
- Our loan impairment expense decreased five million dollars or 19 per cent compared to the same period in 2017.

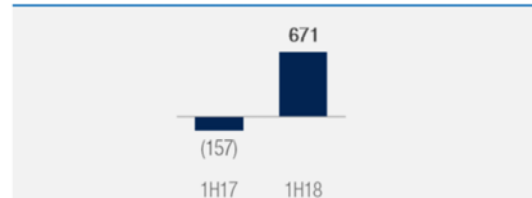
IMPROVED LENDING GROWTH



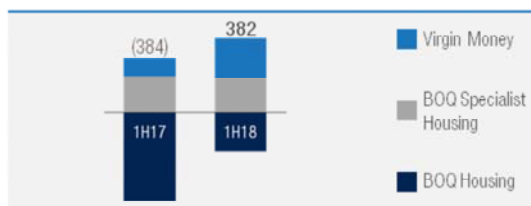
SUMMARY

- Strong home loan growth through Virgin Money Australia & BOQ Specialist continuing
- Mortgage broker volumes building
- Strong growth in commercial loans driven by niche segments
- Branch network run-off slowing
- Historically, second half has been seasonally higher growth period

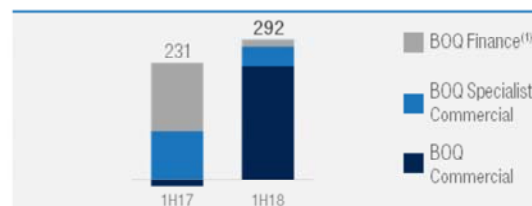
TOTAL LENDING GROWTH VS PCP (\$M)



HOUSING LOAN GROWTH (\$M)



COMMERCIAL LOAN & LEASING GROWTH (\$M)



Bank of Queensland Limited Investor Presentation May 2018 (1) 1H17 Includes Cashflow Finance acquisition

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Looking at lending growth in more detail:

- We are seeing improvements in both housing and commercial loan growth.
- In housing, BOQ Broker, Virgin Money Australia and BOQ Specialist have all made strong contributions.
- We have also seen improvement in the branch network as branch numbers stabilise. Given the significant reduction in branch numbers in recent years, we have said it will take more time for the branch network to return to lending growth.
- 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.

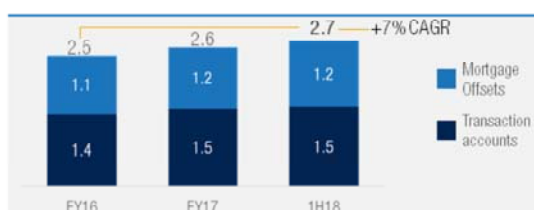
RETAIL BANKING FOCUS ON CHANNELS & DEPOSITS



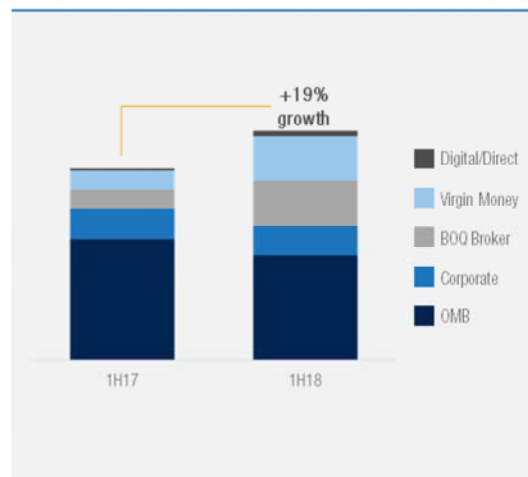
SUMMARY

- Retail expanding distribution channels through BOQ Broker, Virgin Money Australia and Digital
- Settlement volumes improved on PCP basis
- Strong relationship deposit growth in branch network driven by Balanced Scorecard

RETAIL RELATIONSHIP DEPOSIT BALANCES (\$B)



RETAIL HOUSING SETTLEMENTS BY CHANNEL (\$M)



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- Retail Banking has continued to diversify its channels. BOQ Broker and Virgin Money Australia 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 first half 17.

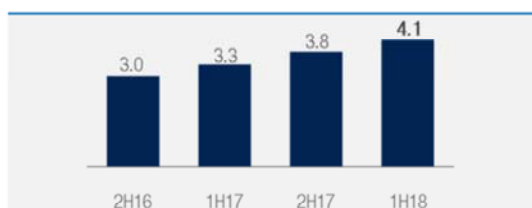
BOQ BUSINESS GROWING NICHE SEGMENTS



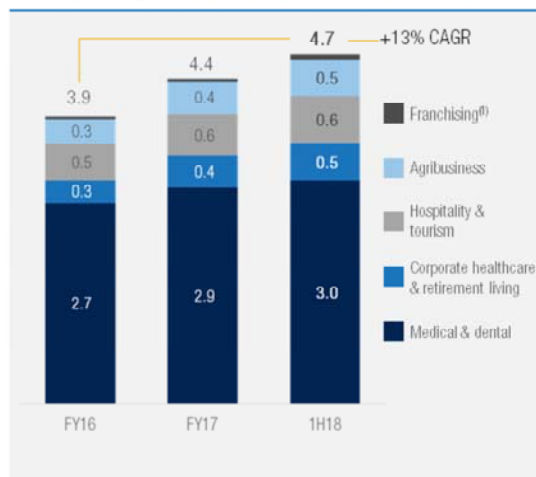
SUMMARY

- BOQ Business focus on growing niche segments of agribusiness, corporate healthcare & retirement living, hospitality & tourism
- BOQ Specialist mortgage growth remains strong – building future pipeline of commercial loan customers
- BOQ Finance focused on improving mix, growing in higher margin segments

BOQ SPECIALIST MORTGAGE BALANCES (\$B)



BUSINESS BANKING NICHE SEGMENT BALANCES (\$M)



Bank of Queensland Limited Investor Presentation May 2018 (1) Loans to Franchising customers total <\$100m

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- 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.

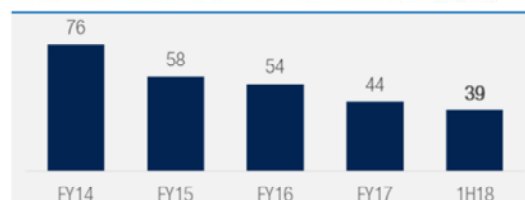
ASSET QUALITY REMAINS SOUND



SUMMARY

- Impaired assets continue to reduce
- Arrears levels remain benign
- QLD and WA showing signs of improvement
- Prompt implementation of prudential practice guides

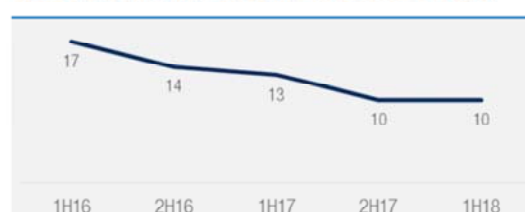
IMPAIRED ASSETS % OF GROSS LOANS (bps)



30-DAY ARREARS (bps)



GROUP IMPAIRMENT EXPENSE / GROSS LOANS (bps)



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- 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 again.

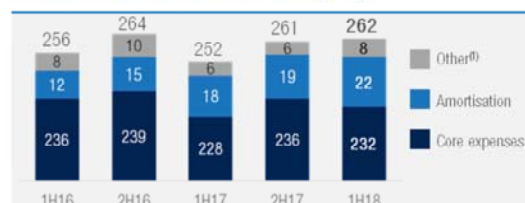
INVESTING IN TRANSFORMATION WHILE MAINTAINING EXPENSE DISCIPLINE



SUMMARY

- Cost savings enabling investment in technology and growth businesses
- New web experience platform now utilised across BOQ, Virgin Money Australia, BOQ Finance and BOQ Specialist
- 10 capex projects delivered in FY17; 18 delivered in 1H18 and 66 in progress

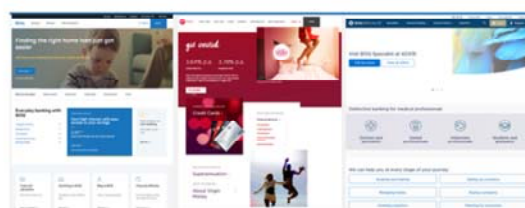
CORE EXPENSES REDUCING (\$M)



CAPITAL EXPENDITURE PROJECTS

Strategic/Longer term	Regulatory & maintenance
Tech infrastructure modernisation	New Payments Platform
Financial Markets digital platform	Cyber Security
Customer engagement platform	Cheque digitisation
API gateway & service fabric	PEXA
Web Experience Platform	Treasury & market risk systems

NEW WEB EXPERIENCE PLATFORM



Bank of Queensland Limited Investor Presentation May 2018 (1) Other includes Virgin Money mortgage, BOQ Cashflow Finance and Operating model costs

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- 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 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.

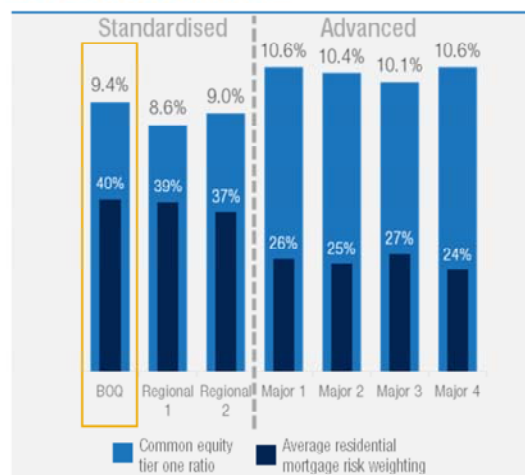
STRONG CAPITAL POSITION PROVIDES FLEXIBILITY



SUMMARY

- CET1 position remains very strong for a standardised bank at 9.42%
- Interim 9.25% CET1 target remains in place
- Basel & APRA announcements⁽¹⁾ suggest BOQ's position remains very comfortable relative to peers
- Capital management initiatives under active consideration

CET1 CAPITAL VS PEERS⁽²⁾



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(1) <https://www.bis.org/chs/publ/d424.pdf>

<http://www.apra.gov.au/ad/PrudentialFramework/Documents/Revisions%20to%20the%20capital%20framework%20for%20ADs.pdf>

(2) Peer data based on most recent half or full year disclosures as at 17 April 2018

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- Our capital levels remain very strong.
- Following the Basel and APRA papers released in the past few months, we remain comfortable with our position. Relative to our peers, we are in a very strong position as a standardised bank at 9.42 per cent CET1.
- 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.

Industry

- Intense regulatory & public scrutiny
- Conduct, culture & trust critical
- Structural changes likely

Economic

- Conditions supportive of small business
- QLD & WA showing signs of improvement
- Slowing credit growth

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.

STRATEGIC FOCUS



Strategic pillar	Customer in charge	Grow the right way	There's always a better way	Loved like no other
Goals	<ul style="list-style-type: none"> Achieving minimum digital parity and meeting more of our customers' digital needs Delivering a seamless customer experience across channels 	<ul style="list-style-type: none"> Improving deposit gathering and lifting MFI penetration across all business lines Growing assets with pricing based on risk profile and holistic relationship 	<ul style="list-style-type: none"> Overhauling key processes to align to our relationship proposition Creating capacity to invest by Bringing the Future Forward 	<ul style="list-style-type: none"> Delivering a differentiated service offering Investing in an engaged and capable team
FY18 priorities	<ol style="list-style-type: none"> Upgrade customer facing digital platforms Expand Virgin Money Australia product offering Increase frontline staff to support BOQ Business growth 	<ol style="list-style-type: none"> Refocus distribution channels towards deposit gathering and MFI Close key product gaps that support deeper relationships Implement new FX digital platform 	<ol style="list-style-type: none"> Operating model refresh and establish centres of excellence Delivery of key transformation initiatives Continuous improvement focused on productivity and customer experience 	<ol style="list-style-type: none"> Delivery of the 'Customer Heartbeat' program Improve employee engagement Implement a program to increase advocacy across key business partnerships

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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.

- 1 — Niche segment strategy delivering growth
- 2 — Virgin Money Australia continues to exceed expectations
- 3 — Structural changes in the industry provides opportunities
- 4 — Expense and investment discipline remains a priority
- 5 — Strong capital position provides flexibility

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.