



Morgans Emerging Leaders of  
Financial Services Conference  
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# Bank of Queensland

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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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## 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



# BOQ REPORTING SEGMENT OVERVIEW



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

# 1H18 HIGHLIGHTS



- 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

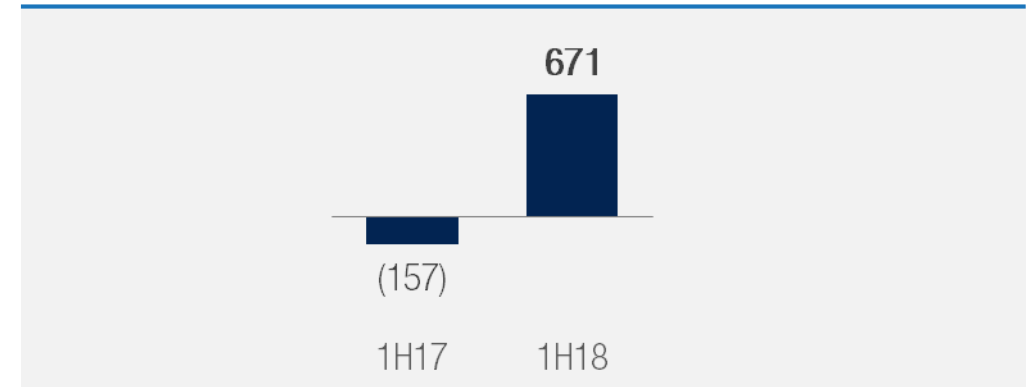
# IMPROVED LENDING GROWTH



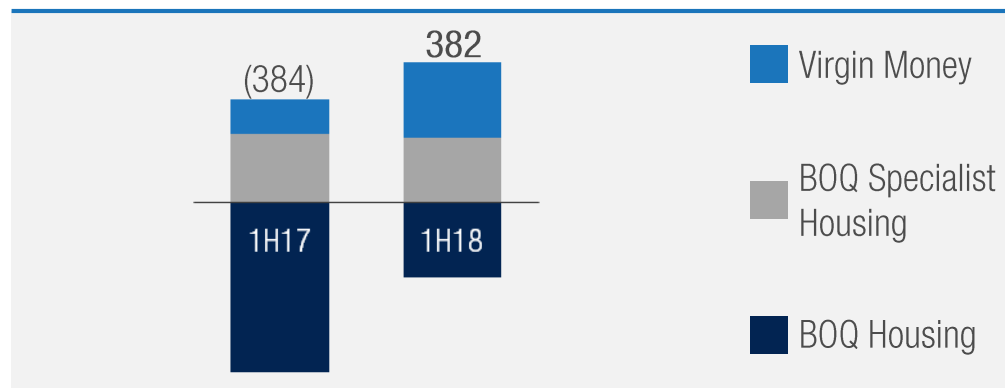
## SUMMARY

- 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

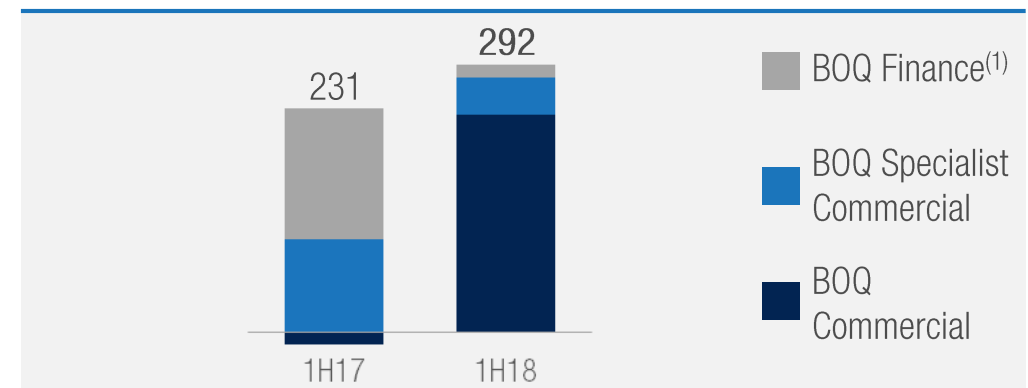
## TOTAL LENDING GROWTH VS PCP (\$M)



## HOUSING LOAN GROWTH (\$M)



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



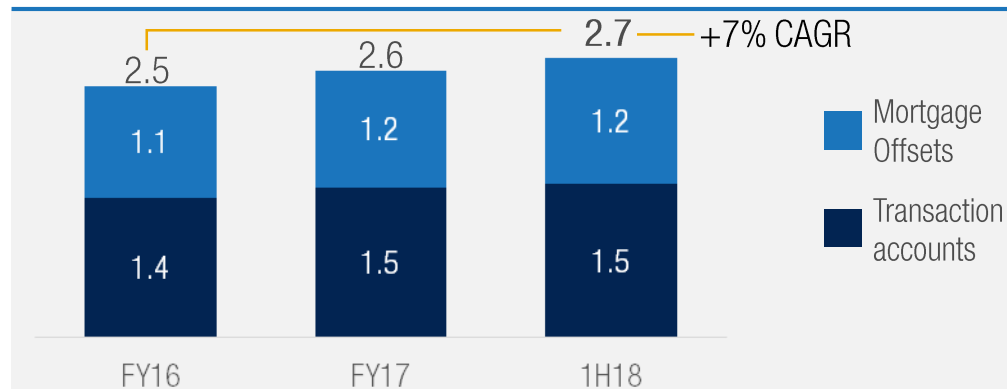
# RETAIL BANKING FOCUS ON CHANNELS & DEPOSITS



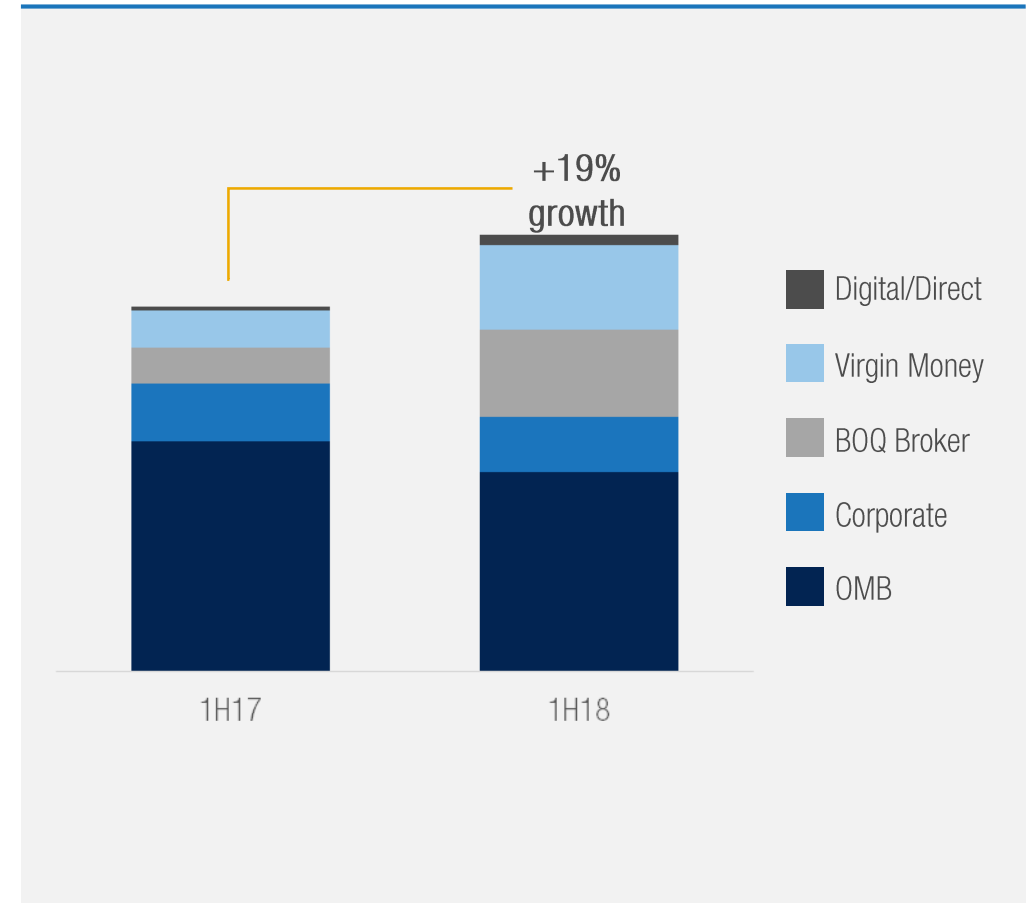
## SUMMARY

- 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)



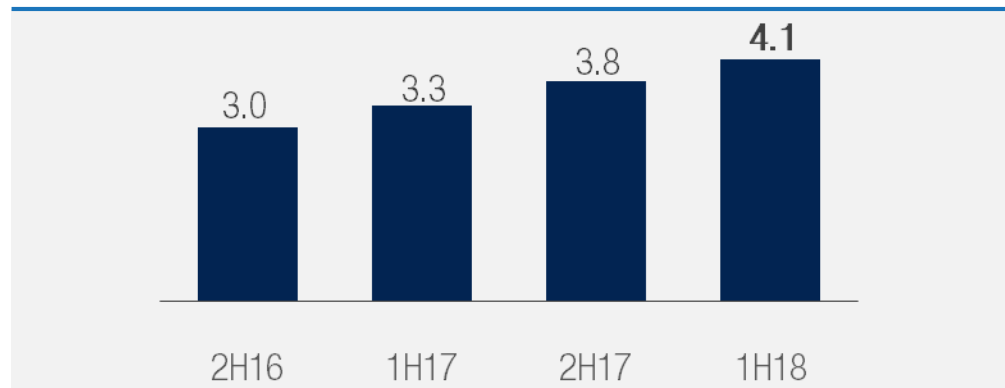
# BOQ BUSINESS GROWING NICHE SEGMENTS



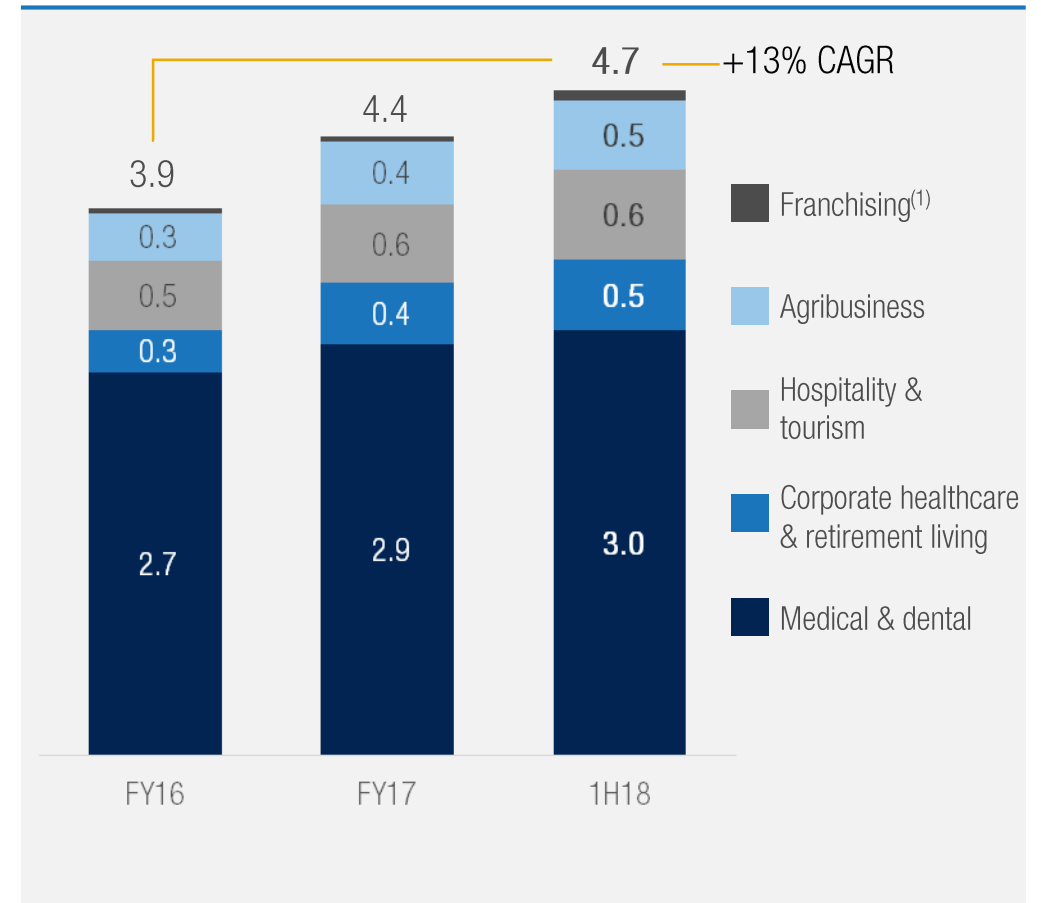
## SUMMARY

- 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)





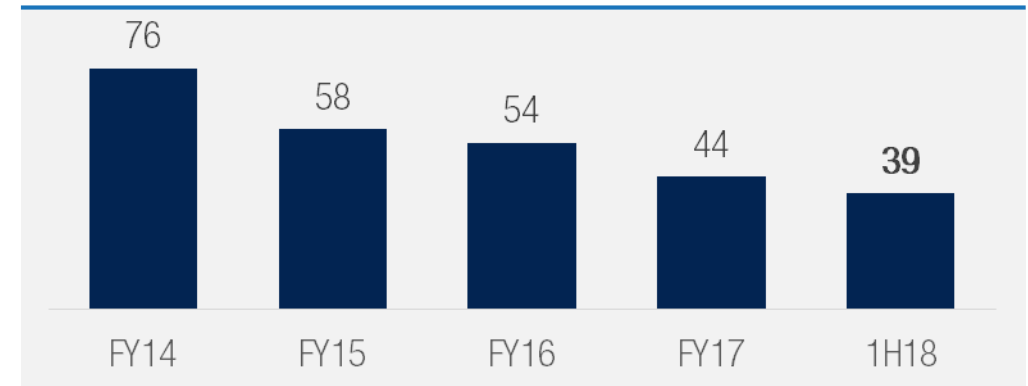
# ASSET QUALITY REMAINS SOUND



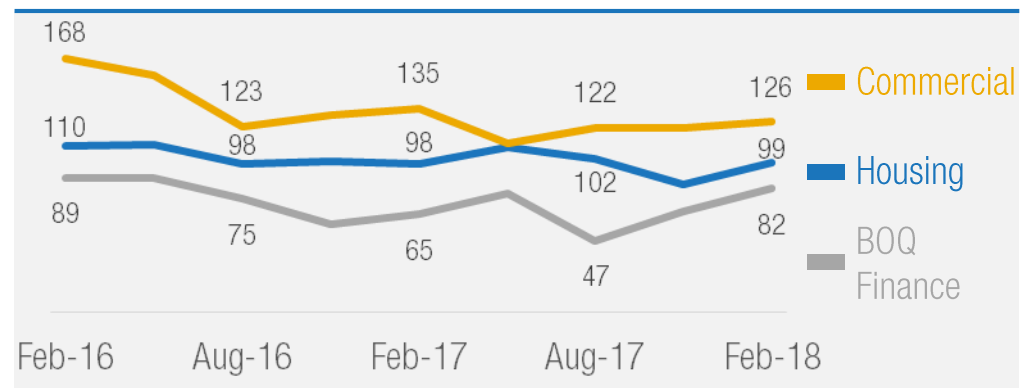
## SUMMARY

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

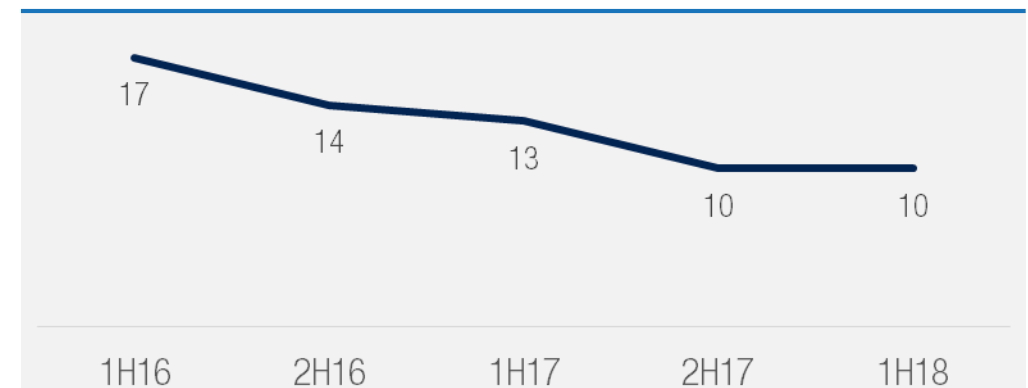
## IMPAIRED ASSETS % OF GROSS LOANS (bps)



## 30-DAY ARREARS (bps)



## GROUP IMPAIRMENT EXPENSE / GROSS LOANS (bps)



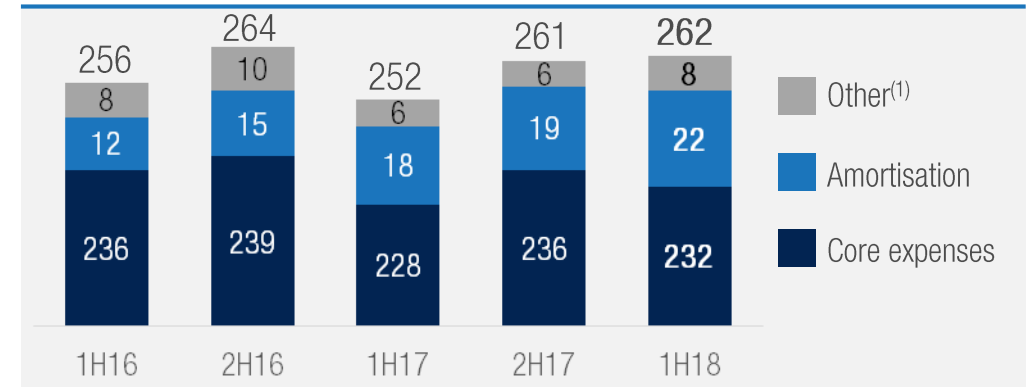
# INVESTING IN TRANSFORMATION WHILE MAINTAINING EXPENSE DISCIPLINE



## 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

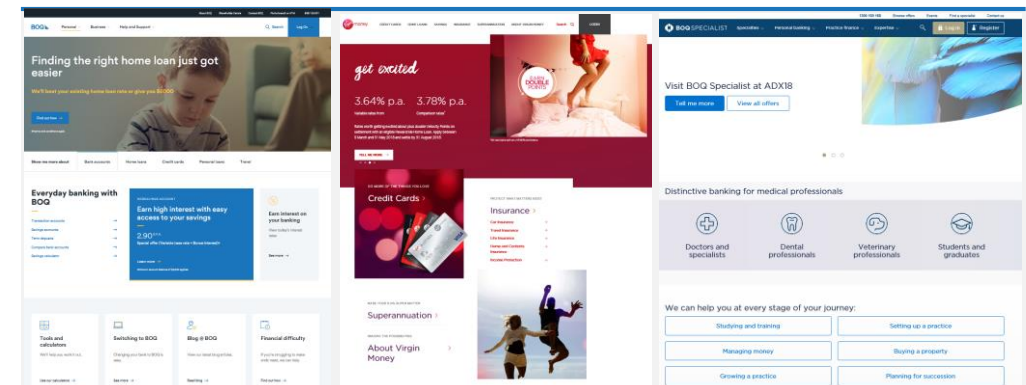
## CORE EXPENSES REDUCING (\$M)



## 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



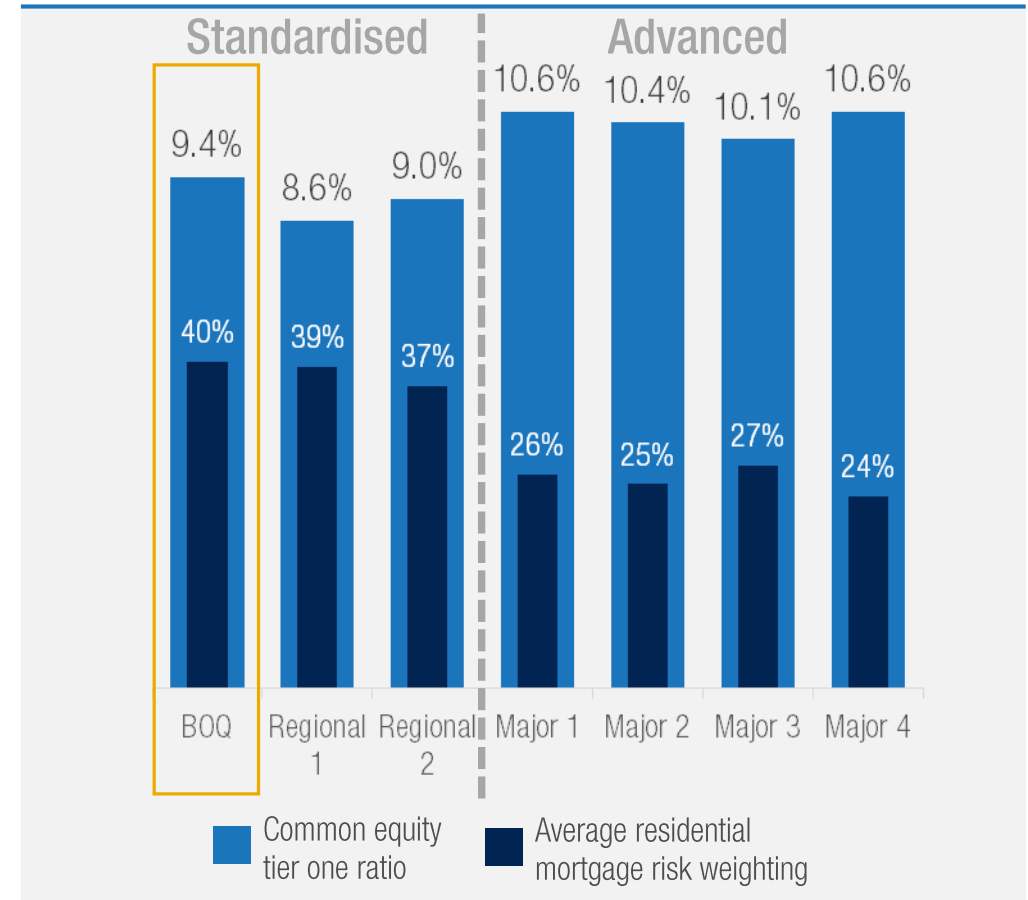
# STRONG CAPITAL POSITION PROVIDES FLEXIBILITY



## SUMMARY

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

## CET1 CAPITAL VS PEERS<sup>(2)</sup>



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

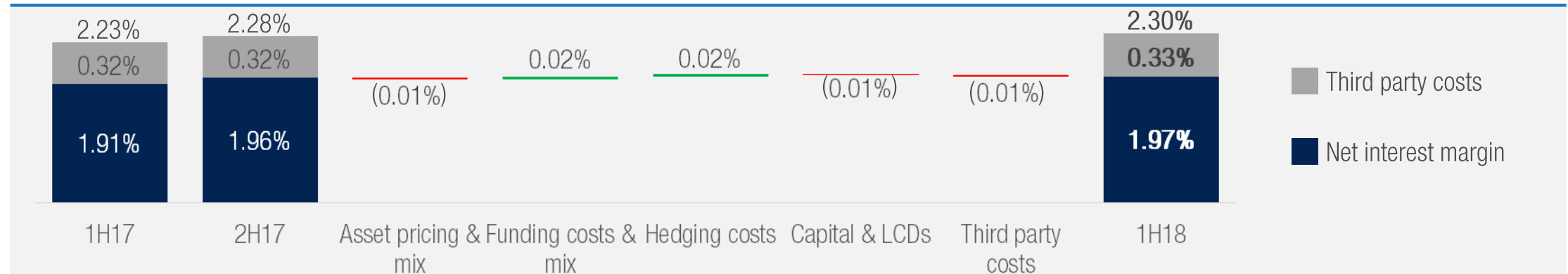
<http://www.apra.gov.au/adi/PrudentialFramework/Documents/Revisions%20to%20the%20capital%20framework%20for%20ADIs.pdf>

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

# NET INTEREST MARGIN



## NET INTEREST MARGIN MOVEMENTS 2H17 TO 1H18<sup>(1)</sup>



## 1H18 CONSIDERATIONS

- Front book vs back book impact ongoing given increased industry wide discounting for new business
- Deposit funding spreads improved for the half
- Hedging cost headwind emerging given current cash-bills spread

## SUMMARY OF KEY MOVING PARTS

Element	1H17	2H17	1H18 <sup>(2)</sup>
Asset pricing benefits	+6bps	+6bps	+4bps
Front book pricing & mix	(4bps)	(4bps)	(5bps)
Funding costs & mix	(3bps)	+5bps	+2bps
Hedging costs	-	-	+2bps
Capital & LCDs	(3bps)	(2bps)	(1bp)

Bank of Queensland Limited [Investor Presentation May 2018](#) (1) NIM has been adjusted for Mortgage Offset balances to align with industry practice. Average Mortgage Offset balances were \$1,447m in 1H17, \$1,565m in 2H17 and \$1,728m in 2H18.

(2) Other moving parts in 1H18 include the -1bp impact due to increased proportion of Third Party Costs



## 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

# STRATEGIC FOCUS



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## FY18 priorities

1. Upgrade customer facing digital platforms
2. Expand Virgin Money Australia 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' program
2. Improve employee engagement
3. Implement a program to increase advocacy across key business partnerships

- 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