

2018 RESULTS PRESENTATION

4 OCTOBER 2018

Year ended 31 August 2018

BANK OF QUEENSLAND LIMITED ABN 32 009 656 740. AFSL NO 244616.

RESULTS OVERVIEW

Jon Sutton Managing Director & CEO

FINANCIAL DETAIL

Matt Baxby Chief Financial Officer

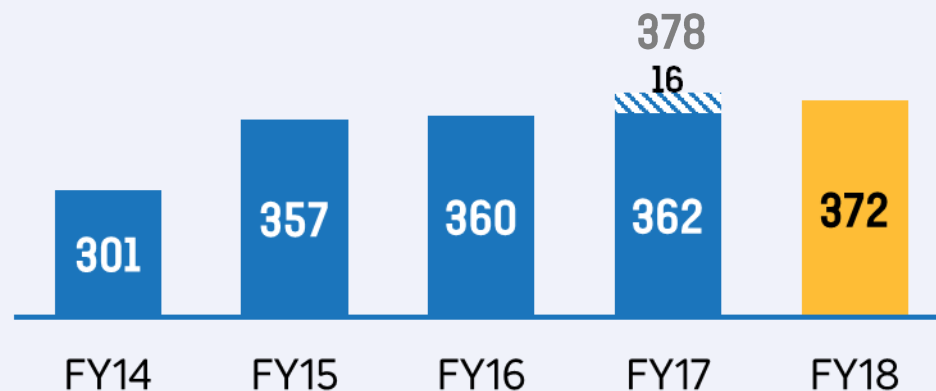
SUMMARY & OUTLOOK

Jon Sutton Managing Director & CEO

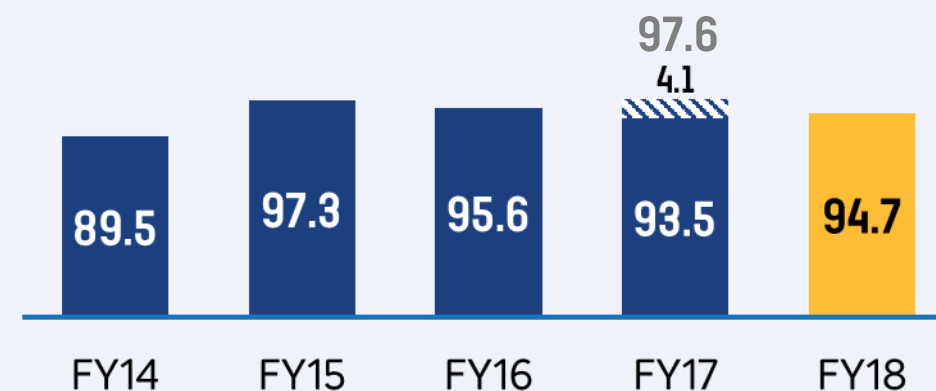
- 1 Evolution of the business continues
- 2 Good underlying result in a difficult environment
- 3 Consistent growth in commercial niche segments
- 4 Asset quality remains a key strength
- 5 Utilising strong capital position to invest for the future

KEY ELEMENTS OF THE RESULT

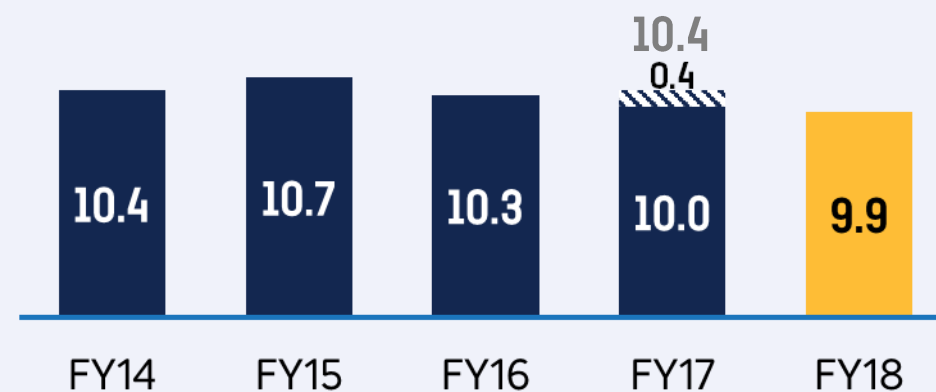
CASH EARNINGS AFTER TAX (\$M)⁽¹⁾



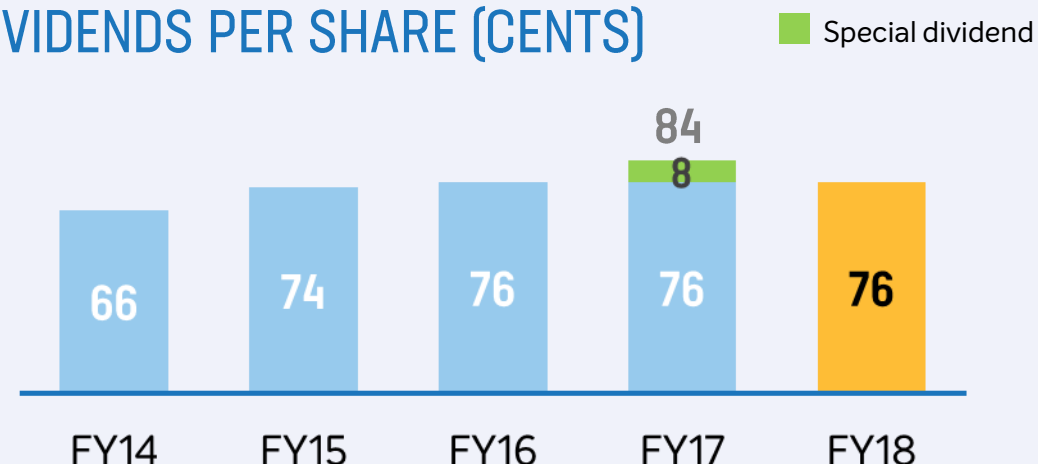
EARNINGS PER ORDINARY SHARE (CENTS)⁽¹⁾



RETURN ON EQUITY (%)⁽¹⁾

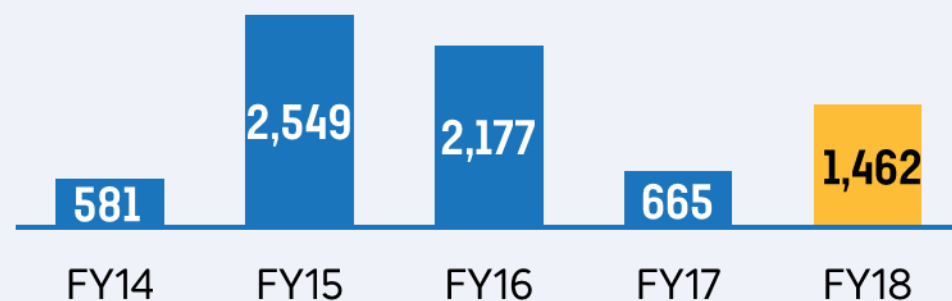


DIVIDENDS PER SHARE (CENTS)

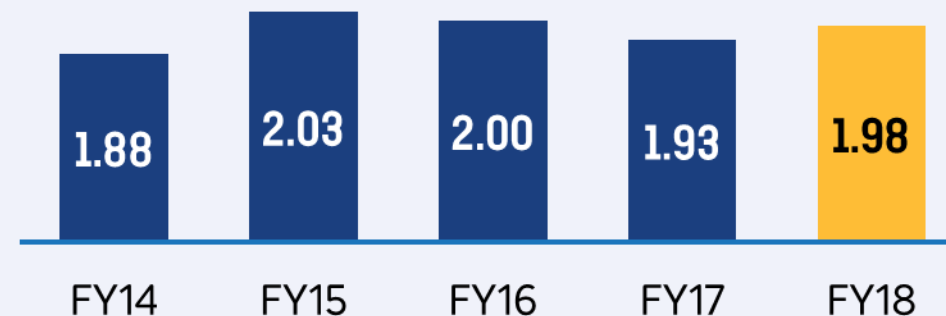


DRIVERS OF THE RESULT

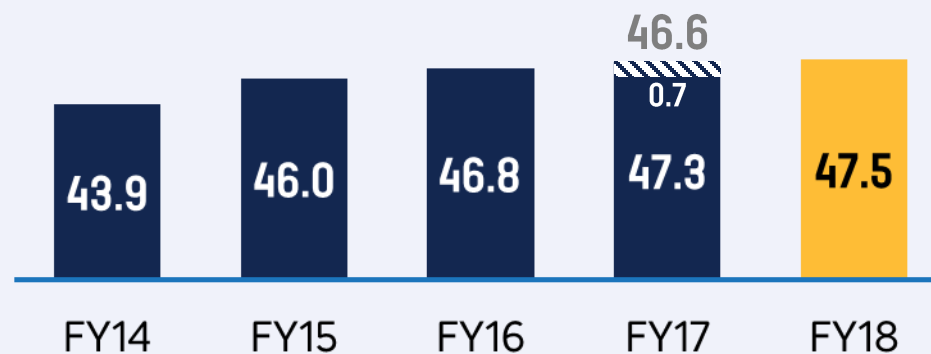
LENDING GROWTH (\$M)



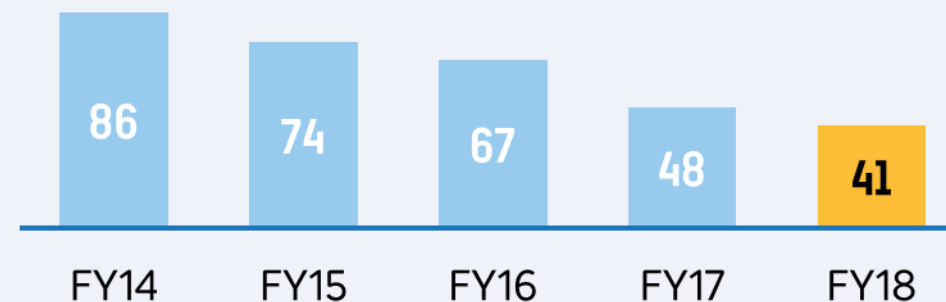
NET INTEREST MARGIN (%)



COST TO INCOME RATIO (%) ⁽¹⁾



LOAN IMPAIRMENT EXPENSE (\$M)

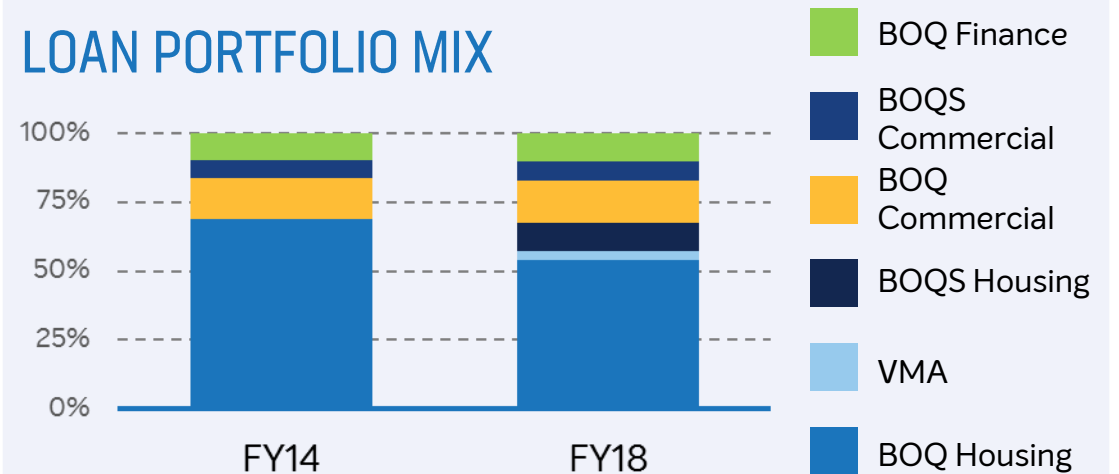


BUSINESS EVOLUTION ONGOING

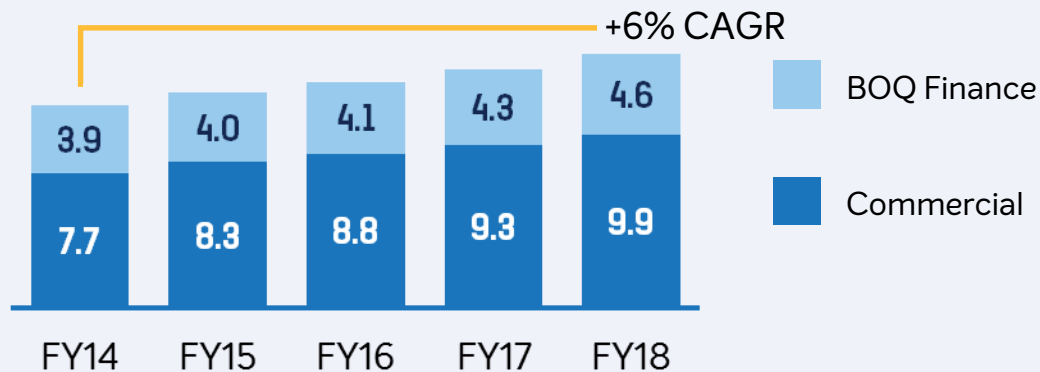
SUMMARY

- > More diversified business mix
- > Managing the business for long term returns
- > Next phase of evolution will involve implementation of new customer-facing systems and processes

LOAN PORTFOLIO MIX



BOQ BUSINESS LENDING BALANCES (\$B)



SYSTEMS & PROCESSES

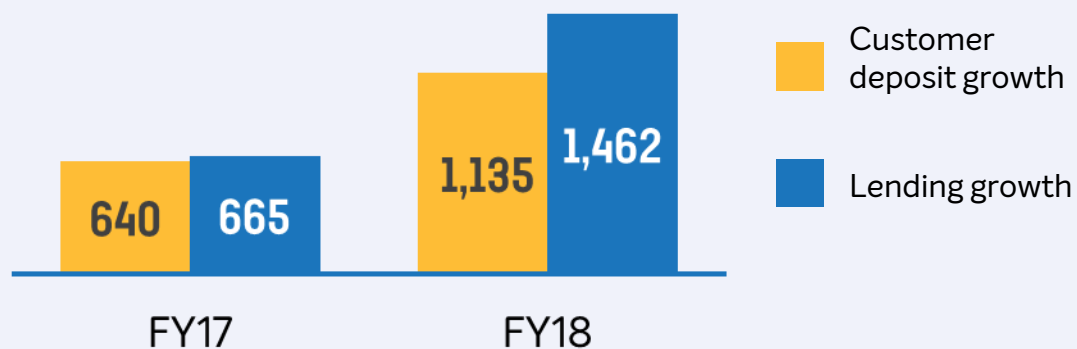
- > Focused on enhancing customer experience across brands
- > Evolving from manual, paper-based back office to more digitised operations
- > Modernisation of technology infrastructure towards hybrid cloud and API gateways

GOOD UNDERLYING RESULT IN DIFFICULT MARKET

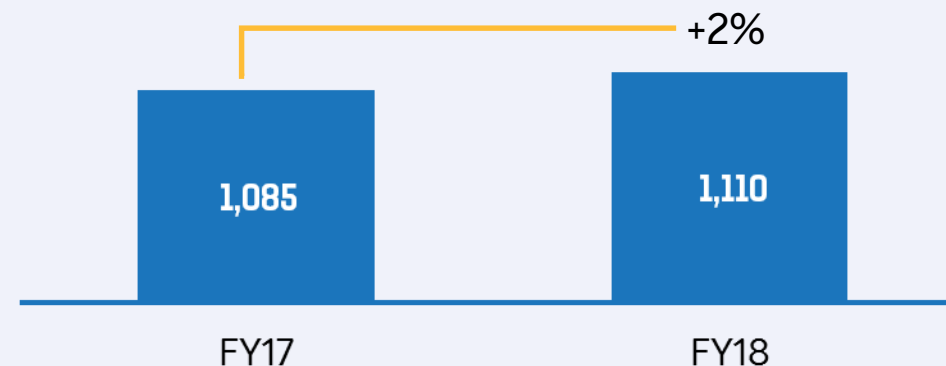
SUMMARY

- > Significant headwinds facing the sector
- > Underlying revenue growth of 2%
- > NIM increased 5bps to 1.98% despite impact of basis
- > Lending growth funded by improved deposit mix
- > Expense growth contained while still investing in the business

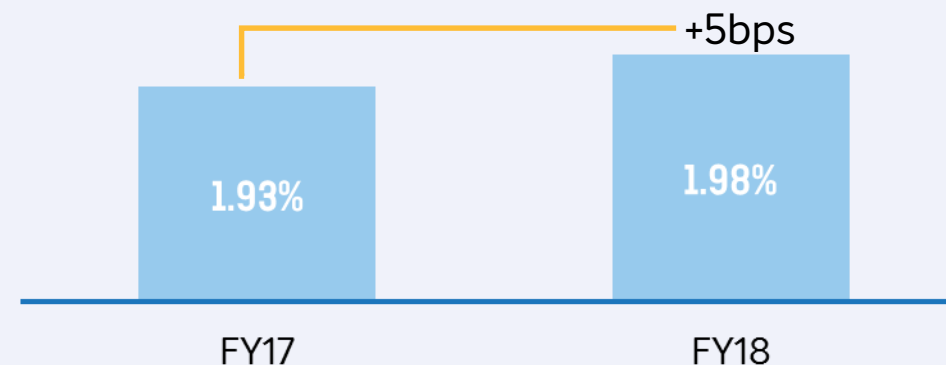
LENDING & DEPOSIT GROWTH (\$M)



UNDERLYING REVENUE GROWTH (\$M)⁽¹⁾



NET INTEREST MARGIN

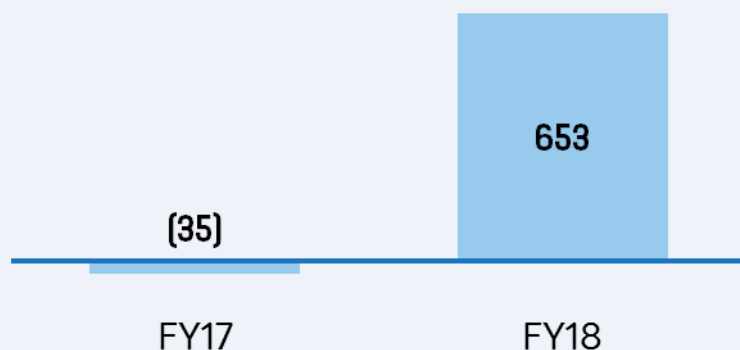


LENDING GROWTH DRIVEN BY NICHE SEGMENTS

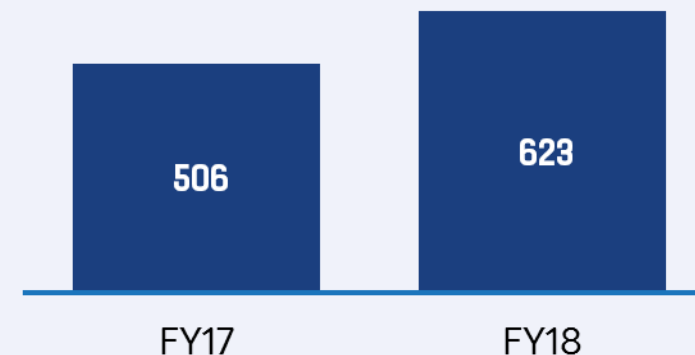
SUMMARY

- > Total loan growth of \$1.5bn with above-system growth in commercial
- > VMA & BOQ Specialist continue to drive housing loan growth
- > BOQ Finance delivered particularly strong growth
- > Branches funded lending growth through solid levels of deposit growth

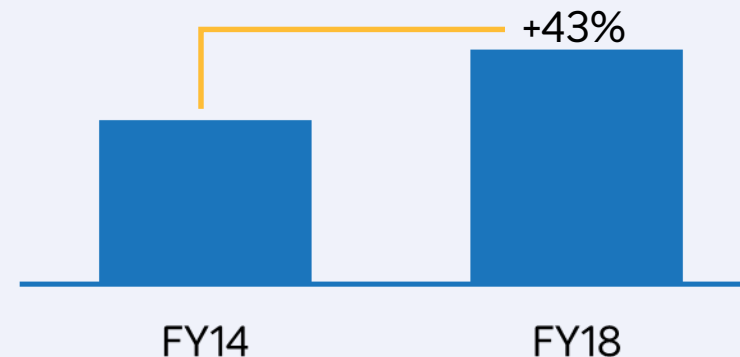
HOUSING LOAN GROWTH (\$M)



COMMERCIAL NICHE SEGMENT GROWTH (\$M)



DEPOSITS PER BRANCH

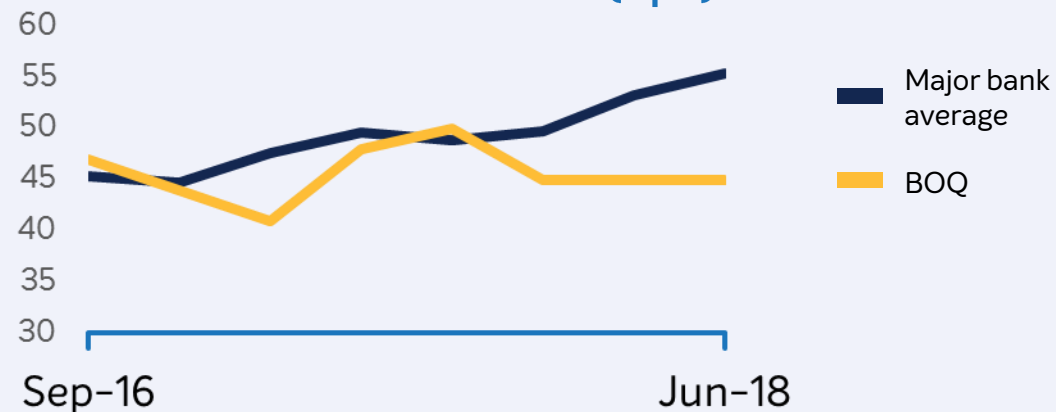


ASSET QUALITY A KEY STRENGTH

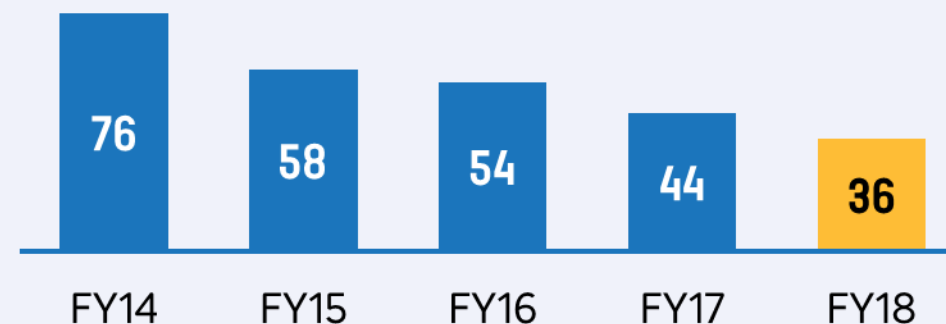
SUMMARY

- > Impaired assets down 15%, loan impairment expense down 15%
- > Arrears levels remain benign and favourable to peers
- > Ongoing improvement a direct consequence of clear risk appetite and responsible lending practices

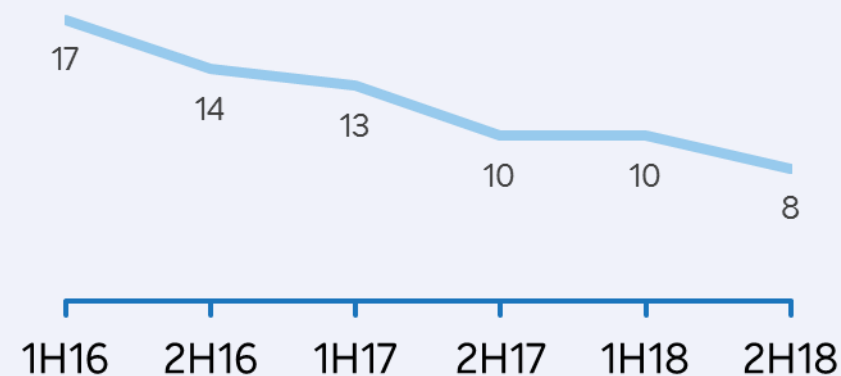
90-DAY HOUSING ARREARS (bps)⁽¹⁾



IMPAIRED ASSETS % OF GROSS LOANS (bps)



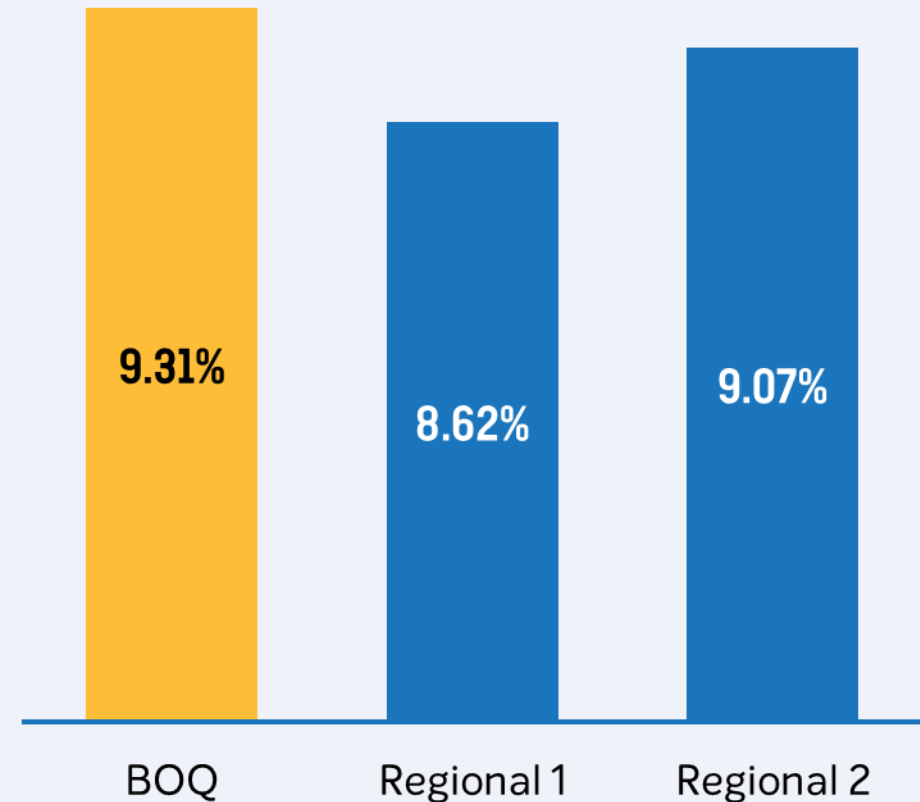
GROUP IMPAIRMENT EXPENSE / GROSS LOANS (bps)



SUMMARY

- > CET1 ratio compares favourably with peers
- > Customer expectations around digital experience continue to rise
- > Additional capital investment will help to position the business for future success
- > 7bps of additional CET1 to be utilised for digital banking platforms and customer experience improvements

CET1 CAPITAL VS PEERS⁽¹⁾



FINANCIAL DETAIL

MATT BAXBY
CHIEF FINANCIAL OFFICER

FINANCIAL PERFORMANCE: YEAR ON YEAR

	FY18	FY18 v FY17	FY18 v FY17 adjusted ⁽¹⁾
Net interest income	\$965m	4% ▲	4% ▲
Non interest income	\$145m	(17%) ▼	(9%) ▼
Total income	\$1,110m	1% ▲	2% ▲
Operating expenses	(\$527m)	3% ▲	3% ▲
Underlying profit	\$583m	(1%) ▼	2% ▲
Loan impairment expense	(\$41m)	(15%) ▼	(15%) ▼
Profit before tax	\$542m	-	3% ▲
Income tax expense	(\$170m)	5% ▲	5% ▲
Cash earnings after tax	\$372m	(2%) ▼	3% ▲
Cash basic earnings per share	94.7c	(3%) ▼	1% ▲
Return on average tangible equity	12.9%	(80bps) ▼	(30bps) ▼

FINANCIAL PERFORMANCE: HALF ON HALF

	2H18	2H18 v 1H18	2H18 v 2H17 adjusted ⁽¹⁾
Net interest income	\$490m	3% ▲	3% ▲
Non interest income	\$70m	(7%) ▼	(11%) ▼
Total income	\$560m	2% ▲	1% ▲
Operating expenses	(\$265m)	1% ▲	2% ▲
Underlying profit	\$295m	2% ▲	1% ▲
Loan impairment expense	(\$19m)	(14%) ▼	(10%) ▼
Profit before tax	\$276m	4% ▲	2% ▲
Income tax expense	(\$86m)	2% ▲	2% ▲
Cash earnings after tax	\$190m	4% ▲	2% ▲
Cash basic earnings per share	48.2c	4% ▲	-
Return on average tangible equity	13.0%	10bps ▲	(20bps) ▼

SEGMENT PERFORMANCE: YEAR ON YEAR

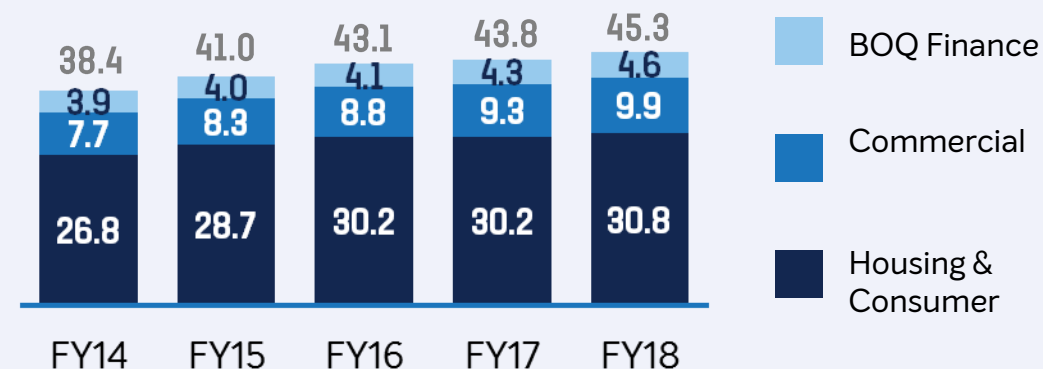
	RETAIL BANKING		BOQ BUSINESS	
	FY18	FY18 v FY17	FY18	FY18 v FY17 adjusted ⁽¹⁾
Net interest income	\$458m	3%	\$514m	7%
Non interest income	\$67m	(3%)	\$59m	(5%)
Total income	\$525m	2%	\$573m	5%
Operating expenses	(\$281m)	3%	(\$228m)	4%
Underlying profit	\$244m	1%	\$345m	6%
Loan impairment expense	(\$15m)	7%	(\$26m)	(24%)
Profit before tax	\$229m	1%	\$319m	10%
Income tax expense	(\$72m)	3%	(\$100m)	11%
Cash earnings after tax	\$157m	-	\$219m	10%

LOAN PORTFOLIO AND GROWTH

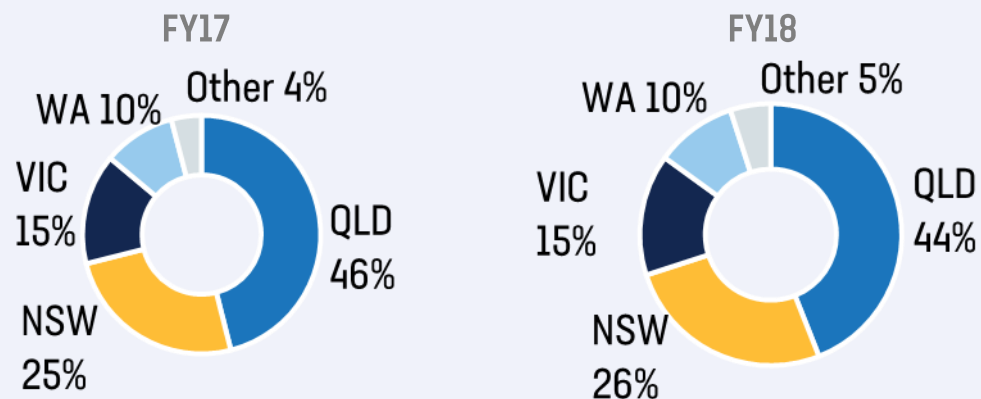
SUMMARY

- > Gross loan growth of 3% in a slowing market
- > Commercial lending growth of 1.2x system, driven by niche segments
- > Housing growth driven by VMA and BOQ Specialist, with improvement in branch network
- > Maintained discipline around credit standards

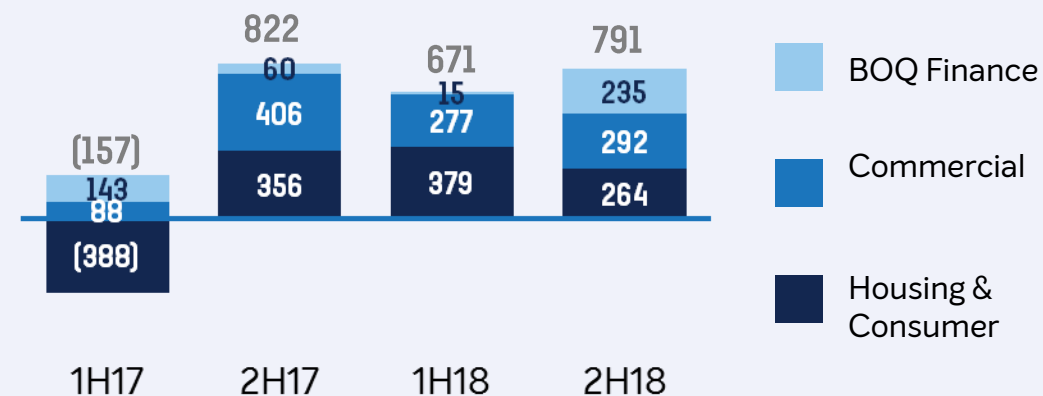
GROSS LOANS & ADVANCES (\$B)



TOTAL LENDING GEOGRAPHIC MIX



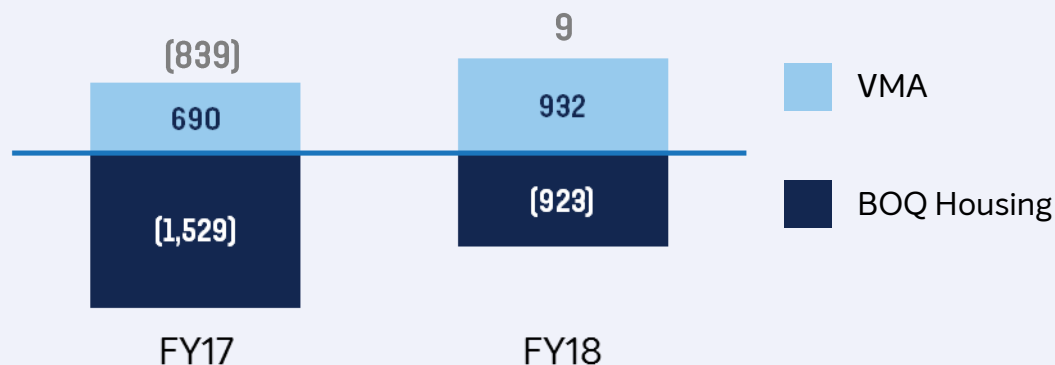
HALF YEARLY GROWTH COMPOSITION (\$M)



RETAIL BANKING SUMMARY

- > Improved growth profile supported by VMA and BOQ Broker channel
- > Growth being balanced with margin and risk
- > Branches focused on deposit gathering and MFI customer growth

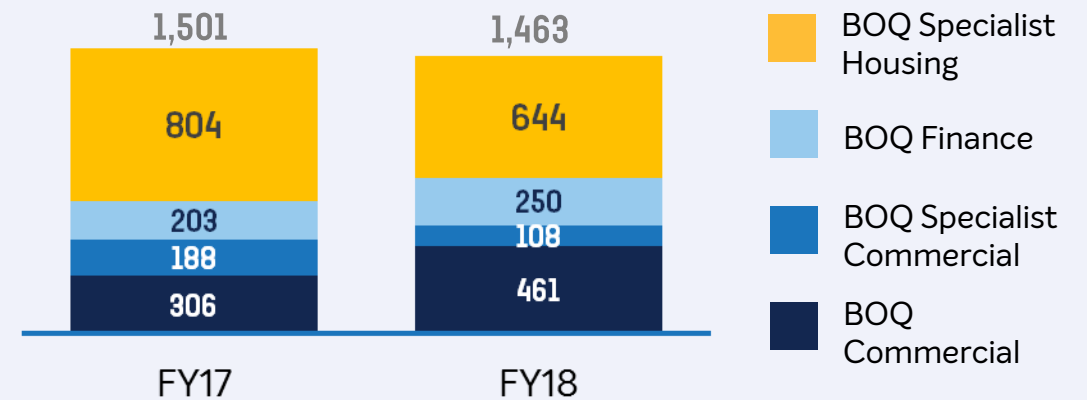
RETAIL HOUSING LOAN GROWTH BY CHANNEL (\$M)



BOQ BUSINESS SUMMARY

- > Consistent growth across all business lines
- > BOQ Specialist mortgage growth remains strong
- > Niche segment growth of \$623m
- > BOQ Finance delivered solid growth through structured programs

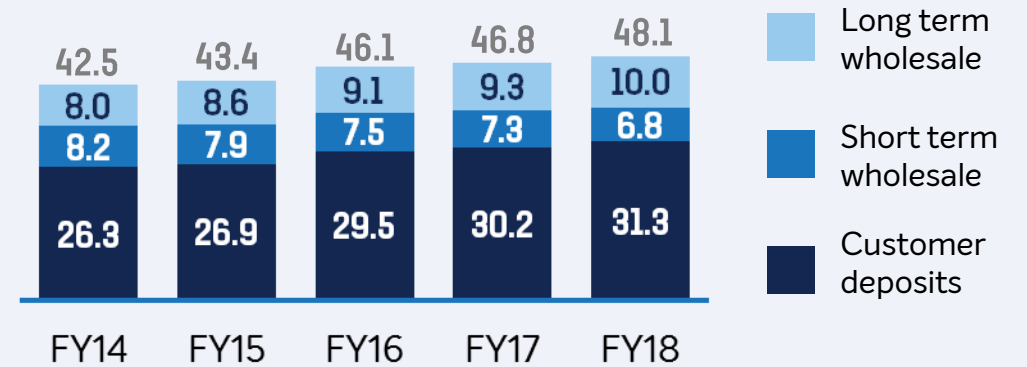
BOQ BUSINESS LOAN GROWTH BY CHANNEL (\$M)



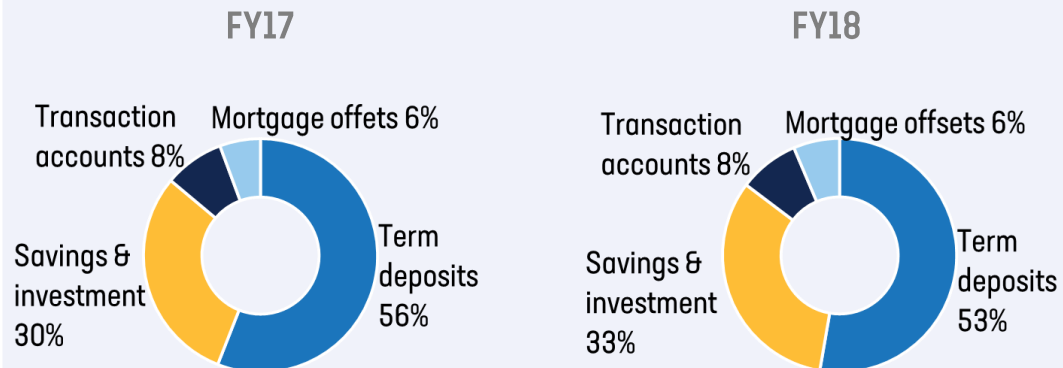
SUMMARY

- > Customer deposit growth of 4%
- > Deposit to loan ratio of 69%
- > Shift in mix towards savings from term deposits
- > Selective long term wholesale issuance when market conditions permit

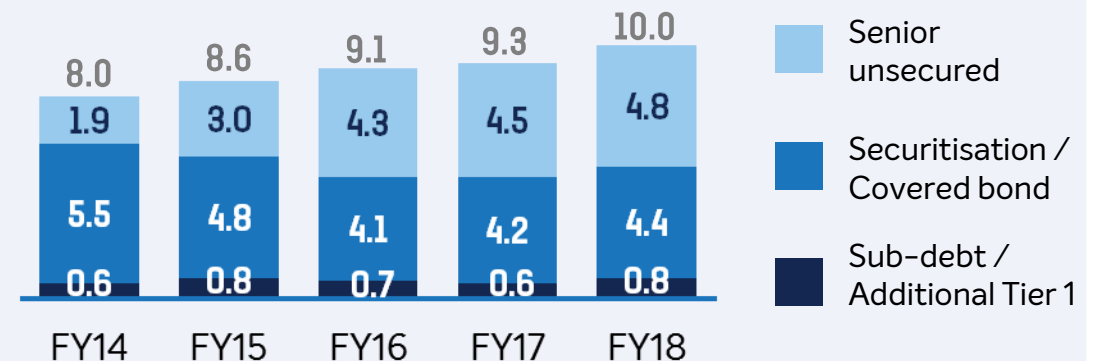
OVERALL FUNDING MIX (\$B)



CUSTOMER DEPOSIT MIX

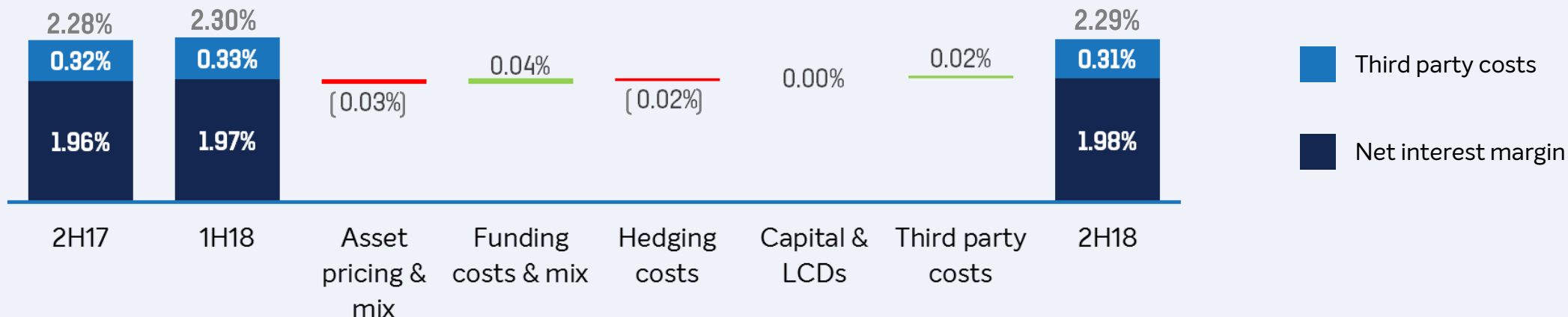


LONG TERM WHOLESALE FUNDING (\$B)



NET INTEREST MARGIN

NET INTEREST MARGIN MOVEMENTS 1H18 TO 2H18



2H18 CONSIDERATIONS

- > Hedging cost headwind mitigated by improvements driven through funding mix and asset pricing
- > Front book vs back book impact ongoing
- > 2bps benefit from extension in weighted average life of housing loans, reflecting portfolio trends

SUMMARY OF KEY MOVING PARTS⁽¹⁾

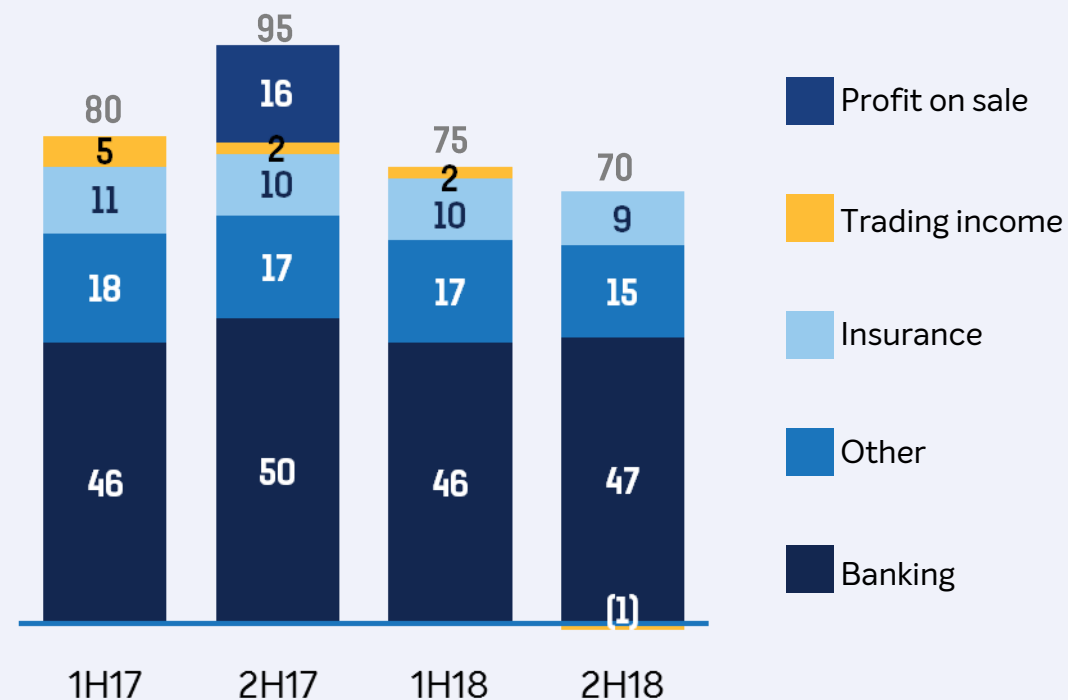
Element	2H17	1H18	2H18
Asset pricing benefits	+6bps	+4bps	+2bps
Front book pricing & mix	(4bps)	(5bps)	(5bps)
Funding costs & mix	+5bps	+2bps	+4bps
Hedging costs	-	+2bps	(2bps)
Capital & LCDs	(2bps)	(1bp)	-

NON INTEREST INCOME

SUMMARY

- > Ongoing pressure on banking fees
- > Limited opportunities for trading income generation
- > Insurance income continues to trend lower
- > Digital financial market offering to launch in FY19 should start to provide some offset

NON INTEREST INCOME BREAKDOWN (\$M)

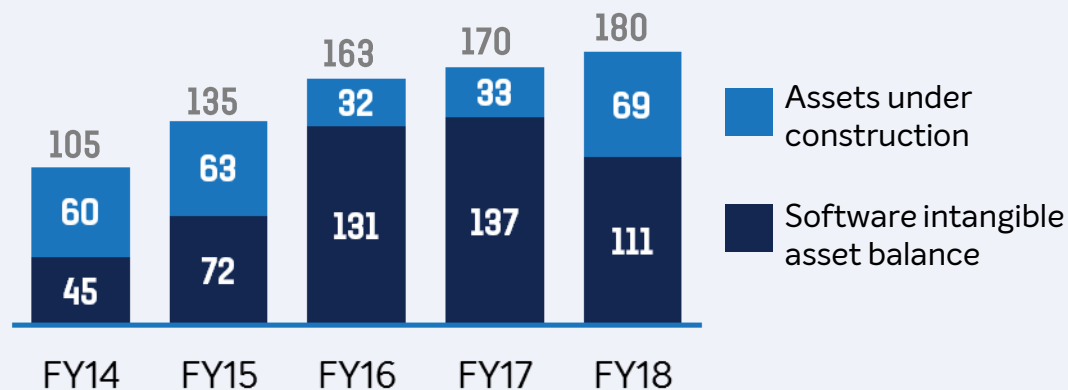


OPERATING EXPENSES

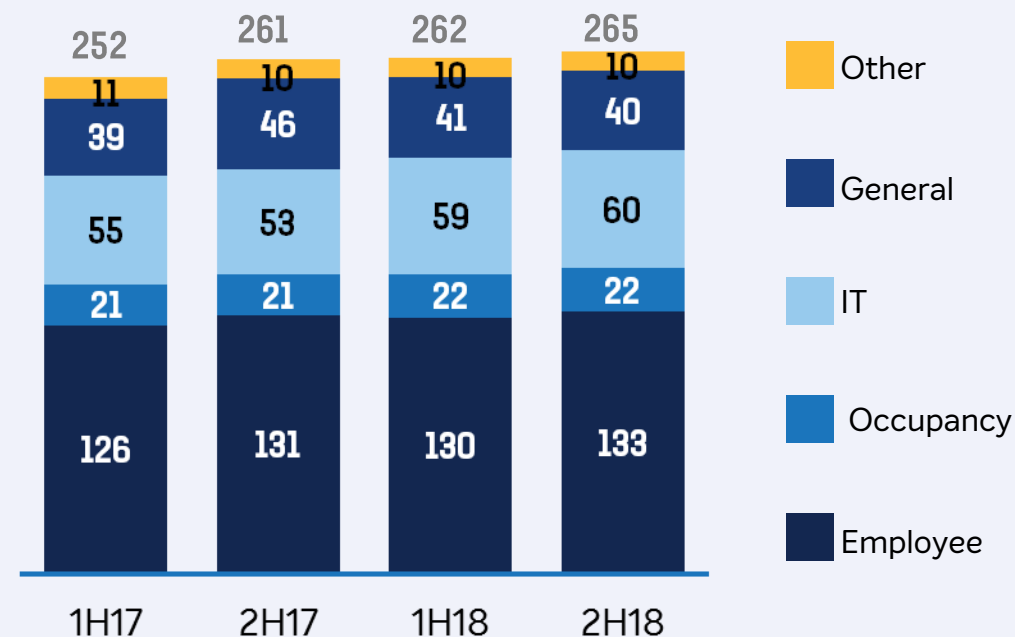
SUMMARY

- > Expense growth contained to 3%; CTI 47.5%
- > Core expense growth of 1%⁽¹⁾
- > Amortisation increasing with ongoing IT investment
- > Increased capital investment flagged for FY19

CARRYING VALUE OF INTANGIBLE ASSETS (\$M)



OPERATING EXPENSE BREAKDOWN (\$M)



NON-CASH EARNINGS ITEMS

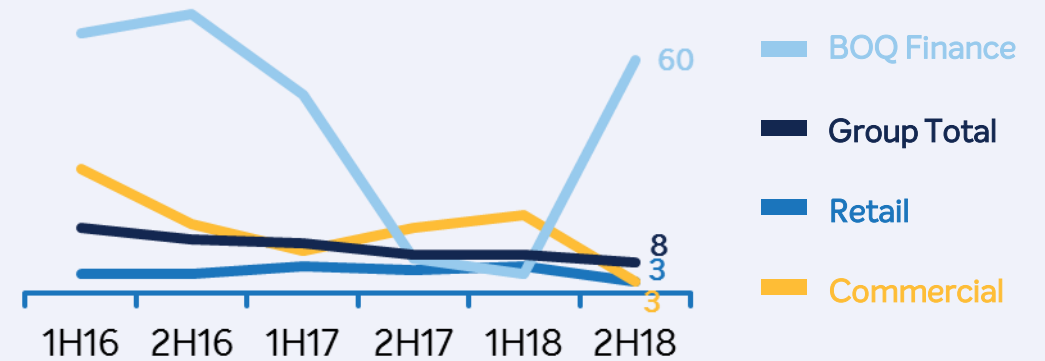
	FY18	FY17
Cash earnings after tax	\$372m	\$378m
Amortisation of acquisition fair value adjustments	(\$7m)	(\$13m)
Hedge ineffectiveness	(\$3m)	(\$9m)
Integration / transaction costs	(\$1m)	(\$1m)
Regulatory / compliance	(\$9m)	-
Software changes	(\$11m)	-
Legacy items	(\$5m)	(\$3m)
Statutory Net Profit after tax	\$336m	\$352m

ASSET QUALITY

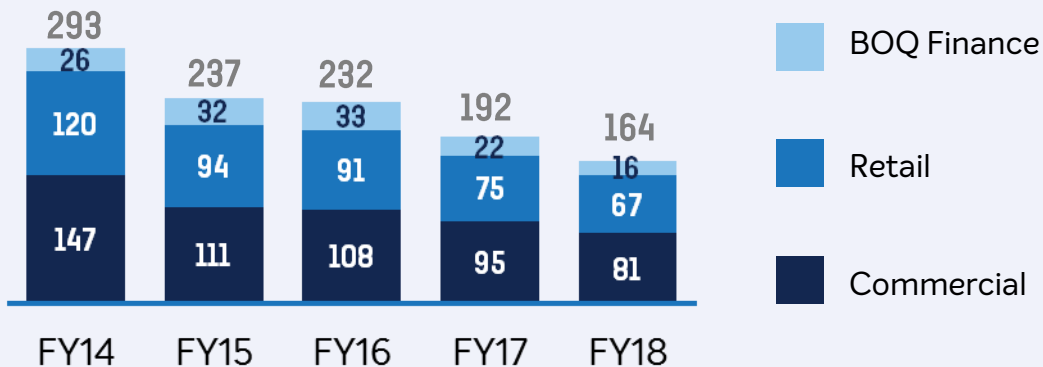
SUMMARY

- > Ongoing improvement evident across all metrics
- > 15% reduction in impaired assets and loan impairment expense
- > Low volume of new impairments

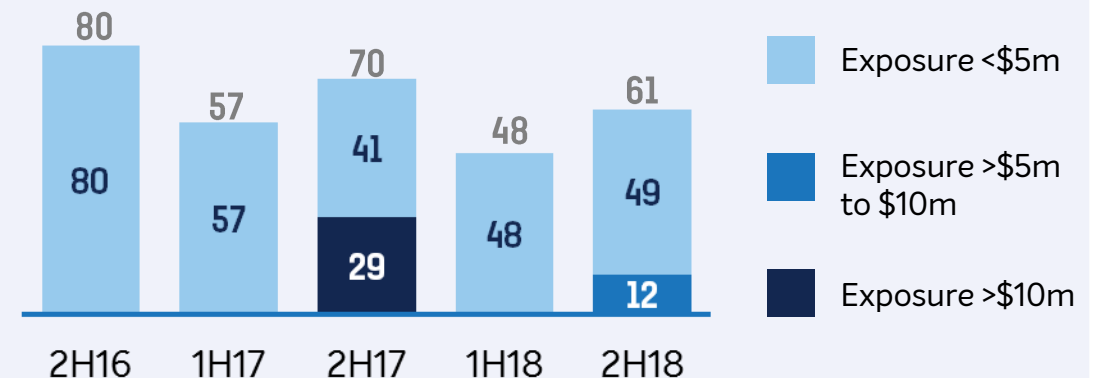
LOAN IMPAIRMENT EXPENSE BY PRODUCT (bps)



IMPAIRED ASSETS (\$M)



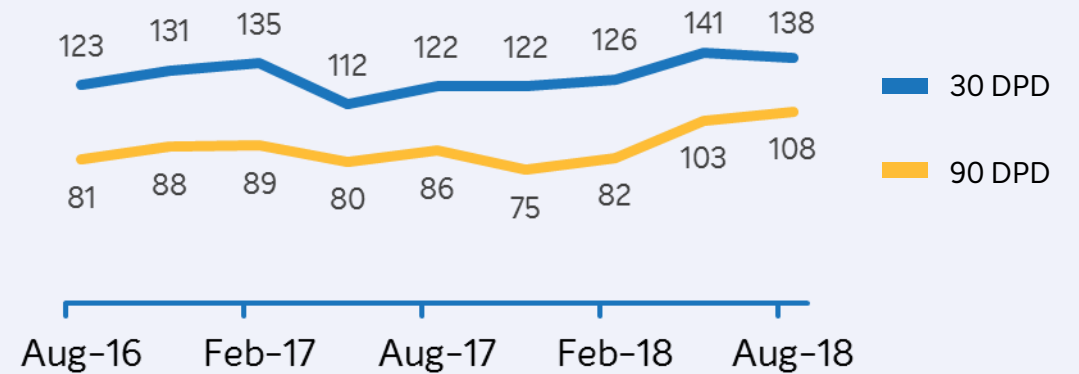
NEW IMPAIRED ASSETS (\$M)



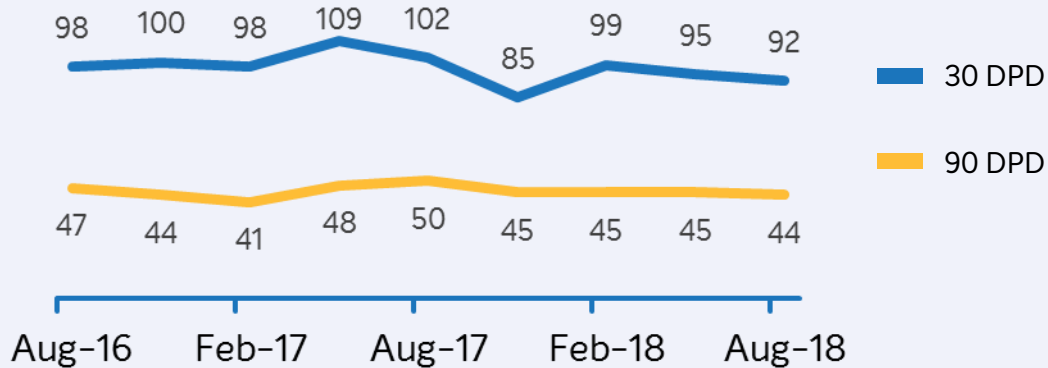
SUMMARY

- > Arrears level remain low and steady across all portfolios
- > Small increase in commercial arrears
- > No areas of concern emerging

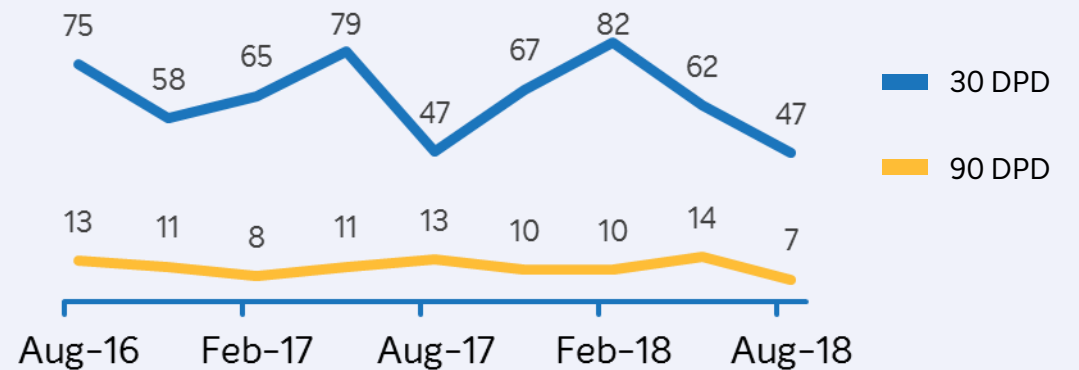
COMMERCIAL ARREARS (bps)



HOUSING ARREARS (bps)



BOQ FINANCE ARREARS (bps)

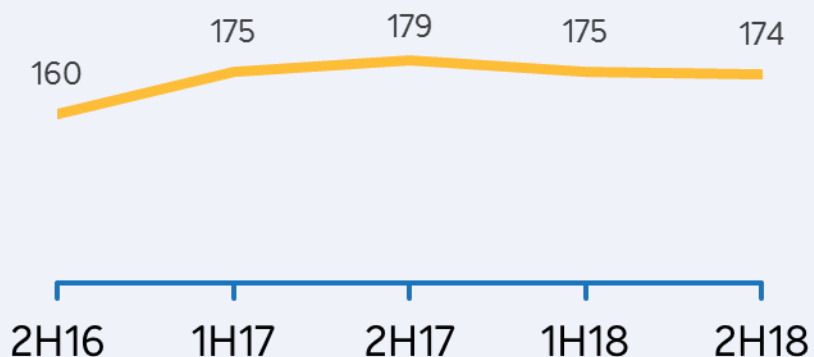


PROVISION COVERAGE

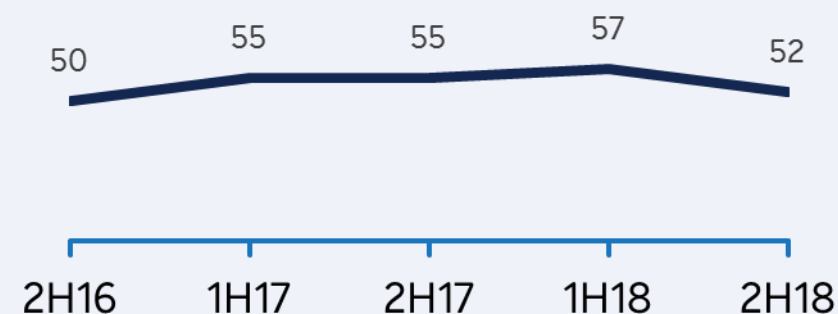
SUMMARY

- > Coverage levels remain adequate
- > Collective Provisions – AASB 9 impact muted due to model and overlay changes in prior periods

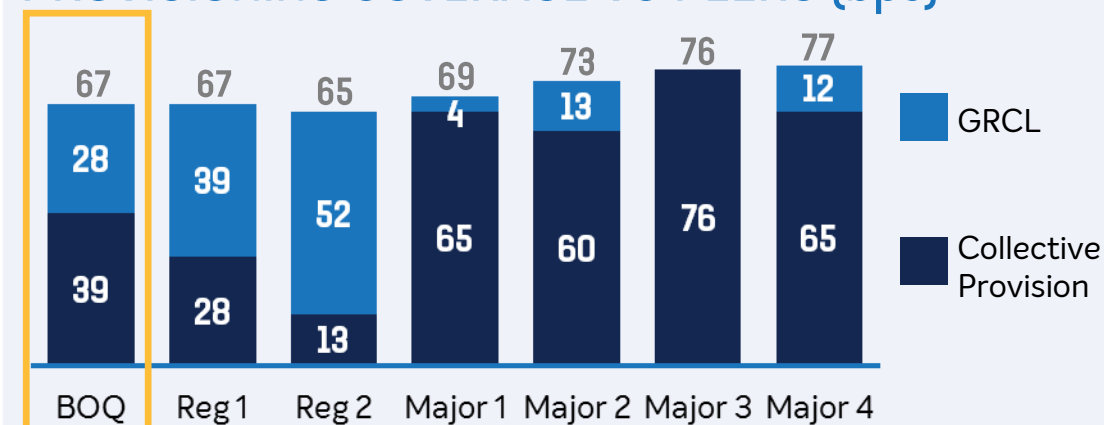
TOTAL PROVISION & GRCL / IMPAIRED ASSETS (%)



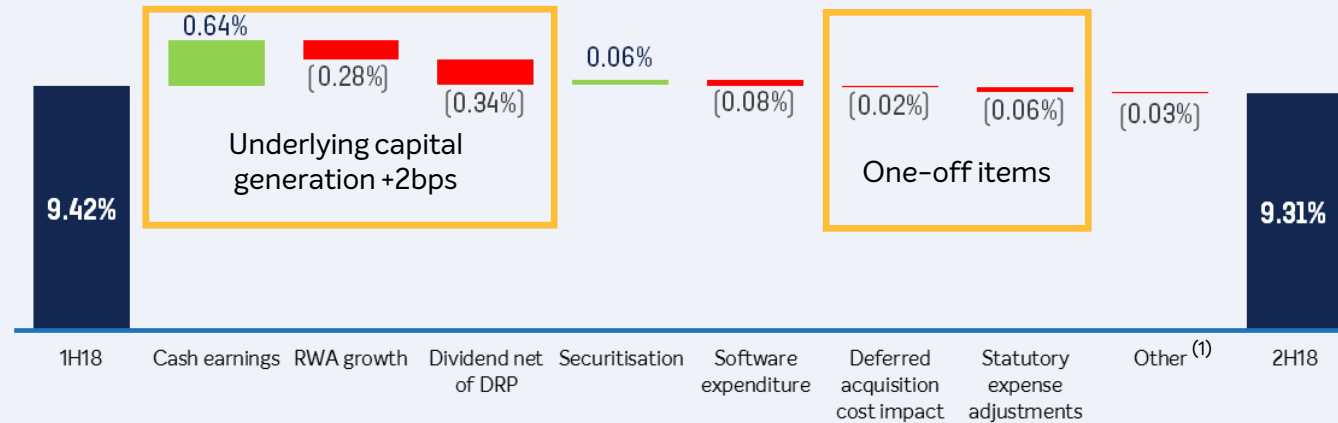
SPECIFIC PROVISIONS / IMPAIRED ASSETS (%)



PROVISIONING COVERAGE VS PEERS (bps)



COMMON EQUITY TIER 1 MOVEMENTS



SUMMARY

- > 9.31% Common Equity Tier 1 ratio
- > Underlying capital generation of +2bps
- > Impact from one-off items of (8bps)
- > Increased investment spend reduced CET1 by 8bps

LEVERAGING STRONG CAPITAL POSITION

- > Incremental spend of 7bps of CET1 over FY19 & FY20 to accelerate investment in digital assets

SUMMARY & OUTLOOK

JON SUTTON
MANAGING DIRECTOR & CEO

LONG TERM TRENDS IMPACTING BANKING

Challenging economic
landscape

Meeting our customers'
digital needs

Competitive dynamics &
value chain disruption

Regulatory reform &
community expectations

STRATEGIC FOCUS

Execution pillars

Customer in charge

Grow the right way

Always a better way

Loved like no other

BOQ goals

- > Achieving digital parity and meeting our customers' digital needs
- > Delivering a seamless customer experience
- > Tilting to higher margin segments

- > Lift MFI penetration through deposit gathering and pricing for risk
- > Treat data as a strategic asset
- > Ensuring a state of readiness to respond to regulatory reform

- > Overhauling key processes
- > Developing capabilities to drive efficiency through digitization

- > Define and bring to life our purpose for our people and customers
- > Deliver a differentiated service offering

Key initiatives

- > Upgraded or new digital banking platforms and apps
- > Accelerate VMA digital bank opportunity

- > Focus distribution channels towards deposit gathering and MFI
- > Close key product gaps to support deeper customer relationships
- > Develop strategic response to potential regulatory reform

- > Establish lending centre of excellence
- > Continuous improvement initiatives
- > Digitisation of processes

- > Engage our people to define and start to embed our purpose-led culture
- > Revitalise BOQ core business market positioning

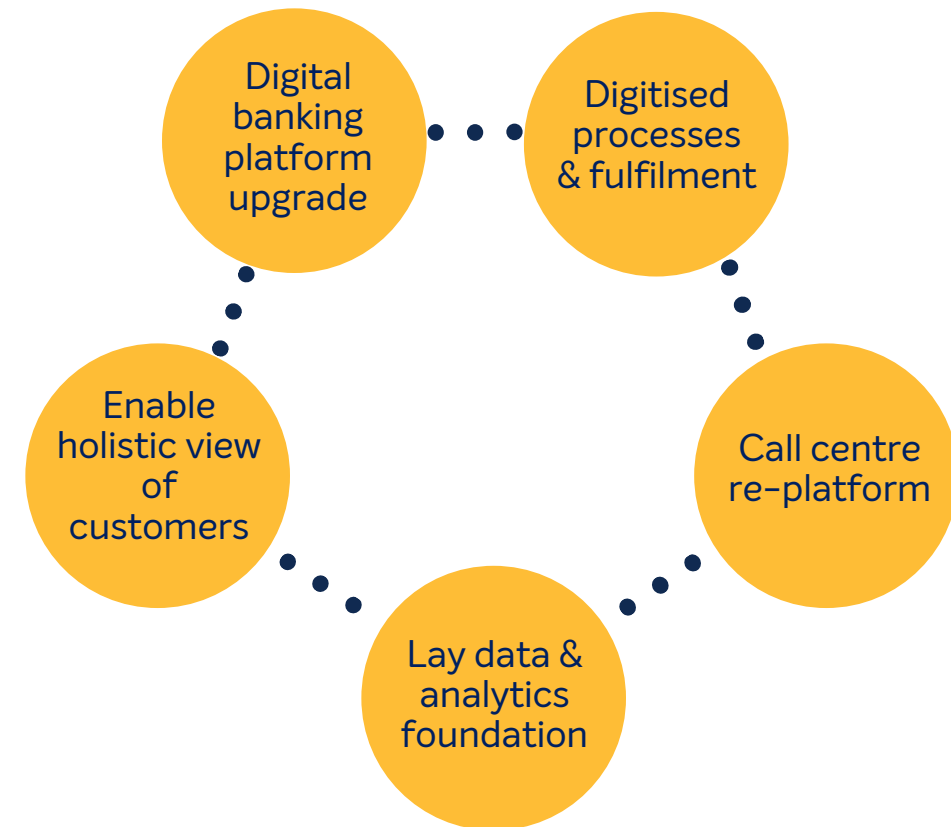
FASTER TRACK TO DIGITAL PARITY

- > Investing in platforms that can be leveraged across all brands
- > Focus on enhancing connectivity with customers
- > Keeping pace with expectations of digitally active customers

VMA OPTIONALITY RETAINED

- > Proven power of Virgin brand to attract new and valuable customer segments
- > Exploring options to leverage the potential of the brand

ACCELERATED INVESTMENT PRIORITIES



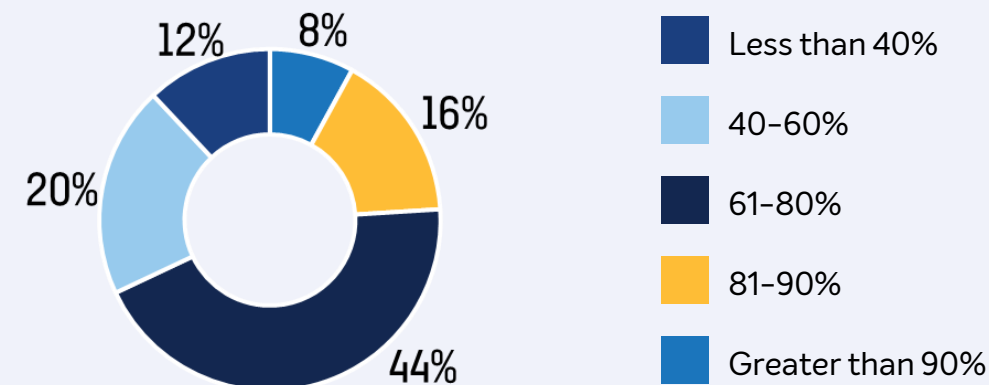
- 1 Strategy delivering results
- 2 Asset quality resilient
- 3 Investing for future customer needs
- 4 Ready to respond to regulatory reform

APPENDICES

SUMMARY

- > Broker settlements at 30% including VMA
- > Interest only settlements reduced significantly
- > Owner occupied P&I loans represent 50% of portfolio

HOUSING PORTFOLIO LVR BANDS



PORTFOLIO METRICS

Metrics (%)	2H17	1H18	2H18
Owner occupied	59	59	59
Investment	41	41	41
Interest only	37	32	29
Broker originated ⁽¹⁾	11	13	15
Weighted avg LVR	67	67	67
Line of Credit	8	7	6
Avg loan balance	\$269k	\$275k	\$280k
Variable rate	72	71	74
Fixed rate	28	29	26

SETTLEMENT METRICS

Metrics (%)	2H17	1H18	2H18
Owner occupied	63	61	61
Investment	37	39	39
Interest only	37	16	14
Broker originated ⁽¹⁾	28	30	30
Weighted avg LVR	69	68	69
Line of Credit	1	1	1
Avg loan balance	\$381k	\$394k	\$408k
Variable rate	72	72	80
Fixed rate	28	28	20

LIMITED EXPOSURE TO HIGH RISK SECTORS

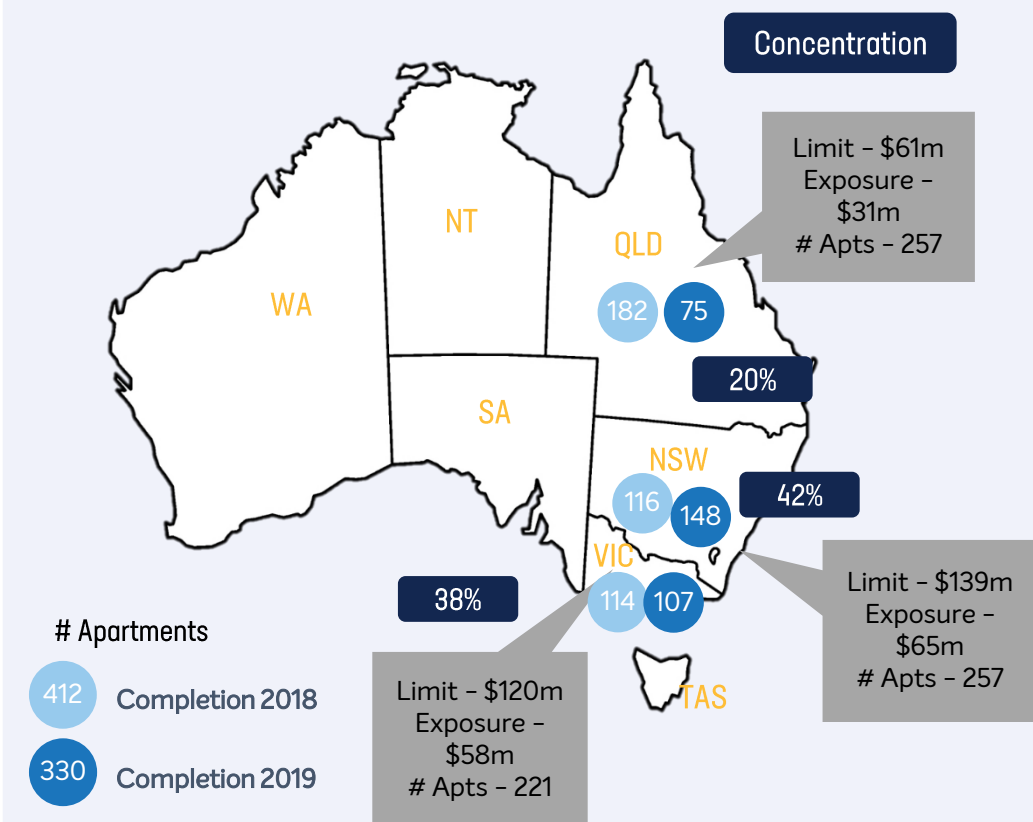
APARTMENT CONSTRUCTION EXPOSURES

- > \$154m current exposure to residential construction
- > 14 developments across 3 states, completing 2018 through 2019
- > Well diversified intra-state within NSW and VIC

OTHER HIGH RISK SECTORS

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

LENDING TO RESIDENTIAL APARTMENT CONSTRUCTION



ABBREVIATIONS

1H: First half of financial year	DTA: Deferred tax asset
2H: Second half of financial year	EPS: Earnings per share
30DPD: 30 days past due	FY: Financial year
90DPD: 90 days past due	GLA: Gross Loans & Advances
AASB: Australian Accounting Standards Board	GRCL: General Reserve for Credit Losses
APRA: Australian Prudential Regulation Authority	LCD: Low cost deposit
APS: ADI Prudential Standards	LOC: Line of Credit
Apts: Apartments	LVR: Loan to valuation ratio
AT1: Additional Tier One	MFI: Main Financial Institution
Avg: Average	NIM: Net Interest Margin
BDD: Bad & Doubtful Debt Expense	OMB: Owner Managed Branch
bps: basis points	P&I: Principal & interest
CAGR: Compound annual growth rate	PCP: Prior corresponding period
CET1: Common Equity Tier 1	ROE: Return on equity
cps: Cents per share	ROTE: Return on tangible equity
CPS: Convertible Preference Shares	RWA: Risk-weighted assets
CTI: Cost-to-income ratio	SME: Small and Medium Enterprises
DPD: Days past due	TD: Term deposit
DRP: Dividend Reinvestment Plan	VMA: Virgin Money Australia

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