

1H19 RESULTS PRESENTATION

11 APRIL 2019

Half year ended 28 February 2019

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

RESULTS OVERVIEW

Anthony Rose Interim CEO

FINANCIAL DETAIL

Matt Baxby Chief Financial Officer

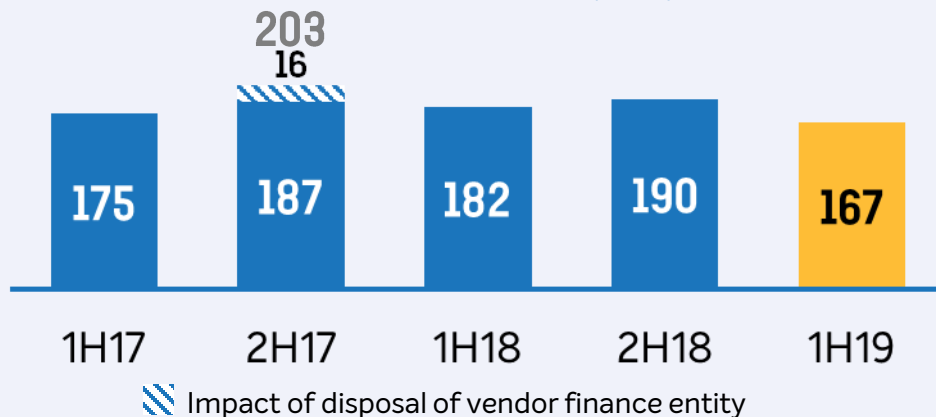
SUMMARY & OUTLOOK

Anthony Rose Interim CEO

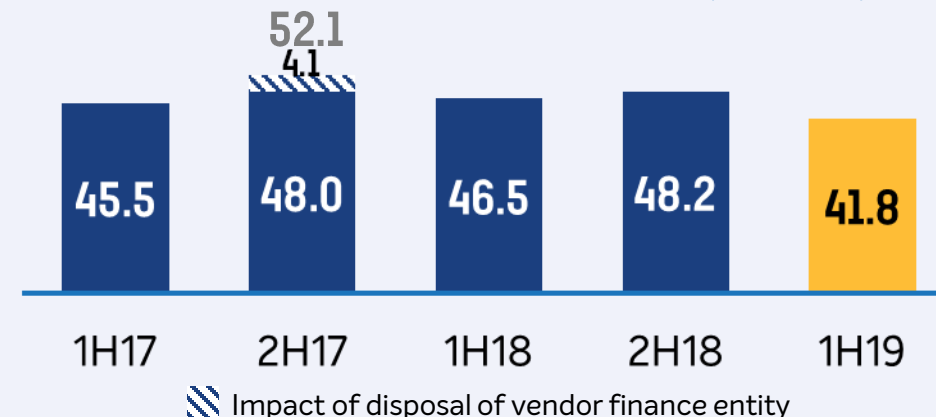
- 1 Niche growth, asset quality and capital remain strong
- 2 Industry developments & Retail Bank performance impacting returns
- 3 Initiatives underway for long term value creation

KEY ELEMENTS OF THE RESULT

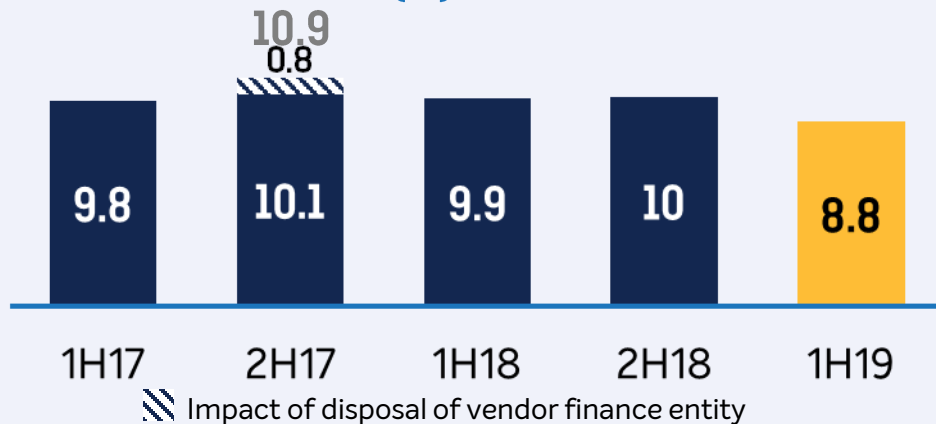
CASH EARNINGS AFTER TAX (\$M)



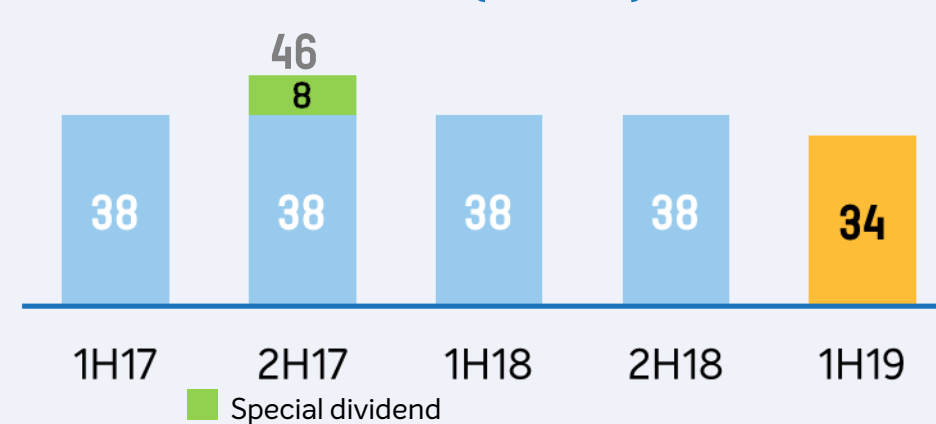
EARNINGS PER ORDINARY SHARE (CENTS)



RETURN ON EQUITY (%)

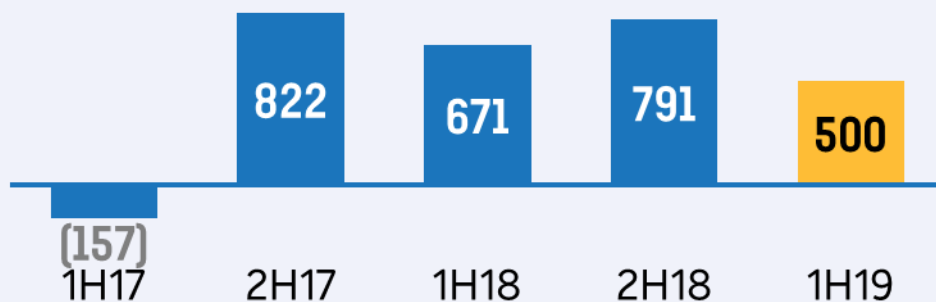


DIVIDENDS PER SHARE (CENTS)

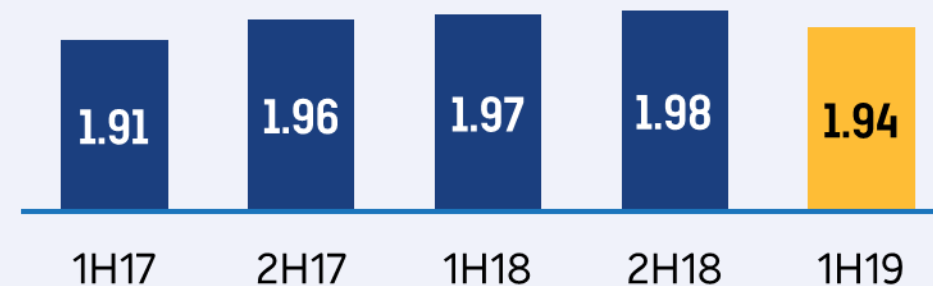


DRIVERS OF THE RESULT

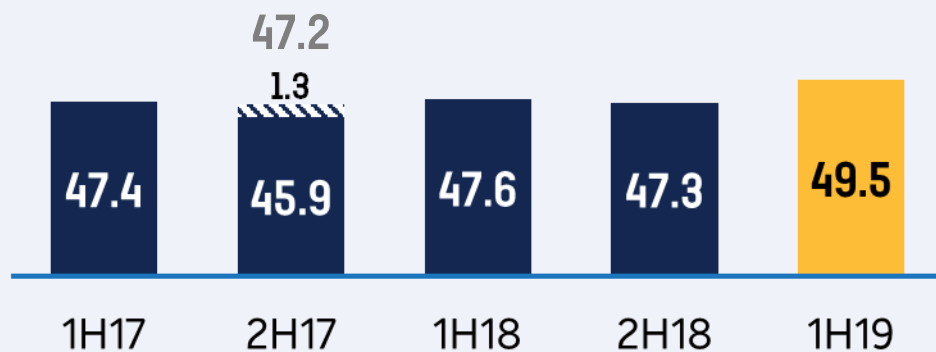
LENDING GROWTH (\$M)



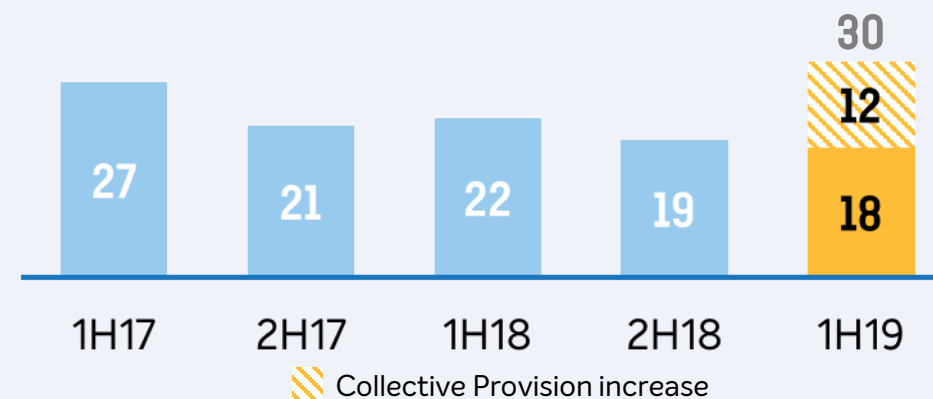
NET INTEREST MARGIN (%)



COST TO INCOME RATIO (%)



LOAN IMPAIRMENT EXPENSE (\$M)

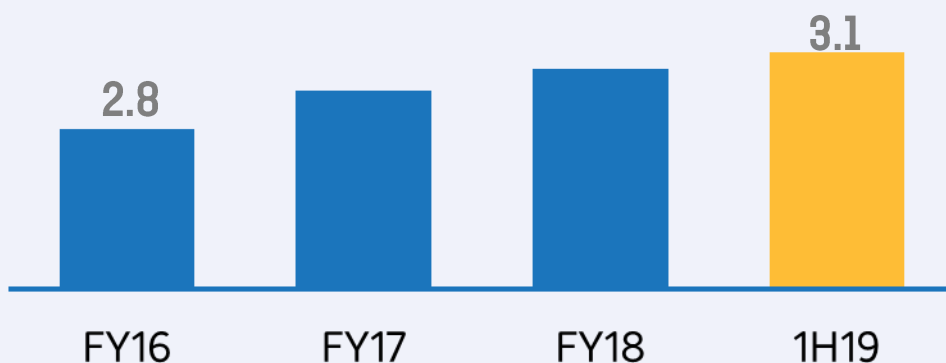


BOQ BUSINESS DELIVERING SOLID GROWTH

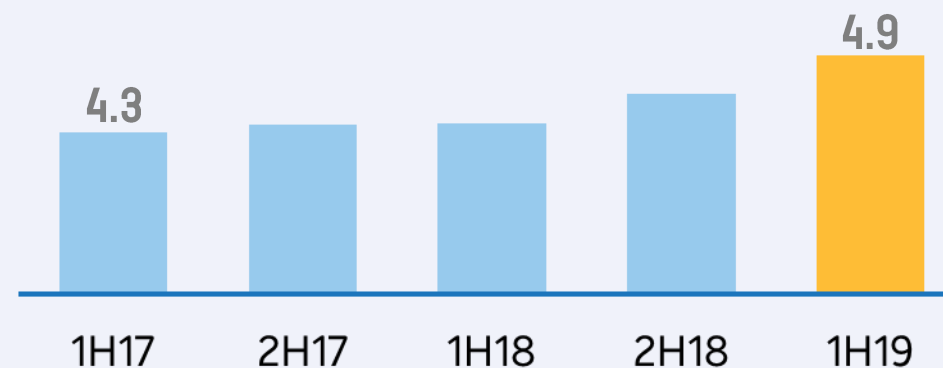
SUMMARY

- > Total loan growth of \$756m or 8% annualised
- > Growth in BOQ Specialist & BOQ Finance demonstrates niche strategy is working
- > Focus on quality and return for risk

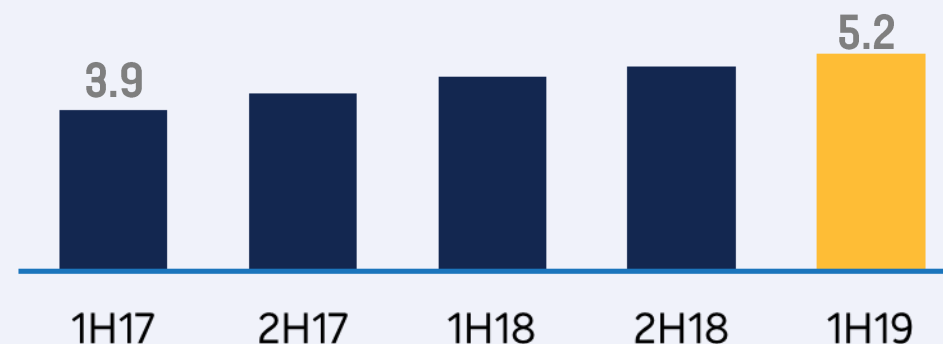
BOQ SPECIALIST COMMERCIAL BALANCES (\$B)



BOQ FINANCE BALANCES (\$B)



BOQ SPECIALIST HOUSING BALANCES (\$B)



MIXED PERFORMANCE ACROSS RETAIL

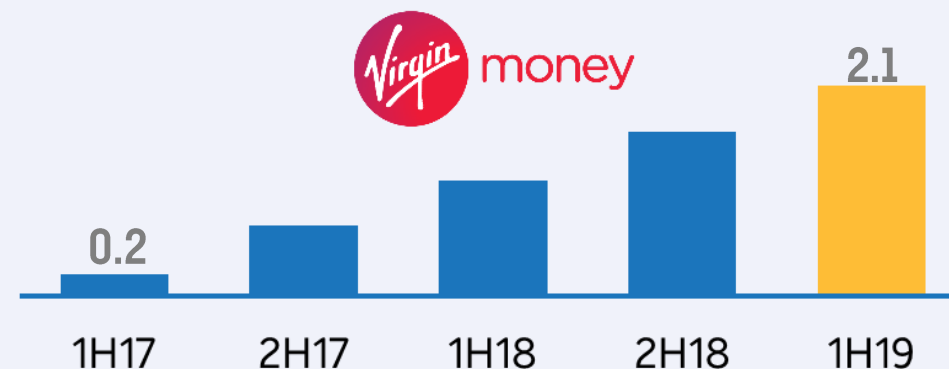
SUMMARY

- > Successful diversification of distribution channels
- > Virgin Money continues to achieve strong levels of customer acquisition
- > Core Retail business continues to underperform due to three key constraints

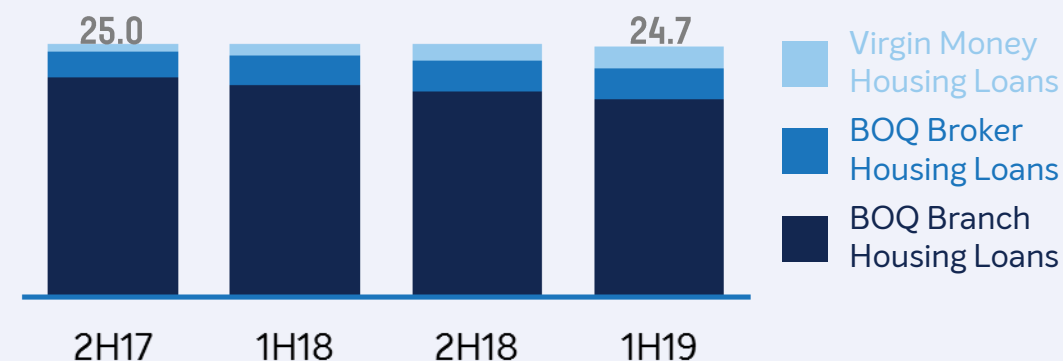
RETAIL BANKING CONSTRAINTS

- > Lending processes made complex by application of responsible lending
- > Digital customer platforms lagging peers
- > Regulatory uncertainty impacted Owner Manager renewal

VIRGIN MONEY HOUSING LOAN BALANCES (\$B)



RETAIL HOME LOAN BALANCES (\$B)⁽¹⁾

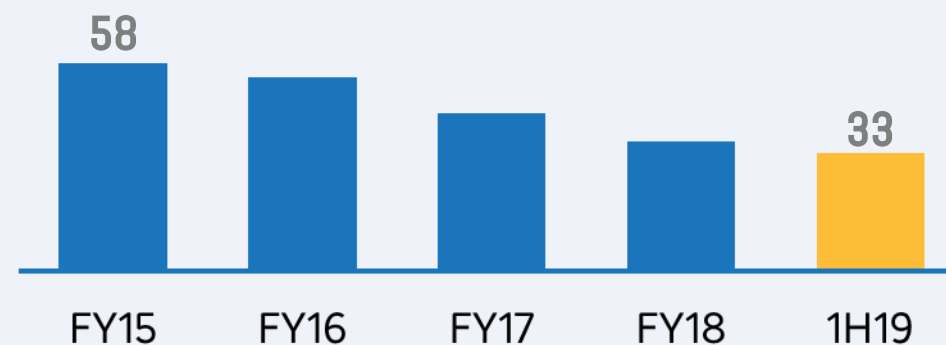


ASSET QUALITY & CAPITAL STRONG

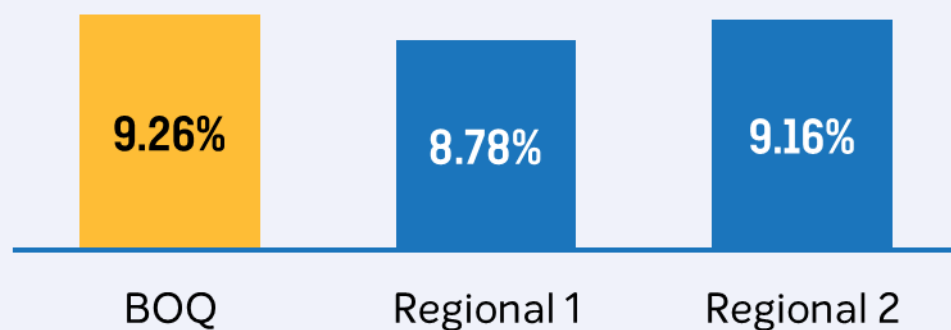
SUMMARY

- > Impaired assets continue to reduce, reflecting appropriate risk appetite settings, loan origination practices and ongoing customer management
- > Arrears remain at benign levels, comparing favourably with peers
- > Capital level remains strong

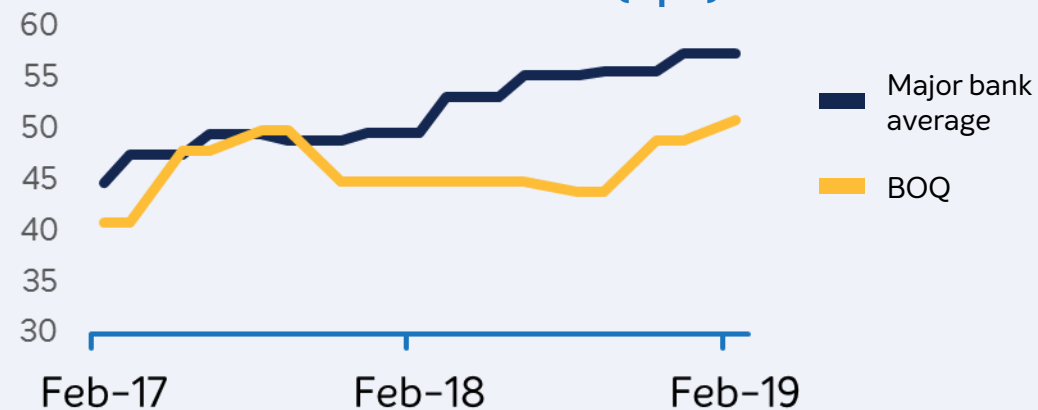
IMPAIRED ASSETS % OF GROSS LOANS (bps)



COMMON EQUITY TIER 1 VS PEERS (%)⁽¹⁾



90-DAY HOUSING ARREARS (bps)⁽²⁾



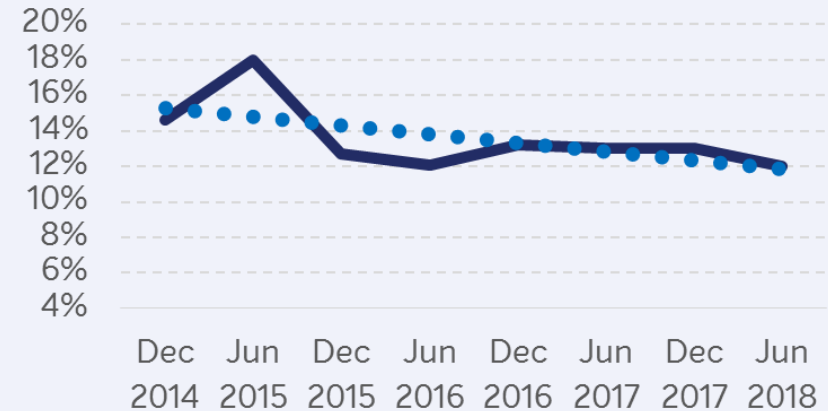
SUMMARY

- > Returns declining across the sector
- > Credit growth slowing, price competition intensifying, economic outlook more uncertain
- > Royal Commission completed with industry impact to be long lasting
- > Regulatory expectations and costs rising

ROYAL COMMISSION OBSERVATIONS

- > Clear focus on improving customer outcomes
- > Incentive arrangements need to better align with customer interests
- > Work for the industry to do to restore trust

BANK SECTOR RETURN ON EQUITY(%)⁽¹⁾



RISING REGULATORY EXPECTATIONS

- > APRA self-assessments show ADIs have more work to do to manage non-financial risks
- > BEAR driving shift to a positive attestation control framework
- > All regulators more active

FINANCIAL DETAIL

MATT BAXBY
CHIEF FINANCIAL OFFICER

FINANCIAL PERFORMANCE: HALF ON HALF

	1H19	1H19 v 1H18	1H19 v 2H18
Net interest income	\$476m	-	(3%) ▼
Non-interest income	\$65m	(13%) ▼	(7%) ▼
Total income	\$541m	(2%) ▼	(3%) ▼
Operating expenses	(\$268m)	2% ▲	1% ▲
Underlying profit	\$273m	(5%) ▼	(7%) ▼
Loan impairment expense	(\$30m)	36% ▲	58% ▲
Cash profit before tax	\$243m	(9%) ▼	(12%) ▼
Income tax expense	(\$76m)	(10%) ▼	(12%) ▼
Cash earnings after tax	\$167m	(8%) ▼	(12%) ▼
Statutory net profit after tax⁽¹⁾	\$156m	(10%) ▼	(4%) ▼
Cash basic earnings per share	41.8c	(10%) ▼	(13%) ▼
Return on average tangible equity	11.4%	(150bps) ▼	(160bps) ▼

SEGMENT PERFORMANCE: HALF ON HALF

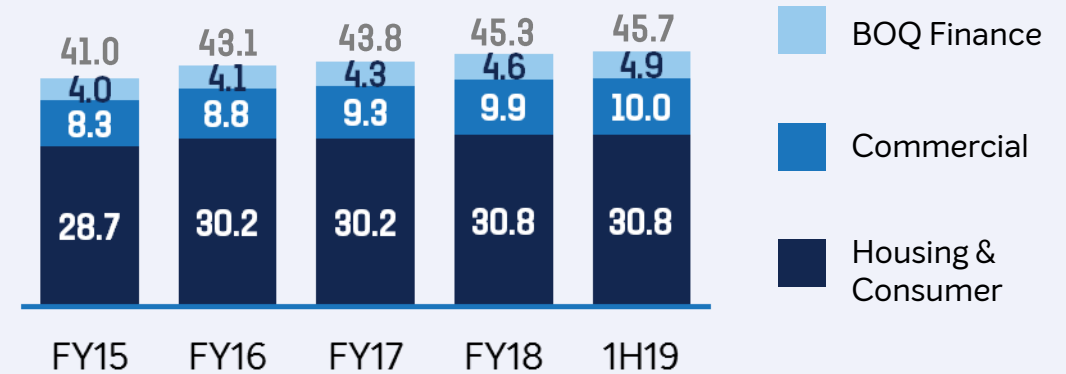
	RETAIL BANKING		BOQ BUSINESS	
	1H19	1H19 v 1H18	1H19	1H19 v 1H18
Net interest income	\$215m	(5%)	\$261m	4%
Non-interest income	\$32m	(3%)	\$26m	(13%)
Total income	\$247m	(5%)	\$287m	2%
Operating expenses	(\$141m)	-	(\$118m)	5%
Underlying profit	\$106m	(11%)	\$169m	-
Loan impairment expense	(\$10m)	-	(\$20m)	67%
Cash profit before tax	\$96m	(12%)	\$149m	(5%)
Income tax expense	(\$30m)	(12%)	(\$47m)	(6%)
Cash earnings after tax	\$66m	(12%)	\$102m	(5%)

LOAN PORTFOLIO AND GROWTH

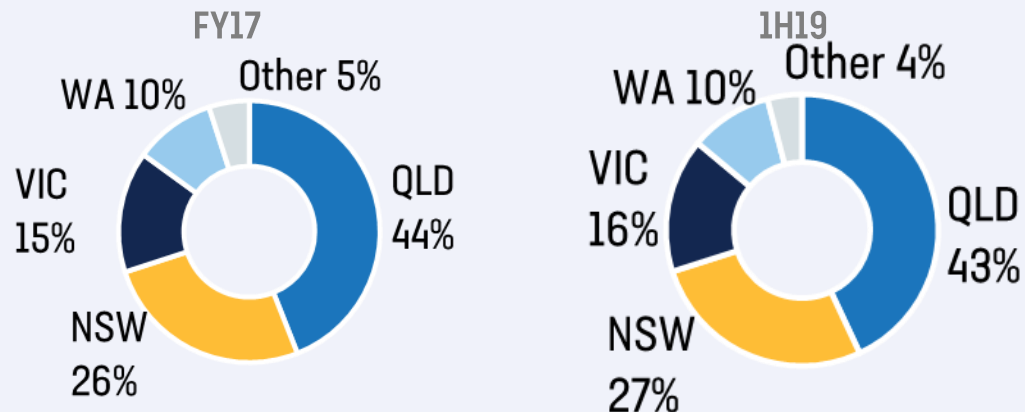
SUMMARY⁽¹⁾

- > Gross loan growth of 2% in a slowing market
- > BOQ Finance growth of 13% & Commercial growth of 3%
- > Housing growth through Virgin Money and BOQ Specialist, offset by contraction in branch network
- > Maintained discipline on credit standards

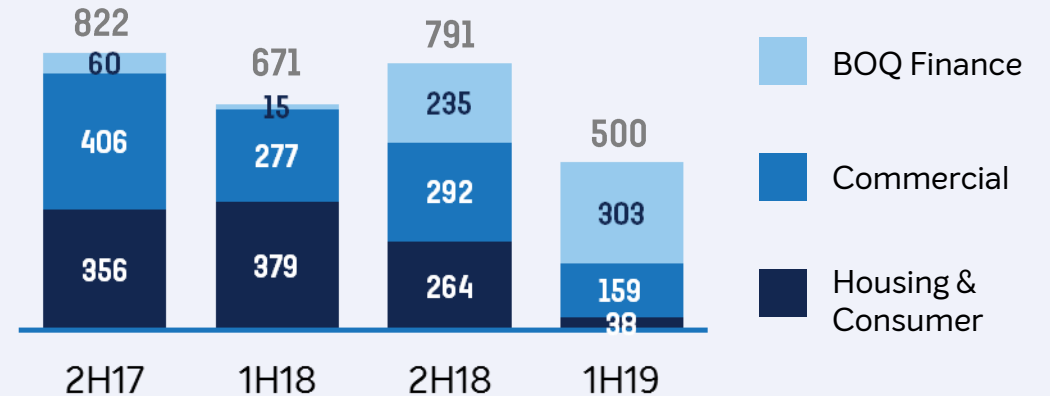
GROSS LOANS & ADVANCES (\$B)



TOTAL LENDING GEOGRAPHIC MIX



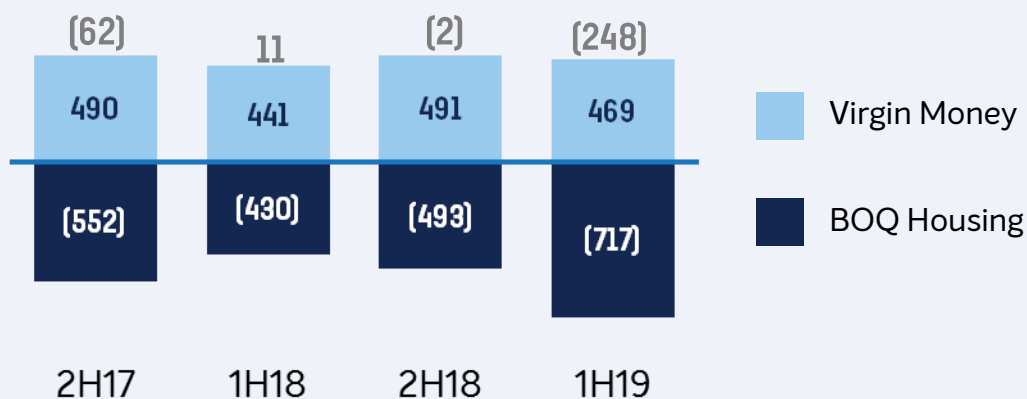
HALF YEARLY GROWTH COMPOSITION (\$M)



RETAIL BANKING SUMMARY

- > Continued strong growth through Virgin Money
- > Branches focused on deposit gathering and MFI customer growth
- > Risk discipline maintained

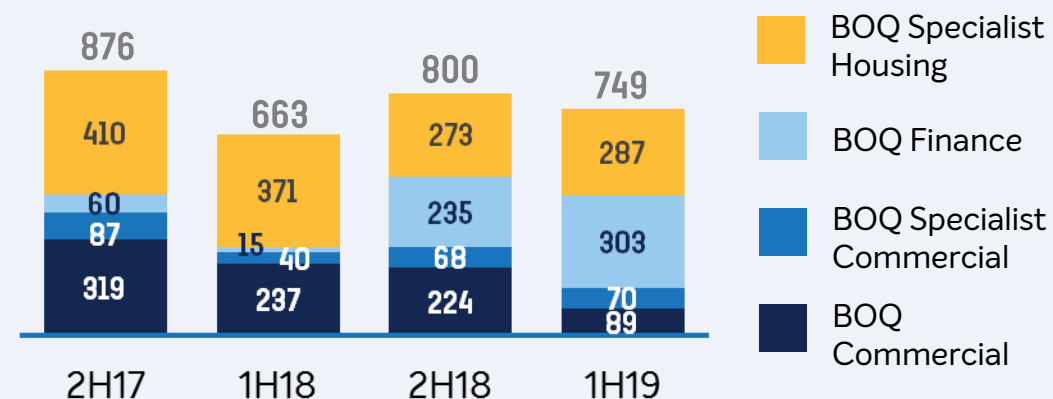
RETAIL HOUSING LOAN GROWTH BY CHANNEL (\$M)



BOQ BUSINESS SUMMARY

- > All business lines achieved growth
- > BOQ Specialist mortgage growth remains strong
- > Niche segment growth of \$94m
- > BOQ Finance delivered very strong growth through equipment, dealer and structured finance programs

BOQ BUSINESS LOAN GROWTH BY CHANNEL (\$M)



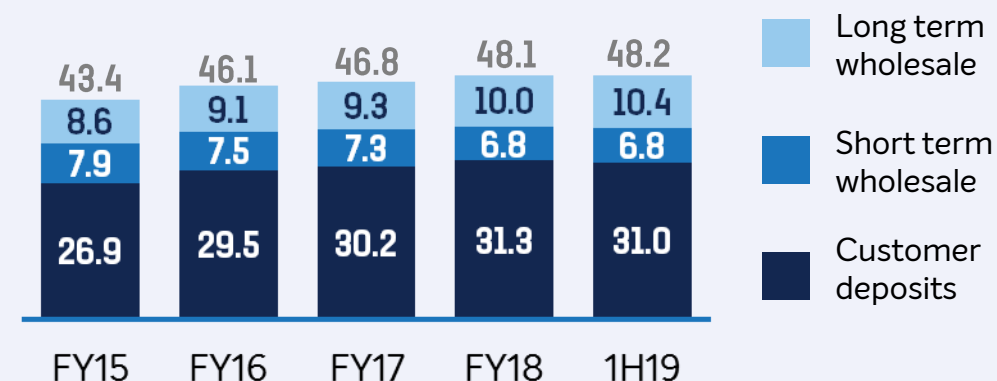
SUMMARY

- > Customer deposits contracted, driven by a reduction in higher cost Term deposits
- > Deposit to loan ratio of 68%
- > Took advantage of more favourable conditions for long term wholesale issuance

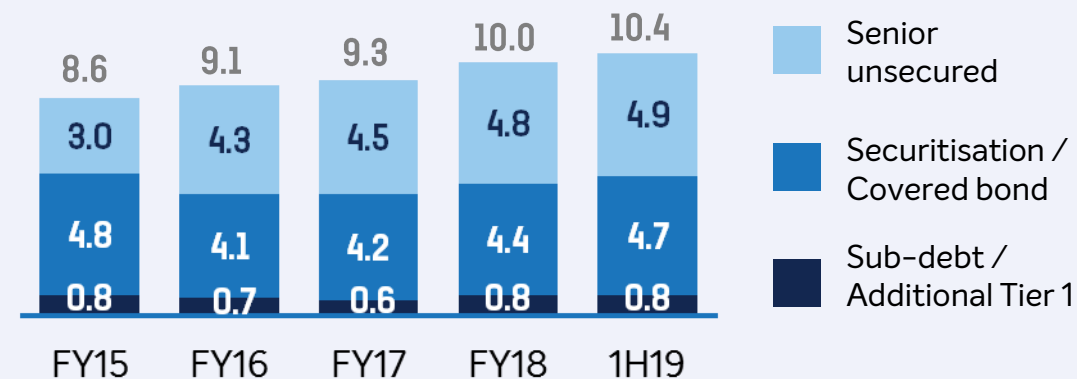
SUCCESSFUL NEW PRODUCT LAUNCHES

- > Fast Track Starter and Fast Track Saver Accounts launched in late 2018
- > Attractive rates for savings accounts linked to transaction account
- > Strong customer acquisition evident since launch
- > Particularly good growth in younger customer segments

OVERALL FUNDING MIX (\$B)

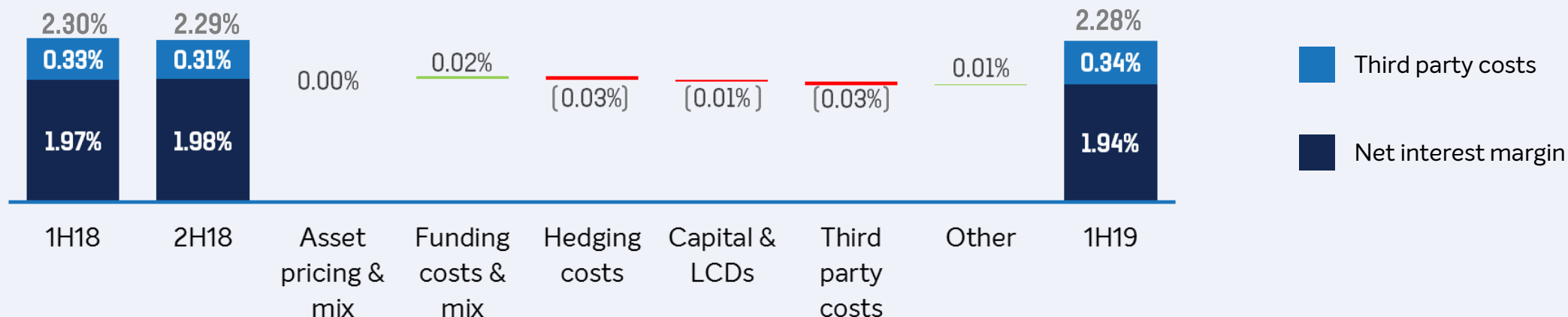


LONG TERM WHOLESALE FUNDING (\$B)



NET INTEREST MARGIN

NET INTEREST MARGIN MOVEMENTS 2H18 TO 1H19



1H19 CONSIDERATIONS

- > Hedging cost headwind mitigated by improvements driven through funding mix and asset pricing
- > Front book vs back book impact ongoing
- > Third party costs impacted by weighted average life normalisation and higher mix of third party originations

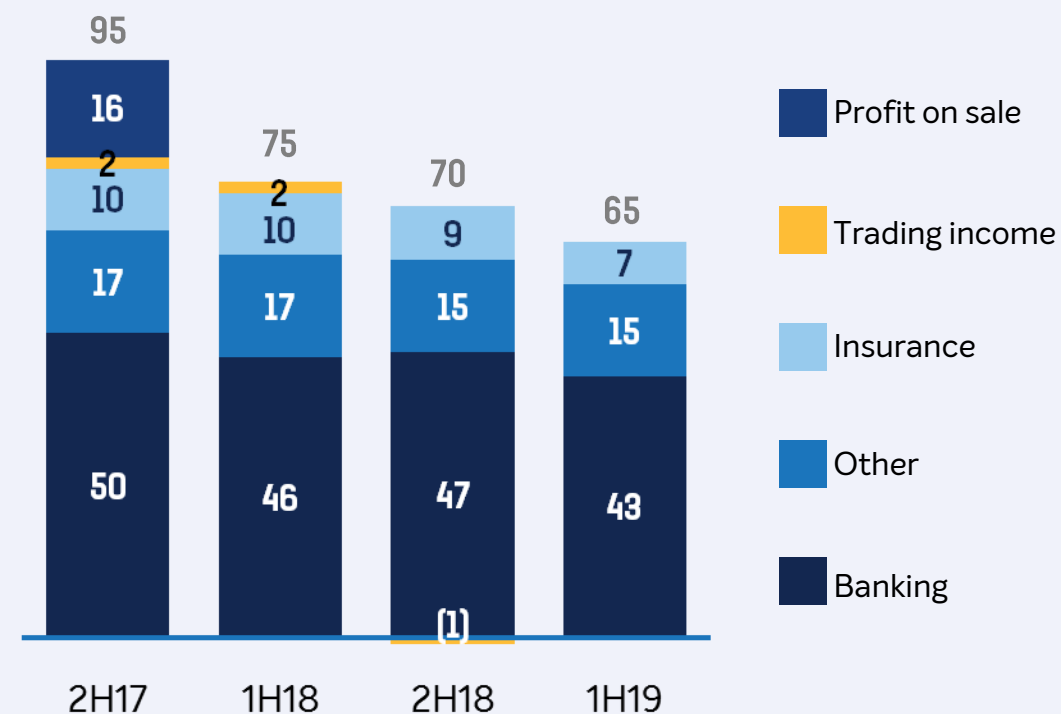
SUMMARY OF KEY MOVING PARTS⁽¹⁾

Element	1H18	2H18	1H19
Asset pricing benefits	+4bps	+2bps	+4bps
Front book pricing & mix	(5bps)	(5bps)	(4bps)
Funding costs & mix	+2bps	+4bps	+2bps
Hedging costs	+2bps	(2bps)	(3bps)
Capital & LCDs	(1bp)	-	(1bp)

SUMMARY

- > Ongoing pressure on banking fees
- > Limited opportunities for trading income generation
- > Insurance income continues to trend lower
- > Improved contribution from Virgin Money and financial markets

NON-INTEREST INCOME BREAKDOWN (\$M)

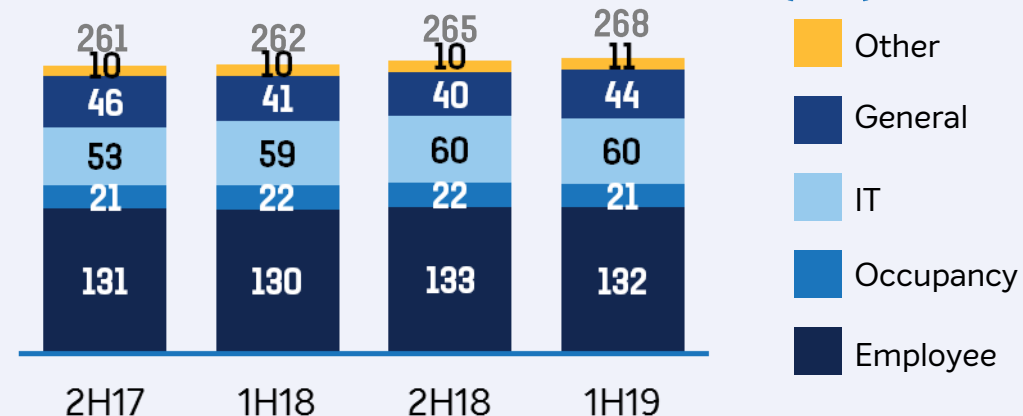


OPERATING EXPENSES

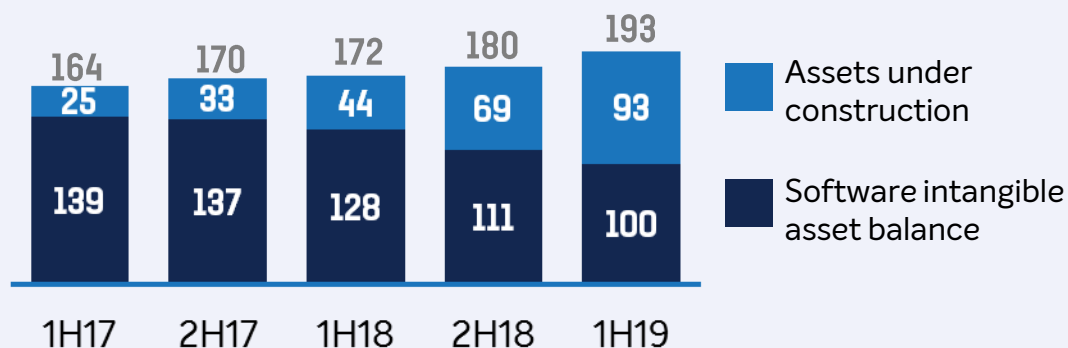
SUMMARY

- > Expense growth contained to 2%; CTI 49.5%
- > Amortisation expected to increase with ongoing investment
- > Rising regulatory & compliance costs expected going forward

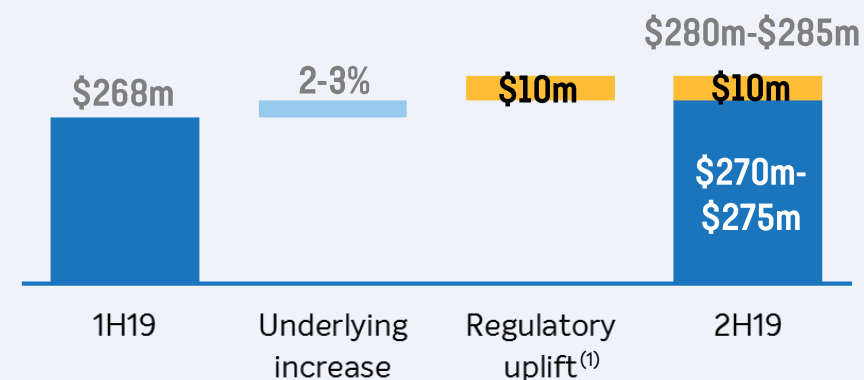
OPERATING EXPENSE BREAKDOWN (\$M)



CARRYING VALUE OF INTANGIBLE ASSETS (\$M)



2H19 EXPENSE OUTLOOK BEFORE MITIGATION



NON-CASH EARNINGS ITEMS

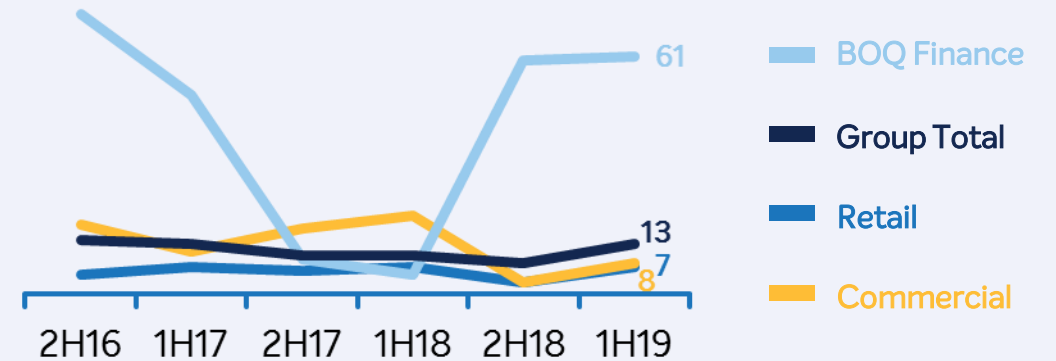
	1H19	2H18	1H18
Cash earnings after tax	\$167m	\$190m	\$182m
Amortisation of acquisition fair value adjustments	(\$4m)	(\$2m)	(\$5m)
Hedge ineffectiveness	(\$3m)	(\$2m)	(\$1m)
Integration / transaction costs	-	(\$1m)	-
Extraordinary regulatory /compliance	(\$3m)	(\$8m)	(\$1m)
Software changes	-	(\$11m)	-
Legacy items	(\$1m)	(\$4m)	(\$1m)
Statutory net profit after tax	\$156m	\$162m	\$174m

ASSET QUALITY

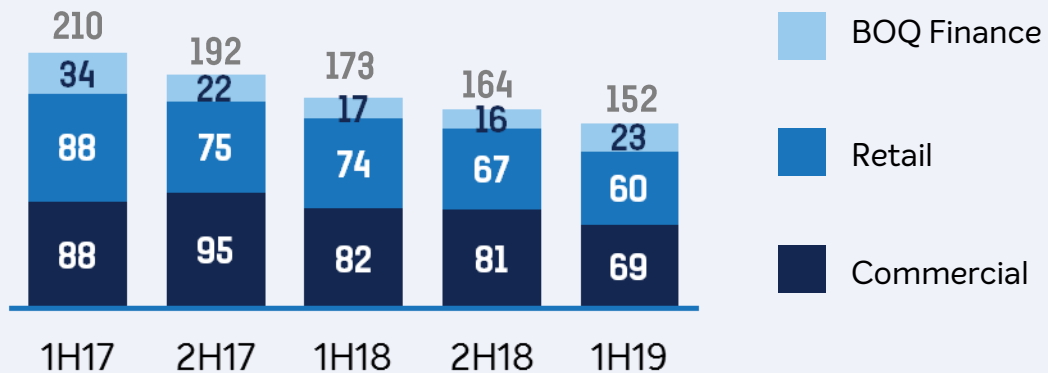
SUMMARY

- > Portfolio metrics remain strong
- > Further reduction in impaired assets
- > Low volume of new impairments
- > Application of new Collective Provisioning model has driven higher impairment expense

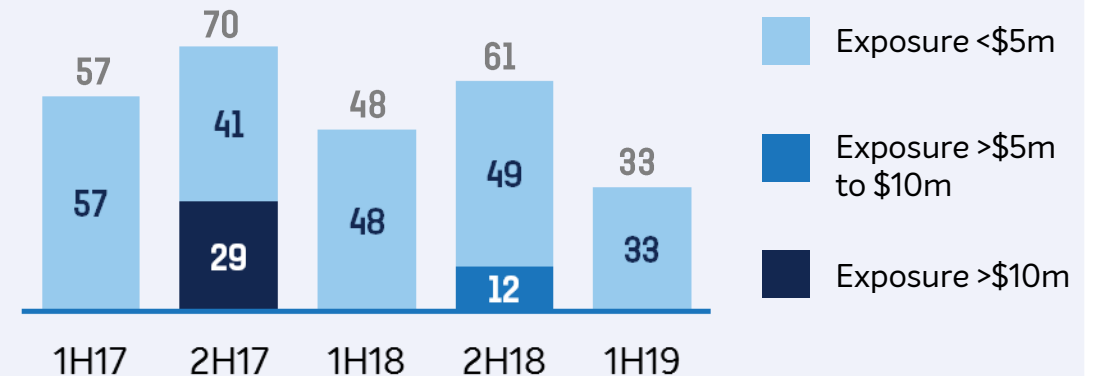
LOAN IMPAIRMENT EXPENSE BY PRODUCT (bps)



IMPAIRED ASSETS (\$M)



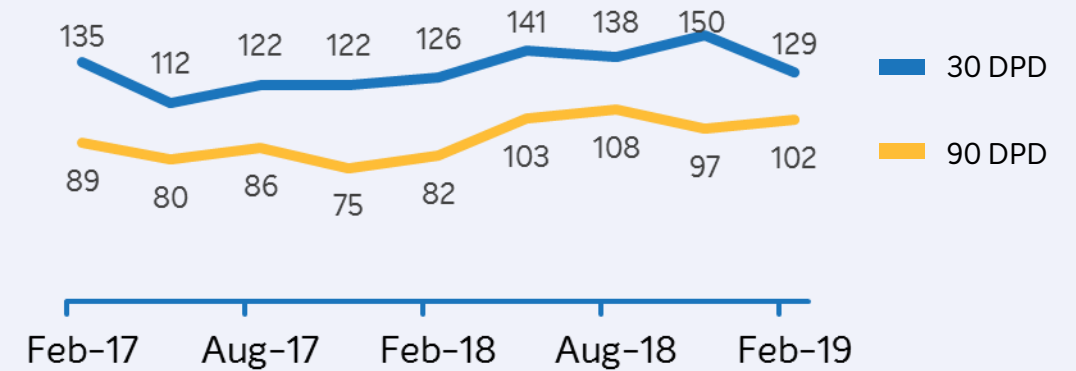
NEW IMPAIRED ASSETS (\$M)



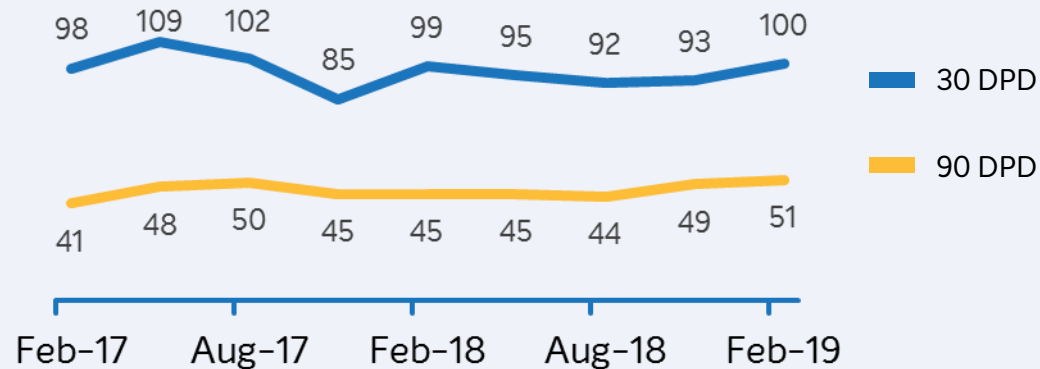
SUMMARY

- > Arrears level remain low and steady across all portfolios
- > Seasonal uptick on BOQ Finance
- > No areas of concern emerging

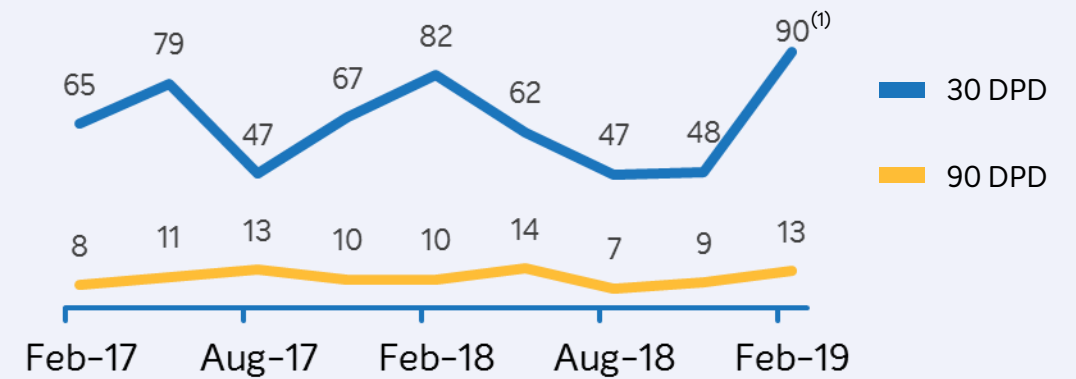
COMMERCIAL ARREARS (bps)



HOUSING ARREARS (bps)



BOQ FINANCE ARREARS (bps)

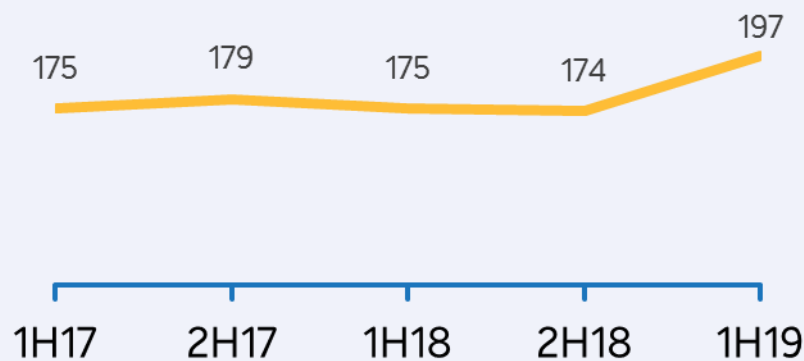


PROVISION COVERAGE

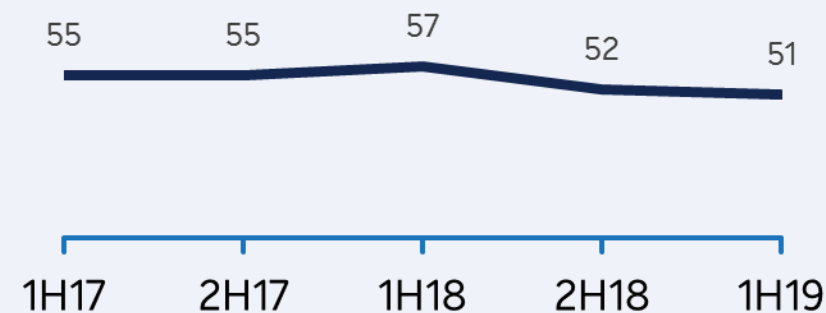
SUMMARY

- > Specific Provision reduced by 10%
- > Coverage levels remain strong
- > Collective Provision increases driven by application of new model under AASB 9

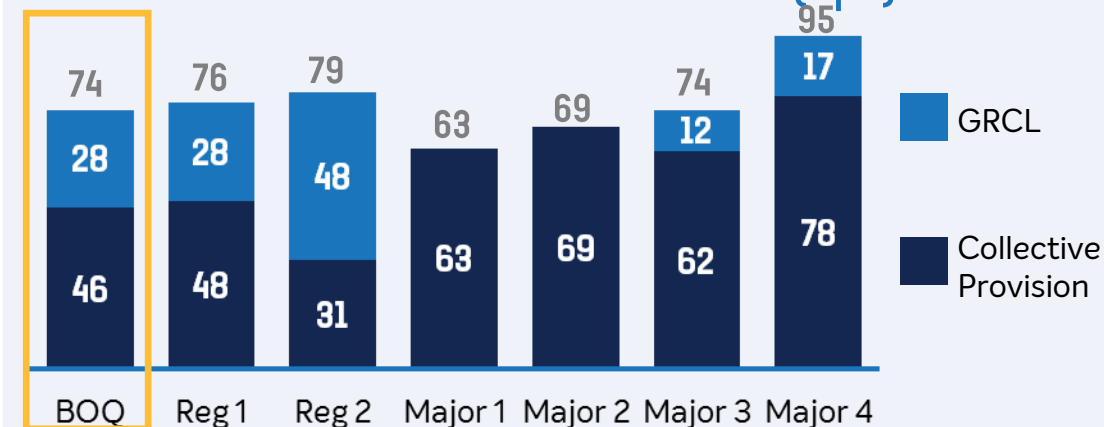
TOTAL PROVISION & GRCL / IMPAIRED ASSETS (%)



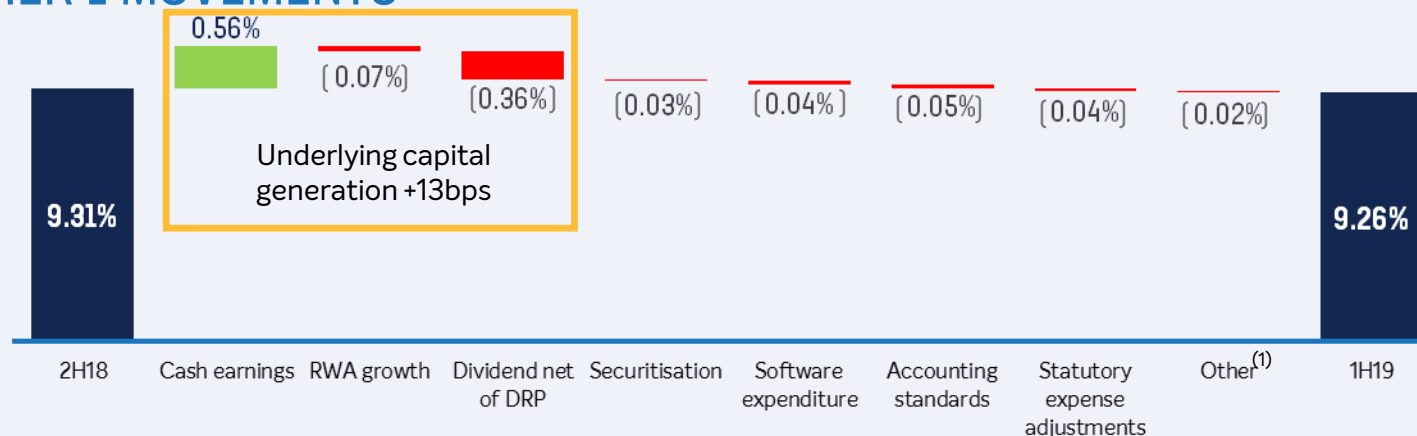
SPECIFIC PROVISIONS / IMPAIRED ASSETS (%)



PROVISIONING COVERAGE VS PEERS (bps)⁽¹⁾



COMMON EQUITY TIER 1 MOVEMENTS



SUMMARY

- > 9.26% Common Equity Tier 1 ratio
- > Underlying capital generation of 13bps
- > Mix of asset growth tilted to higher risk-weighted business lines
- > Increased investment spend reduced CET1 by 4bps

OUTLOOK

- > Remain strongly capitalised
- > Increased capitalised investment spend expected to reduce CET1 over 2H19 and FY20
- > St Andrew's sale terminated – continue to assess strategic options

- > Dividend of 34 cents, a reduction of 4 cents per share
- > Prudent approach taken enables adequate capital generation to support RWA growth and investment
- > DRP supports higher payout ratio and distribution of franking credits

SUMMARY & OUTLOOK

ANTHONY ROSE
INTERIM CEO

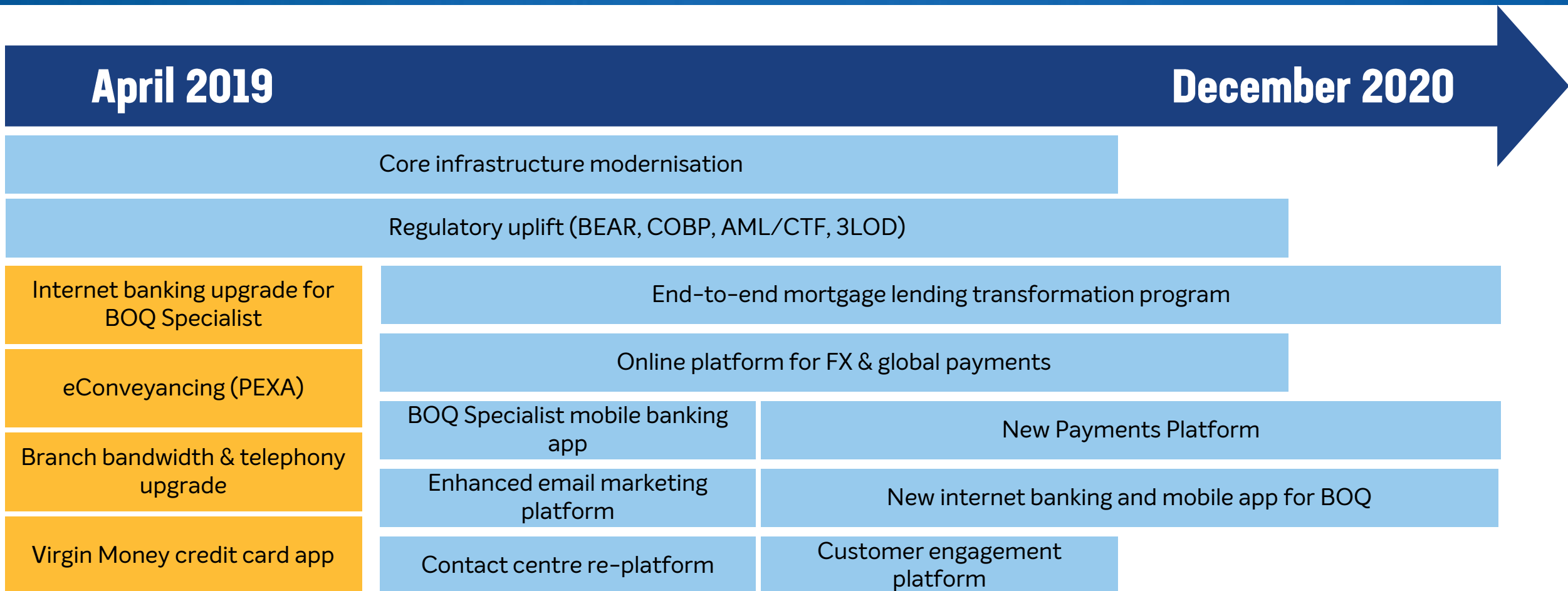
IMMEDIATE PRIORITIES – 6 TO 12 MONTHS

- 1 Navigating rising regulatory requirements
- 2 Delivery of foundational ‘must do’ investments
- 3 Continue strong niche segment momentum
- 4 Reinvigorate Retail Bank & leverage Virgin Money success
- 5 Systematic approach to restoring earnings growth and returns

FOUNDATIONAL INVESTMENTS BEING DELIVERED

April 2019

December 2020



Delivered

In progress

PATH TO RESTORING EARNINGS GROWTH & RETURNS

Segment by segment review of return on tangible equity

Retail Banking strategy redevelopment

Business simplification

Capital/resource allocation

Execution roadmap

LEVERAGING VIRGIN MONEY SUCCESS

POWER OF VIRGIN BRAND

- > Continues to exceed expectations – strong home loan growth since launch, coupled with continued momentum across other product lines
- > Attracts a younger, more affluent and geographically diverse customer base
- > Compelling opportunity to accelerate the Virgin Money offering to create next generation digital bank

DELIVERING DIGITAL BANK

- > Well progressed with stage 1
- > Working with partner to establish a new cloud-based digital banking offering
- > On track with key milestones



CURRENT STATE OF PLAY

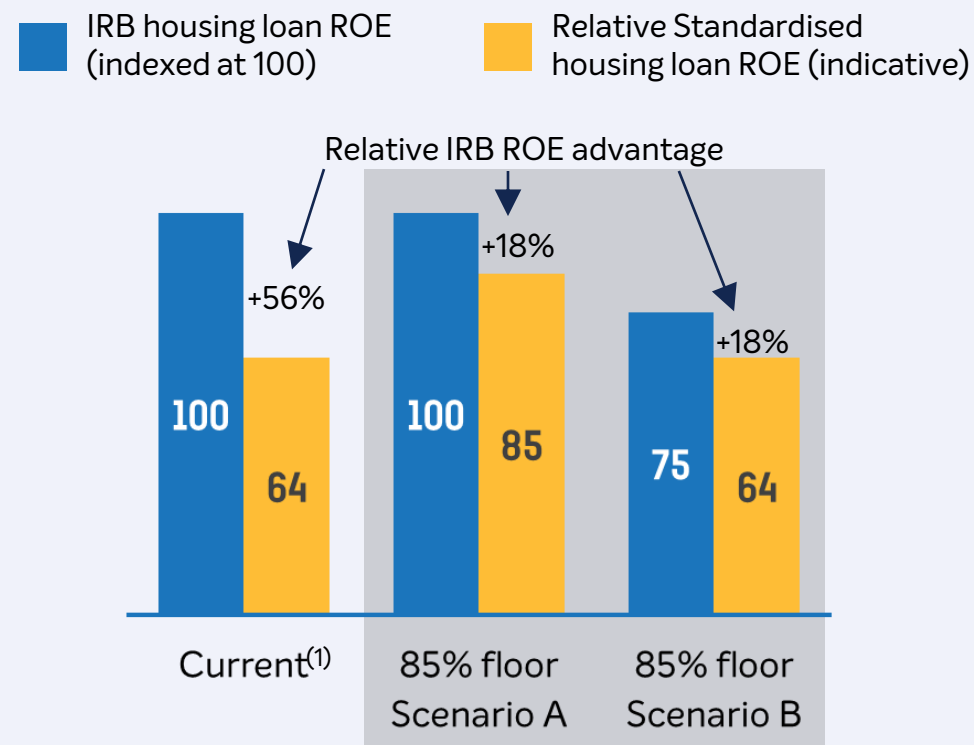
- > Standardised banks hold on average 50%+ more capital than IRB banks on housing loans
- > This leads to IRB banks generating Return on Equity which is 50%+ higher than Standardised Banks for the same loan

ALIGNED SECOND TIER POSITION

- > Collective of second tier banks aligned on pathway to a fairer playing field:

“85% credit risk-weight floor for IRB relative to standardised at an individual loan level”

ILLUSTRATIVE ROE IMPACT OF SHIFT TO 85% FLOOR



- > Scenario A assumes standardised risk weights decrease
- > Scenario B assumes IRB risk weights increase

- 1 Building on niche strategy success
- 2 Delivering foundational 'must do' investments
- 3 Established a path to improve long term value creation

APPENDICES

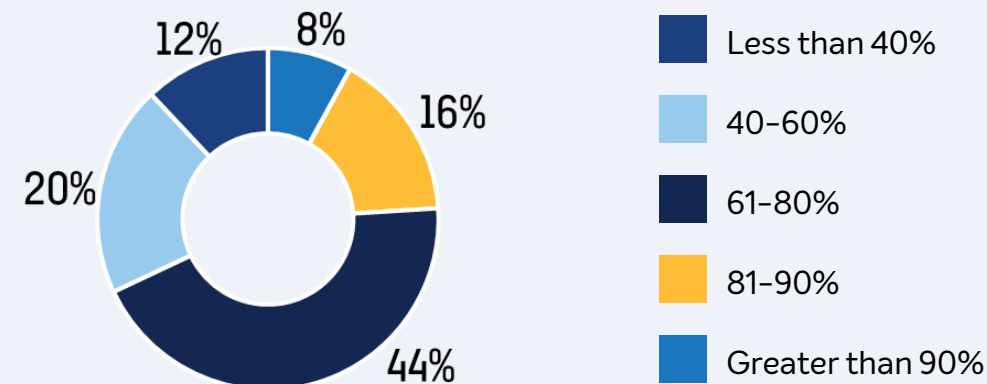
SUMMARY

- > Broker settlements at 30% including VMA
- > Interest only settlements remain low
- > Owner occupied P&I loans represent 51% of portfolio

PORTFOLIO METRICS

Metrics (%)	1H18	2H18	1H19
Owner occupied	59	59	59
Investment	41	41	41
Interest only	32	29	25
Broker originated ⁽¹⁾	13	15	17
Weighted avg LVR	67	67	66
Line of Credit	7	6	6
Avg loan balance	\$275k	\$280k	\$274k
Variable rate	71	74	77
Fixed rate	29	26	23

HOUSING PORTFOLIO LVR BANDS

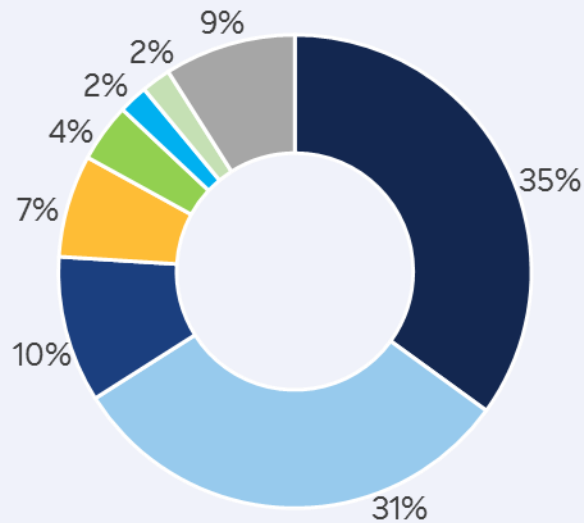


SETTLEMENT METRICS

Metrics (%)	1H18	2H18	1H19
Owner occupied	61	61	61
Investment	39	39	39
Interest only	16	14	16
Broker originated ⁽¹⁾	30	30	30
Weighted avg LVR	68	69	68
Line of Credit	1	1	1
Avg loan balance	\$394k	\$408k	\$408k
Variable rate	72	80	84
Fixed rate	28	20	16

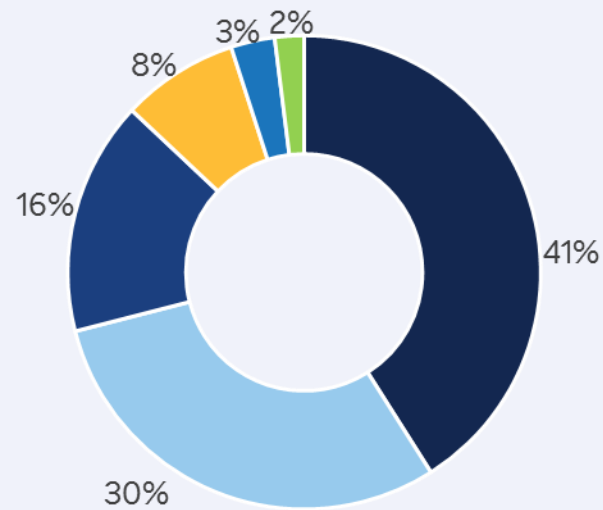
COMMERCIAL PORTFOLIO

PORTFOLIO BY INDUSTRY



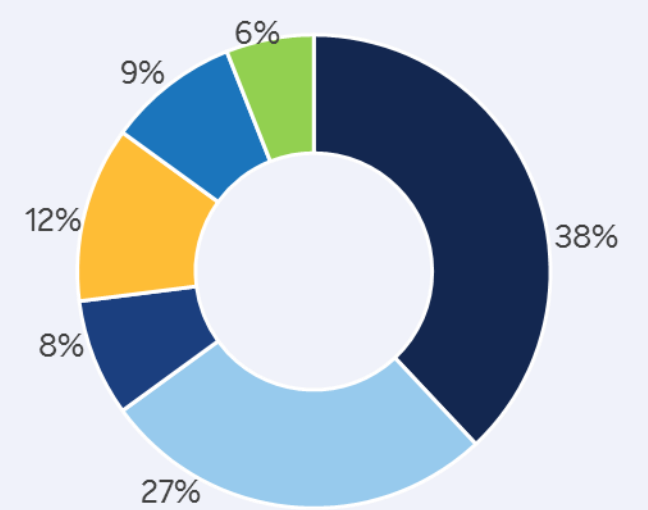
- Property & construction
- Healthcare
- Professional services
- Hospitality & accommodation
- Agriculture
- Manufacturing & Mining
- Retail
- Other

PORTFOLIO BY STATE



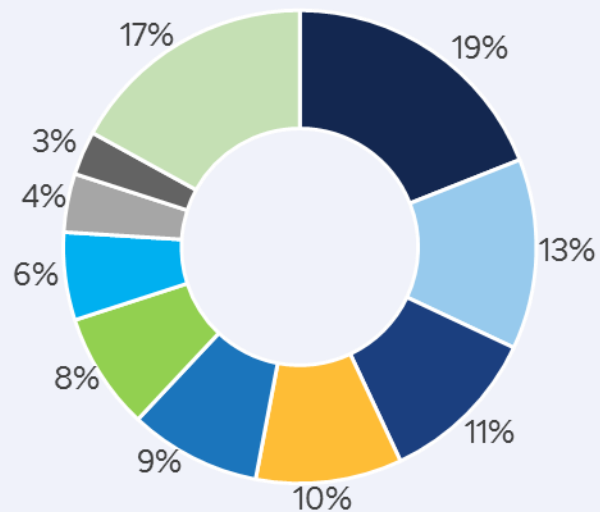
- QLD
- NSW
- VIC
- WA
- SA
- Other

PORTFOLIO BY EXPOSURE SIZE



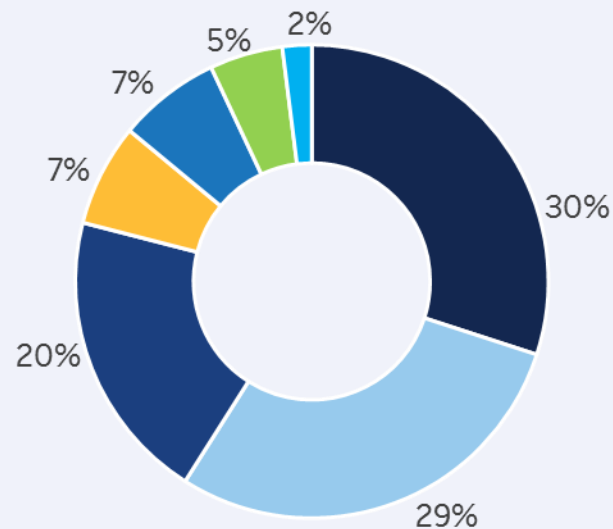
- <\$1m
- \$1m-\$5m
- \$5m-\$10m
- \$10m-\$25m
- \$25m-\$50m
- \$50m+

ASSET BY INDUSTRY



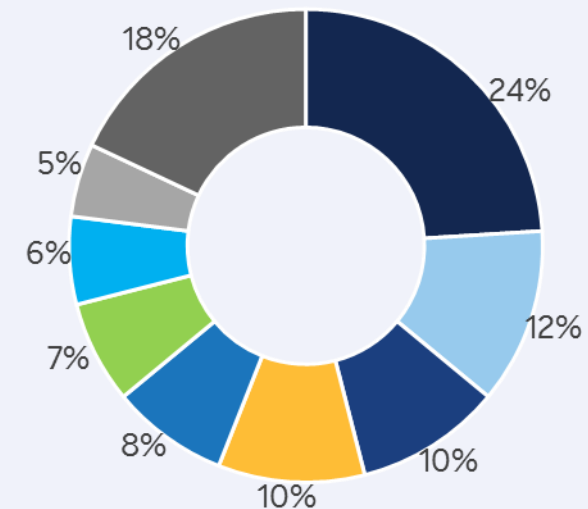
- Construction
- Agriculture
- Retail trade
- Consumer borrowing
- Healthcare
- Transport
- Manufacturing
- Rental, Hiring, Real Estate
- Professional
- Other

ASSET BY STATE



- QLD
- NSW
- VIC
- WA
- NZ
- SA
- Other

ASSET BY TYPE



- Trucks
- Cars
- Other road vehicles, trailers
- Mining & construction
- Other plant & machinery
- Agriculture
- IT & office
- Materials handling
- Other

LIMITED EXPOSURE TO HIGH RISK SECTORS

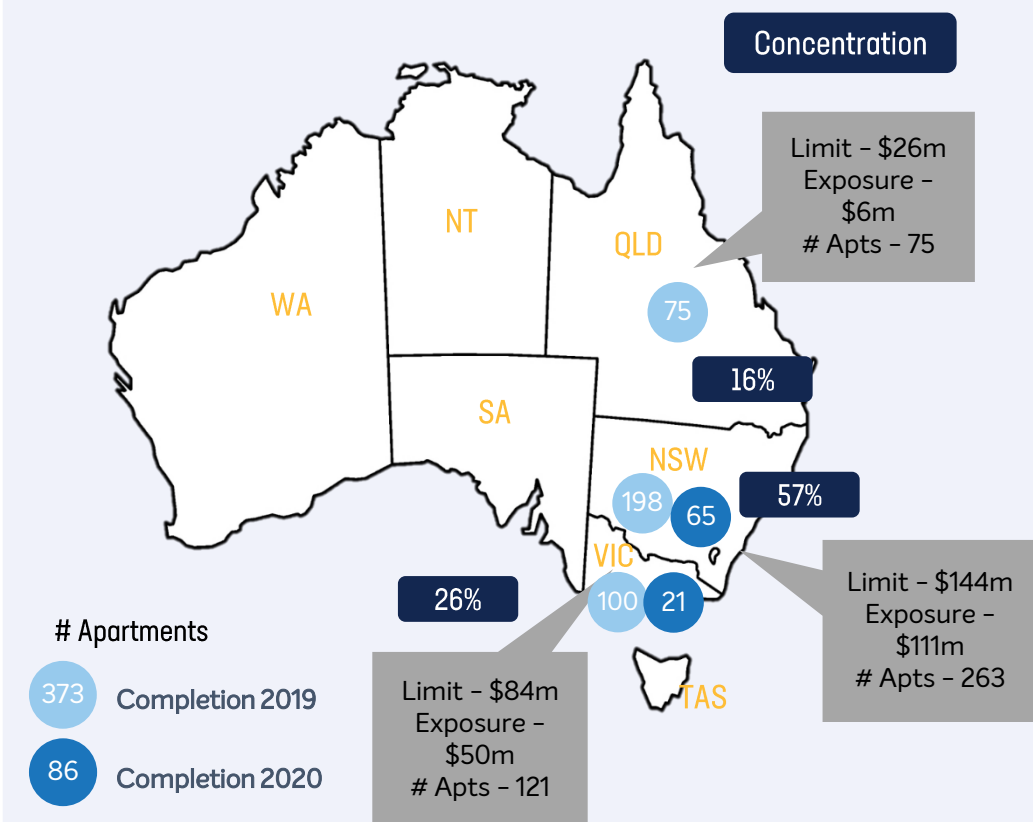
APARTMENT CONSTRUCTION EXPOSURES

- > \$167m current exposure to residential construction
- > 11 developments across 3 states, completing 2019 through 2020
- > Well diversified intra-state within NSW and VIC

OTHER HIGH RISK SECTORS

- > No material regional housing exposures
- > No systemic issues emerging
- > Direct mining exposure <\$110m

LENDING TO RESIDENTIAL APARTMENT CONSTRUCTION



ABBREVIATIONS

1H: First half of financial year	DPD: Days past due
2H: Second half of financial year	DRP: Dividend Reinvestment Plan
3LOD: Three lines of defence	DTA: Deferred tax asset
30DPD: 30 days past due	EPS: Earnings per share
90DPD: 90 days past due	FY: Financial year
AASB: Australian Accounting Standards Board	GLA: Gross Loans & Advances
ADI: Authorised Deposit-taking Institution	GRCL: General Reserve for Credit Losses
AML/CTF: Anti-Money Laundering/Counter-Terrorism Financing	IRB: Internal Ratings-Based approach to credit risk
APRA: Australian Prudential Regulation Authority	LCD: Low cost deposit
APS: ADI Prudential Standards	LOC: Line of Credit
Apts: Apartments	LVR: Loan to valuation ratio
ASIC: Australian Securities & Investments Commission	MFI: Main Financial Institution
AT1: Additional Tier One	NIM: Net Interest Margin
AUSTRAC: Australia's financial intelligence agency	OMB: Owner Managed Branch
Avg: Average	P&I: Principal & interest
BDD: Bad & Doubtful Debt Expense	PCP: Prior corresponding period
BEAR: Banking Executive Accountability Regime	ROE: Return on equity
bps: basis points	ROTE: Return on tangible equity
CAGR: Compound annual growth rate	RWA: Risk-weighted assets
CET1: Common Equity Tier 1	SME: Small and Medium Enterprises
COBP: Code of Banking Practice	TD: Term deposit
cps: Cents per share	VMA: Virgin Money Australia
CTI: Cost-to-income ratio	

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