BOQ GROUP

1H19 RESULTS PRESENTATION

11 APRIL 2019

Half year ended 28 February 2019

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

AGENDA

BOQ GROUP

RESULTS OVERVIEW

Anthony Rose Interim CEO

FINANCIAL DETAIL

Matt Baxby Chief Financial Officer

SUMMARY & OUTLOOK

Anthony Rose Interim CEO

1H19 RESULTS SUMMARY

BOQ GROUP

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

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Thanks Tanny and good morning everyone.

Today's result is in line with the announcement we made in February. It has been a difficult start to 2019. The results reflect a combination of industry-wide and BOQ-specific factors which I'll talk through shortly.

Although the headline numbers are disappointing and below our expectations, there are a number of positives worth noting and we see a number of opportunities that we believe will improve BOQ's long term return profile.

Strong growth in Virgin Money, BOQ Finance and BOQ Specialist show there is good momentum in these parts of the business and our niche business strategy is delivering.

Our asset quality metrics remain resilient, reflecting the conservative approach we have been taking for a number of years - and our capital position continues to be strong.

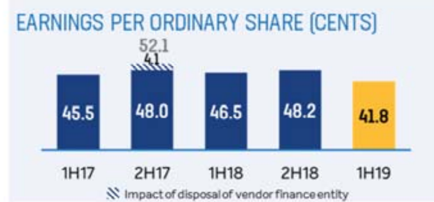
Across the industry, as you are well aware, there have been significant changes in the banking landscape which has created revenue headwinds for the sector. In addition, the outcome from the Royal Commission is lifting expectations of the regulators. Adjusting to the new regulatory environment will come with a higher cost profile, absent any mitigating actions which we are of course exploring.

BOQ also has challenges that are specific to our business, particularly in the Retail Bank. Our digital customer offering, lending processes and the inability to attract new Owner Managers with the overlay of regulatory uncertainty, has hampered customer acquisition and returns.

We do have a plan to address these challenges with a number of initiatives already underway which are all 'must do' priority activities. We are also conducting a critical segment by segment analysis to identify opportunities that will sharpen our focus, simplify the way we do things and improve the long term value creation for our customers and shareholders – I will provide more about this in the outlook.

KEY ELEMENTS OF THE RESULT

BOQ GROUP



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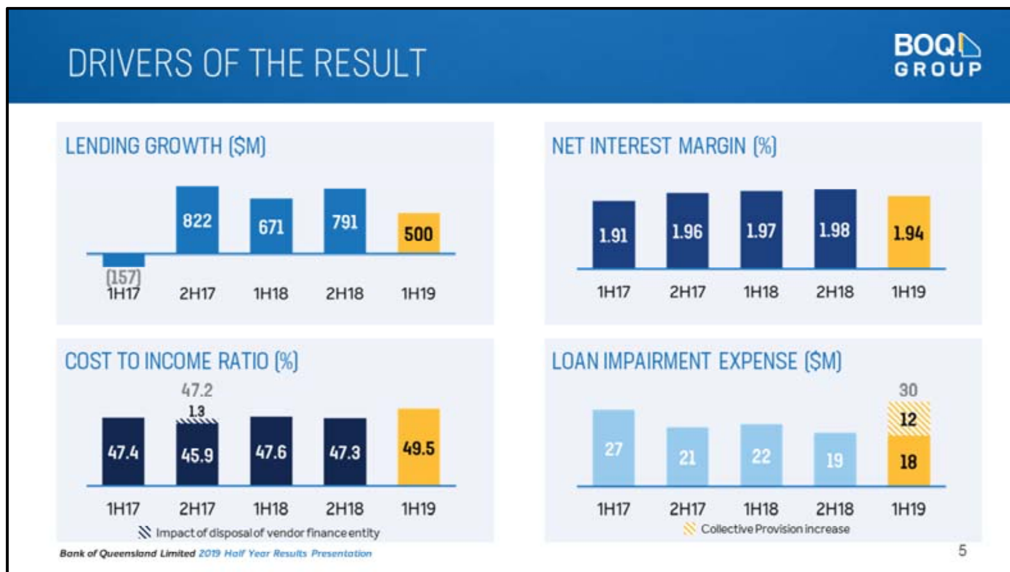
Relative to the first half of 2018, cash earnings were down 8 per cent to 167 million dollars.

Basic cash earnings per share decreased 10 per cent to 41.8 cents.

Return on equity reduced 110 basis points to 8.8 per cent.

We have announced a first half dividend of 34 cents per share. This is a reduction of 4 cents per share, and reflects the challenging revenue and cost environment that BOQ and the industry face. Matt will talk through the considerations for this later in the presentation.



Looking at the key drivers of the result on slide 5.

Lending growth in the half was 500 million dollars or two per cent annualised.

Net interest margin was down four basis points from the second half of 2018 to 1.94 per cent.

Given lower revenue and a two per cent increase in operating expenses, the cost to income ratio increased 190 basis points to 49.5 per cent.

Loan impairment expense increased to 30 million dollars or 13 basis points of gross loans, due to an increase in the collective provision. This largely reflects the move to AASB 9 and a more forward-looking approach to provisioning, which Matt will provide more detail on. Overall asset quality remains strong.

BOQ BUSINESS DELIVERING SOLID GROWTH

BOQ GROUP

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 FINANCE BALANCES ($B)

BOQ SPECIALIST COMMERCIAL BALANCES ($B)

BOQ SPECIALIST HOUSING BALANCES ($B)

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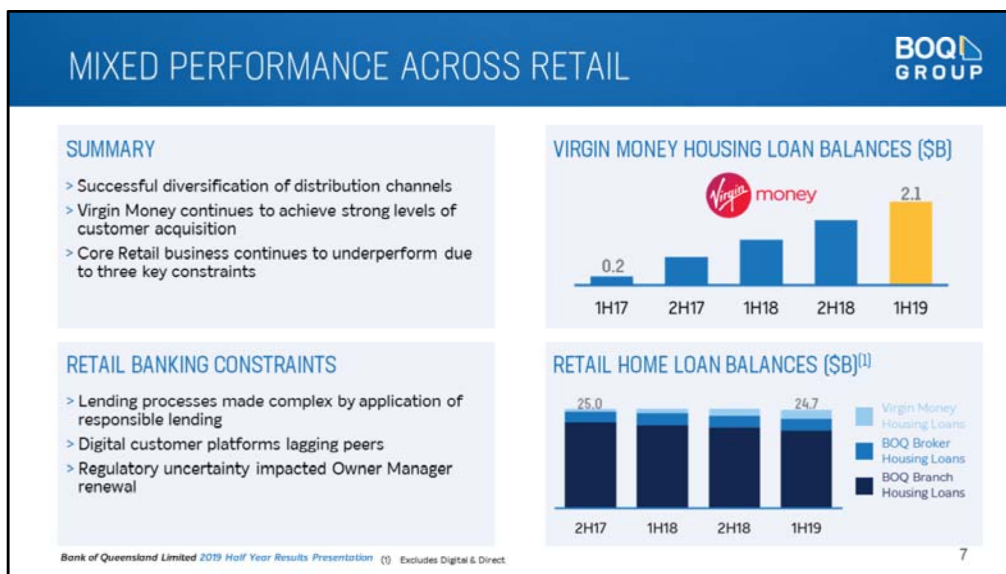
BOQ Business has continued to deliver solid levels of growth over the half, demonstrating that our niche specialisation strategy is working.

Total lending growth was 756 million dollars or eight per cent annualised for the half.

This included 303 million dollars or 13 per cent annualised growth in BOQ Finance, which is an outstanding result.

BOQ Specialist also contributed more than 300 million dollars of growth through a combination of housing and commercial loan growth.

We have continued to target quality customers in the commercial lending space, with an appropriate profile of return for risk. Our relationship offering continues to resonate with customers in the segments we have chosen to specialise in.



As mentioned earlier, in Retail Banking, the performance has been mixed.

Virgin Money, has once again exceeded expectations in both its housing loan growth and broader product distribution. Housing loan growth was 469 million dollars over the half, taking the portfolio balance to over two billion dollars. We have also made progress in the development of a Virgin Money digital bank, which I'll cover later.

Our core retail business has continued to face challenges. Even though we have successfully diversified our channels of distribution, the business has underperformed.

There are some factors in this outcome that reflect where we have come from together with the conservative approach we have taken to address industry changes. While this has clearly benefited us in terms of asset quality, it has hampered growth. We have identified three key constraints that have had an adverse effect on the performance in the Retail Bank.

The first of these is our mortgage lending processes which reflect the complexity of our compliant approach to responsible lending.

The second is our digital customer offering – where our mobile banking app is not delivering the experience customers expect in 2019.

And the third is the regulatory uncertainty impacting the sourcing of new Owner Managers to cover natural attrition.

We are not standing still. We currently have dedicated programs of work to address these issues.

To improve our lending processes we have an end to end mortgage lending transformation program in place to streamline processes, including use of automation and robotics. This will deliver progressive benefits to the customer experience over the course of 2019 and 2020.

Delivery of a new internet and mobile banking offering for BOQ customers is now

under development and is scheduled for delivery over the next year as part of the accelerated investment spend we announced at the FY18 results.

In our branch network, starting seven years ago, we significantly increased risk requirements. In the Hayne environment, this has clearly been the right thing to do.

Combining this with the overlay of uncertainty for Owner Managers, driven by the focus on incentive arrangements through the Sedgwick review, the Royal Commission and mortgage broker remuneration changes, it has been difficult to attract prospective Owner Managers to supplement the network for natural attrition.

Fortunately, a great deal of these concerns have been dissipated with clarity from the Royal Commission. From FY20, we are shifting to a new, simplified value share structure, which will make the model more attractive for Owner Managers and will be better aligned to customer and shareholder outcomes.

ASSET QUALITY & CAPITAL STRONG

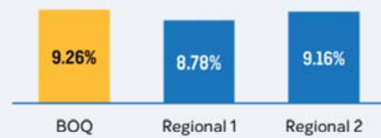
BOQ GROUP

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]

Bank of Queensland Limited 2019 Half Year Results Presentation

(1) Peer data based on most recent half year disclosures for Bendigo & Adelaide Bank and Suncorp Bank
(2) Peer data based on APRA Pillar 3 Residential Mortgage disclosures for ANZ, CBA, NAB & WBC

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Our conservative approach to risk has clearly benefited us in terms of asset quality.

Impaired assets have continued to reduce, down seven per cent in the half to 152 million dollars or 33 basis points of gross loans.

Housing arrears remain below industry averages, which we believe reflects our more conservative approach to responsible lending.

Our capital position also remains strong relative to our peers.

All of this means we have a solid footing, and we are well positioned to respond to changes in economic conditions.

CHANGING INDUSTRY LANDSCAPE

BOQ GROUP

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

BANK SECTOR RETURN ON EQUITY(%)[1]

20% 18% 16% 14% 12% 10% 8% 6% 4%

Dec 2014 Jun 2015 Dec 2015 Jun 2016 Dec 2016 Jun 2017 Dec 2017 Jun 2018

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

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

Bank of Queensland Limited 2019 Half Year Results Presentation (1) Source: APRA Quarterly ADI Performance Statistics. 9

I want to touch on the industry landscape. The headwinds facing the sector have been growing. This has meant that industry returns have been declining for a number of years.

We have welcomed the work of the Royal Commission and its focus on delivering improved customer outcomes. But the implementation of the Commission's recommendations will clearly have long lasting and industry wide implications, and regulatory expectations are similarly shifting in response to the Commission's findings.

To ensure we meet community and regulator expectations, the industry must move to a 'show me', positive attestation framework.

Making the changes necessary to ensure compliance standards meet community and regulatory expectations, costs for all banks will increase. Matt will address this profile for BOQ shortly.

We recognise that as an industry all banks have a role to play to restore community trust. There is no reason why BOQ shouldn't be able to take a lead and benefit from this dynamic when our customer proposition is supported by the right capability and toolset.

The more personal relationships cultivated through our franchise model and niche segment strategy, leaves us well placed to deliver stronger customer relationships and better outcomes.

I'll talk more about the outlook and actions we are taking to lift returns later, but will now hand over to Matt to take you through the Financials in more detail.

FINANCIAL DETAIL

BOQ GROUP

MATT BAXBY
CHIEF FINANCIAL OFFICER

FINANCIAL PERFORMANCE: HALF ON HALF

BOQ GROUP

	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) ▼

Bank of Queensland Limited 2019 Half Year Results Presentation (1) Refer to page 19 for a reconciliation of cash earnings to statutory profit 11

Thanks Anthony. I'll begin with the group financial performance on slide 11.

Cash earnings after tax of 167 million dollars represents a decrease of eight per cent against the prior corresponding period and 12 per cent half on half.

Comparing with the first half of 2018, loan growth was offset by a decline in net interest margin, which resulted in flat net interest income. Non-interest income was down sharply due to a number of factors which I'll take you through later.

Operating expenses grew by two per cent, which meant underlying profit contracted five per cent.

Loan impairment expense increased from a very low base, largely due to an increase in the collective provision. This reflects the application of a new collective provisioning model under AASB 9 which incorporates more forward looking elements and results in more volatility in model outcomes. Underlying portfolio trends remain sound.

SEGMENT PERFORMANCE: HALF ON HALF

BOQ GROUP

	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%)**

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Breaking this result down to a segment level, there was a bigger impact in the Retail Bank, primarily due to lower income as loan balances and margin contracted.

In BOQ Business, solid net interest income growth was offset by lower non-interest income and higher operating and loan impairment expenses. Underlying asset quality in our commercial portfolio remains strong, evidenced by a reduction in impaired assets and specific provisions.

BOQ Business had a larger impact from the application of the new collective provision model through the impairment expense line.

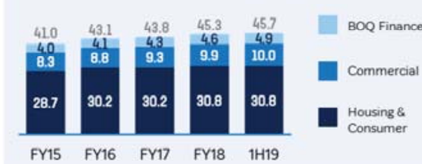
LOAN PORTFOLIO AND GROWTH

BOQ GROUP

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)

Bank of Queensland Limited 2019 Half Year Results Presentation (1) Growth rates are on an annualised basis 13

Moving to the loan portfolio on slide 13, gross loan growth of two per cent annualised was achieved in the half.

This was driven by particularly strong growth in BOQ Finance at 13 per cent annualised and commercial loan growth of three per cent annualised. Virgin Money continued its strong momentum with housing loan growth of 469 million dollars and BOQ Specialist delivered 287 million dollars of housing loan growth.

System credit growth has slowed. This has been particularly evident in the housing market as demand and turnover have fallen with lower expectations for house prices.

SEGMENT PERFORMANCE

BOQ GROUP

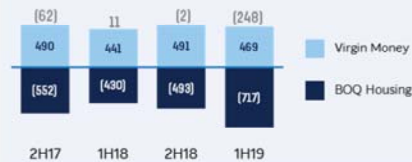
RETAIL BANKING SUMMARY

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

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

RETAIL HOUSING LOAN GROWTH BY CHANNEL ($M)



BOQ BUSINESS LOAN GROWTH BY CHANNEL ($M)

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Looking further into growth by business segment on slide 14, you can see that in the Retail Bank there was strong growth from Virgin Money mortgages. This is a continuation of our deliberate strategy to diversify by geography, customer segment and channel.

The contraction in BOQ housing loans is due to a few factors. The first is a higher level of run-off from a large tranche of three-year fixed rate loans which matured during the half. This reflects the competitive nature of the mortgage market, particularly in the broker channel. The second is our fulfilment process. There remains an opportunity for us to improve our processes and as Anthony mentioned, we have a program of work to address this and streamline the experience for brokers and customers.

In BOQ Business, there has been positive loan growth across all business lines, demonstrating our niche business strategy is working well. Although lower growth was evident in the BOQ Commercial portfolio, this was primarily due to 150 million dollars of loan paydowns from a handful of large client exposures.

FUNDING MIX

BOQ GROUP

SUMMARY

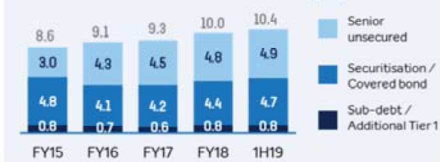
- Customer deposits contracted, driven by a reduction in higher cost Term deposits
- Deposit to loan ratio of 68%
- Took advantage of more favourable conditions for long term wholesale issuance

OVERALL FUNDING MIX ($B)

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

LONG TERM WHOLESALE FUNDING ($B)



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Looking at our funding mix on slide 15, the lower growth in assets has allowed us to continue to improve our liability mix and carefully manage margin.

We increased the duration of our long term wholesale funding, while reducing balances of higher cost term deposits.

During the half we launched two new savings accounts which support the needs of our younger customers. The Fast Track Starter and Fast Track Saver products were recently awarded ‘Best New Savings Account’ in the 2019 Mozo Experts Choice Awards. We have seen some good early success with stronger customer growth in the 14-25 age group since the launch of these products.

Turning to the movements in net interest margin on slide 16, the overall NIM reduced four basis points from the second half of 2018, to 1.94 per cent.

The front to back book dynamic continued to have an impact, although slightly lower than previous periods at four basis points.

This headwind was fully offset by the benefits of portfolio repricing that occurred in July 2018 and January 2019.

On the funding side, excluding the impact of the higher basis risk, we saw a 2 basis point benefit as lower asset growth allowed us to better manage mix and spreads across our liability base.

The higher bank bill swap rate in the half had a three basis point negative impact on margin, as captured under the hedging cost line. Basis portfolio spreads increased from an average of 34 basis points in the second half of 2018 to 46 basis points in the first half of 2019.

The lower interest rate environment reduced the returns on BOQ's 4.4 billion dollar replicating portfolio, which covers our capital and low cost deposits. This caused a one basis point reduction in NIM over the half.

Third party costs increased three basis points in the half. Two basis points of this is simply a result of the benefit of the weighted average life change in the prior half not recurring. Higher commission payments due to an increased proportion of broker flows, resulted in a one basis point increase in third party costs.

Turning to the outlook, we expect the front to back book drag to continue, but potentially at a lower rate to previous halves.

Based on the portfolio repricing that was completed in January, we currently expect a further 3 to 4 basis point benefit from this element in the second half of 2019.

Following the reduction in the bank bill swap rate, we expect the headwind we have faced in hedging costs to become a tailwind if 90 day bank bills remain at or

below current levels relative to the cash rate. It is difficult to quantify this given the volatility we have seen, but our current expectation would be for a one basis point benefit in the second half of 2019 and further benefits in the following half as lower rates flow through to our hedges.

Given the yield curve has shifted lower, returns on our capital and low cost deposit portfolio are reducing. Based on current forward rate expectations, this headwind could be in the order of one to two basis points in the next half.

The movements in third party costs should now be at a normal level, but this is dependent on the mix of originations.

Funding costs are always difficult to forecast. Following the reduction in swap rates, we have seen some easing in term deposit pricing across the market, but this has not yet been fully passed through. This means we will be facing pressure on funding costs overall if current rates do not reset lower. We will continue to manage our liability base to optimise margin.

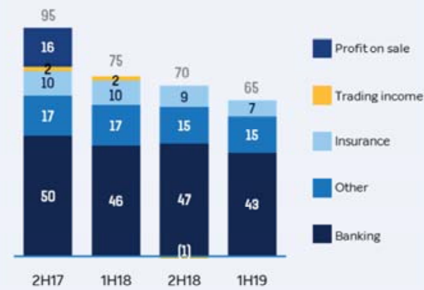
NON-INTEREST INCOME

BOQ GROUP

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)



Taking a look at non interest income on slide 17, we have seen continued pressure across all sub-categories here.

Looking at the underlying trends, insurance income was lower due to decreased sales volumes.

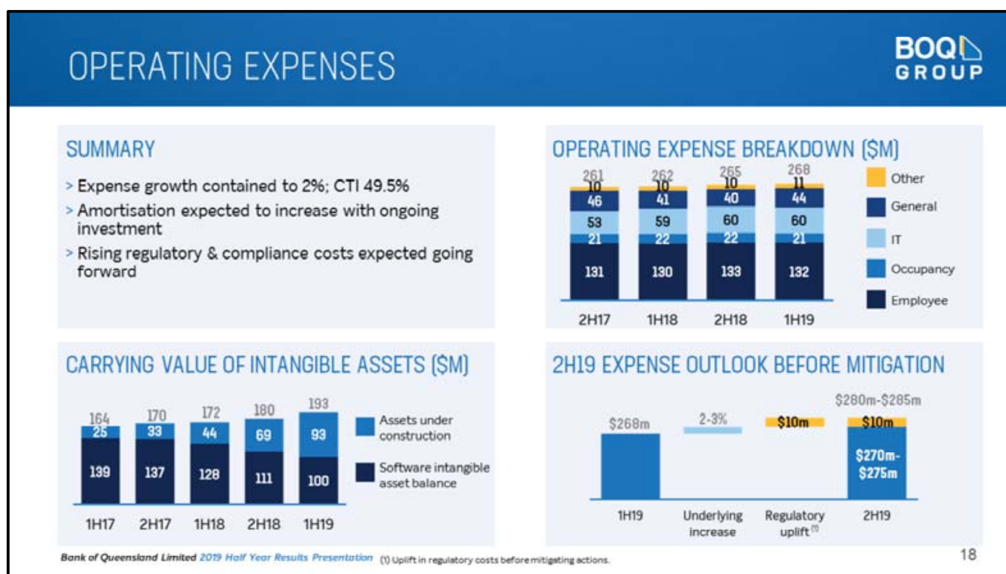
In line with industry trends, customer migration to lower fee products meant that fee income continued to reduce.

No trading income was generated in the half compared to a two million dollar contribution in the first half of 2018, due to credit spread volatility. We have seen improved trading conditions more recently.

During the half we also experienced a step-down in the form of a two million dollar reduction to banking income from the migration of our banking facilities to a new partner arrangement.

On a positive note, we did see continued improvement in Virgin Money's distribution of third party products which drove higher commission income, along with improvements in revenue from our financial markets business.

While the overall trends here are still challenging, given the one-off impact this half and the seasonal uplift we tend to see in the second half, we are targeting a slight improvement in non interest income in the second half.



Operating expense growth was kept to two per cent. Within this we absorbed some non-recurring items including a software impairment of two million dollars and executive transition costs totalling approximately one million dollars.

Employee expense growth was kept to two percent, with employee numbers largely flat.

We were assisted by the software changes announced at the FY18 result, which reduced the intangible asset amortisation this half. However, as flagged at the last result, we have an increased volume of projects underway, which has seen the assets under construction element of our intangible assets balance increase. These are critical foundational investments that help us meet our regulatory requirements and better serve customers. As these projects are completed, they will contribute to a higher level of amortisation than we incurred this half. This will continue into FY20.

This, combined with an uplift of around 10 million dollars that we expect to incur due to heightened regulatory requirements, will increase operating expenses in the second half. Around five million dollars of this is a recurring uplift in the expense base. The other five million is part of a temporary wave of compliance activity we expect will be required to lift standards to meet rising regulatory requirements, which will also impact FY20. This expenditure is necessary to move to a positive attestation framework, strengthen our three lines of defence and continue to meet our compliance obligations.

Based on what we know today, we would expect operating expenses to increase to between 280 million and 285 million dollars in the second half of 2019, in the absence of any new actions to reduce underlying costs.

We are addressing the impacts of these headwinds by prosecuting business simplification and efficiency measures, without compromising the expectations of our customers and regulators.

NON-CASH EARNINGS ITEMS

BOQ GROUP

	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**

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We have again provided a summary of the non-cash earnings items for the period.

The largest of these were the amortisation of acquisition fair value adjustments and hedge ineffectiveness.

This half we incurred three million dollars after tax in what we consider to be extraordinary regulatory compliance costs. This includes Royal Commission legal costs and other associated regulatory costs, but at a much lower level than the previous period, given the timing of this activity.

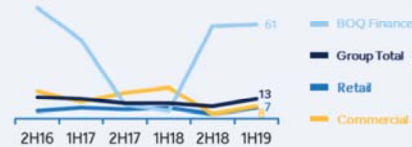
ASSET QUALITY

BOQ GROUP

SUMMARY

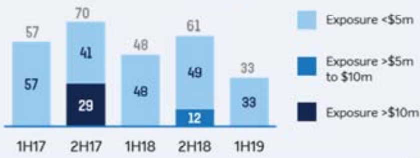
- Portfolio metrics remain strong
- Further reduction in impaired assets
- Low volume of new impairments
- Application of new Collective Provisioning model has driven higher impairment expense

LOAN IMPAIRMENT EXPENSE BY PRODUCT (bps)



IMPAIRED ASSETS ($M)

NEW IMPAIRED ASSETS ($M)



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Our asset quality metrics remain strong, as you can see on slide 20.

Impaired assets have reduced a further seven per cent from FY18, with large reductions in the Retail and Commercial portfolios. BOQ Finance increased, but from very low levels.

The level of new impaired assets has been very low with economic conditions remaining supportive.

We now have three exposures with impaired balances greater than five million dollars for a combined total of 18 million dollars. This is down from 25 million dollars in the prior half.

Loan impairment expense increased due to higher collective provisions. 12 million dollars, or more than one third of the total impairment expense incurred in the half is attributable to the application of the new collective provisioning model.

In the BOQ Finance portfolio, of the 61 basis points or 15 million dollars of loan impairment expense, seven million dollars or 45 per cent relates to movement in the collective provision under the new model.

ARREARS

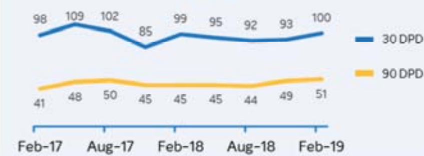
BOQ GROUP

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)

Bank of Queensland Limited 2019 Half Year Results Presentation (1) Seasonal uptick which also includes $7m (14 bps), which has subsequently cleared in March 2019.

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On slide 21 we have provided arrears trends for our three major portfolios.

There is a seasonal uptick in the February quarter, which is broadly in line with the levels we experienced last year.

90 day arrears are a touch higher but remain at relatively benign levels.

In the BOQ Finance portfolio, 30 day arrears spiked higher in February. However, this includes seven million dollars which was subsequently cleared in March. Adjusting for this, the 30 day arrears level of 76 basis points is in line with the historical seasonal trend for February.

PROVISION COVERAGE

BOQ GROUP

SUMMARY

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

SPECIFIC PROVISIONS / IMPAIRED ASSETS (%)

TOTAL PROVISION & GRCL / IMPAIRED ASSETS (%)

PROVISIONING COVERAGE VS PEERS (bps)[1]

Bank of Queensland Limited 2019 Half Year Results Presentation (1) Collective Provision and GRCL as a proportion of Risk-weighted assets.

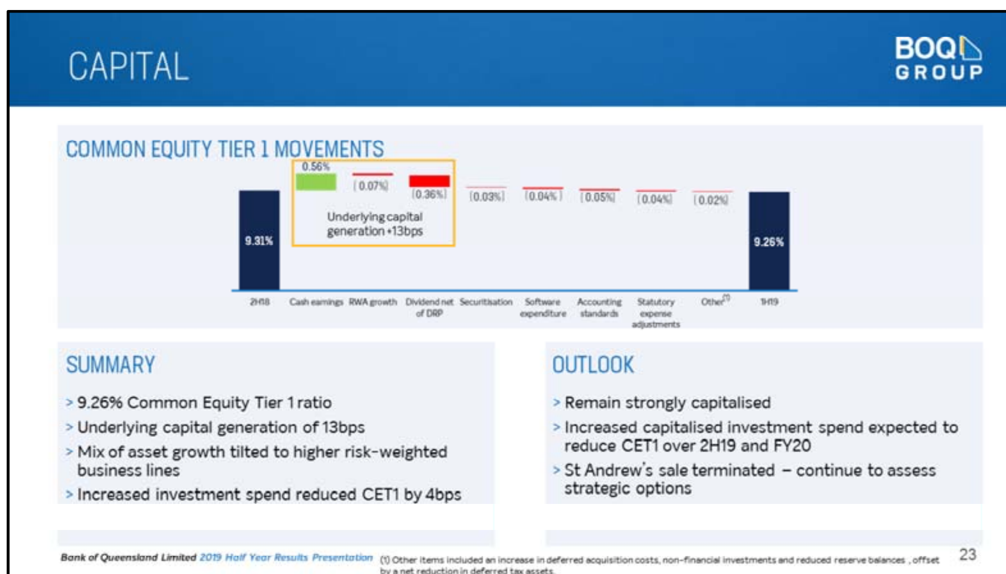
22

Moving to provisioning on slide 22, there are a few points to note here.

Firstly, our specific provisions have reduced by 10 per cent from the second half of 2018, reflecting improvements in the portfolio. Our specific provisioning coverage remains adequate at 51 per cent of impaired assets.

Collective provisions increased by 22 million dollars or 19 per cent half on half. This included the transitional adjustment of AASB 9 on 1 September 2018, which resulted in the model overlay being increased by 10 million dollars to account for both known and unknown model and methodology developments. In addition to this, less certain general economic conditions and more dynamic provisioning for arrears have impacted the forward looking assumptions in the collective provision model, resulting in a 12 million dollar increase.

The chart on the bottom right of this slide shows we remain well provisioned relative to our peers.



Now to capital on slide 23.

CET1 reduced five basis points in the half to 9.26 per cent. Underlying capital generation was 13 basis points but was offset by higher capitalised software, the transition to AASB 9 & 15, and statutory expense adjustments.

Looking forward, our accelerated investment spend is expected to further reduce CET1 over the second half of 2019 and FY20.

We continue to believe we are in a strong position at this level of CET1, with capacity to absorb this increased capital expenditure.

In December 2018 we announced the termination of the sale of St Andrew's. BOQ will continue to assess its strategic options in relation to St Andrew's. In the meantime, St Andrew's continues to be a strongly capitalised business that remains focused on delivering for its customers and corporate partners.

DIVIDEND

BOQ GROUP

- 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

Bank of Queensland Limited 2019 Half Year Results Presentation 24

The dividend for the period is 34 cents per share. This is a reduction of 4 cents per share from recent periods.

There are a number of factors that are taken into account in determining the appropriate level of dividends. In no particular order, these include our outlook for return on tangible equity, our expected level of risk weighted asset growth, the level of capital we believe is prudent to maintain, our forward profile of capitalised investment requirements, the level of franking credits we have available and the relative value of franking credits for our shareholders.

Another consideration is the settings of the dividend reinvestment plan, which allows us to sustain a higher payout ratio and distribute franking credits to shareholders who value them.

On balance, the prudent course is to set the dividend at 34 cents per share for the first half, whilst maintaining a dividend reinvestment plan with a 1.5 per cent discount.

This represents a gross payout ratio of around 80 per cent of earnings and with the support of the DRP, we have adequate capital generation to sustain us in growing risk weighted assets or investing in the business, as required.

With that, I'll hand back to Anthony.

SUMMARY & OUTLOOK

BOQ GROUP

ANTHONY ROSE
INTERIM CEO

IMMEDIATE PRIORITIES - 6 TO 12 MONTHS

BOQ GROUP

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

Bank of Queensland Limited 2019 Half Year Results Presentation 26

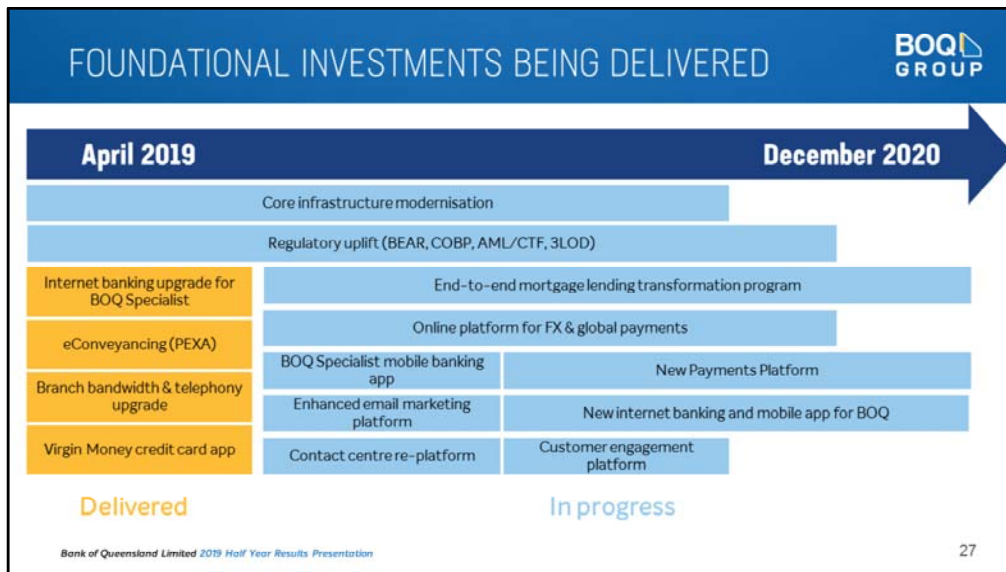
Thanks Matt. I’ll start by reiterating that we acknowledge the earnings profile we have outlined today is below our expectations. However, we do have a clear plan to address this.

In the next six to twelve months, we will continue to navigate the rising expectations of our regulators with a number of programs underway. The regulatory capability uplift has commenced and will continue throughout 2020.

Alongside this, we are focused on the delivery of foundational ‘must do’ investments, while maintaining the strong momentum we have in our niche businesses.

There is a clear need to reinvigorate the Retail Bank. We are improving our franchise proposition to simplify the model and attract new Owner Managers. We are also leveraging the success of Virgin Money by taking steps to build out a digital bank.

As mentioned earlier we are conducting a critical segment by segment analysis. This will mean moving to a new way of operating which is smarter, more disciplined, and focused on the returns we generate in each segment. I’ll outline this process in more detail shortly.



A fundamental step in BOQ's path to restoring returns, is delivering a number of 'must do' foundational investments.

We are already well progressed on a number of major projects, including our technology infrastructure modernisation. This is a shift from an old style 'on premise' architecture to a modern hybrid cloud environment that will substantially improve our ability to deliver change and partner to deliver solutions for our customers.

We are also using the accelerated investment we flagged at the FY18 result which is helping us to fast track the much-needed refresh of our customer facing digital platforms that I covered earlier.

We expect to be in market with the initial phase of a new offering for BOQ customers by the end of the first half of the 2020 financial year, using a digital platform that has already been implemented for BOQ Specialist.

The foundational 'must do' investments are critical and need to be delivered. At the same time, we also need to address our lower earnings profile by moving to a new way of operating. This will involve a laser like focus on the returns across the business, segment by segment.

We are taking a systematic approach to identifying opportunities for the business which will aim to leverage the existing foundations.

We are examining each of our businesses and customer segments, our current and potential customer value proposition and the Return on Tangible Equity we are generating. And importantly, how we allocate our resources behind the areas of opportunity for BOQ, where we can differentiate and deliver for our customers.

This approach will ensure we can target our resources to provide an enhanced proposition for our customers and best deliver long term value for shareholders.

We are also conscious of the continuing need to meet the rising expectations of our regulators. In doing so, we will need to be smart and that will involve reimagining the customer experience and delivering against the community's expectations in the process.

This is all about differentiating BOQ in the segments we operate in and building on our existing strength in customer trust and relationships.

LEVERAGING VIRGIN MONEY SUCCESS

BOQ GROUP

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

Bank of Queensland Limited 2019 Half Year Results Presentation 29

We continue to have strong conviction around opportunities ahead for BOQ. A standout is the differentiated segment strategy that Virgin is delivering. We are now moving quickly to realise the future potential for Virgin Money as a fully fledged digital bank.

We have committed five million dollars as the first step towards establishing a functioning cloud-based digital bank offering.

We are well progressed with stage one which is the delivery of a proof of concept, with all key milestones on track.

This will be a key part of our consideration in allocation of resources to segments where we see the opportunity to improve customer acquisition and lift returns for shareholders.

LEVELLING THE PLAYING FIELD

BOQ GROUP

CURRENT STATE OF PLAY

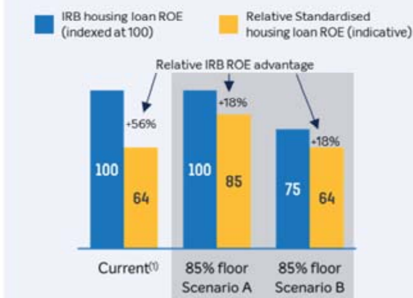
- Standardised banks hold on average 50%+ more capital than IRB banks on housing loans
- This leads to IRB banks generating Return on Equity which is 50%+ higher than Standardised Banks for the same loan

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

Bank of Queensland Limited 2019 Half Year Results Presentation (1) Assumes the same profit per loan with current IRB credit risk weighting of 25% and Standardised credit risk weighting of 39% 30

We would also like to brief you on a positive development, with the second tier banks aligned on a clear advocacy position on addressing the imbalance of industry risk weights to deliver a more level playing field.

For some time we have been advocating for reforms necessary to ensure a levelling of the playing field which will deliver better competition and customer outcomes.

It is encouraging to see that stakeholders are increasingly aware of the importance of competition and the imbalances resulting from the current regulatory settings.

Standardised banks still hold 50% more capital against the same housing loans as our advanced bank peers, and it is arguably higher for some segments of commercial lending.

As a Regional Bank collective we are aligned in seeking a more level playing field through a risk weighting floor of 85% for advanced banks relative to standardised banks at an individual loan level.

This is important to rebuild competition in the banking sector and will ensure the standardised banks can compete for all customers and customer segments, and underpin the availability of credit for the Australian economy.

This could be achieved by lifting advanced risk weight requirements or reducing standardised requirements – regardless, the net result would be a reduction in the relative ROE advantage that advanced banks currently enjoy from around 50% to 18%.

While we are advocating for this outcome, we are not standing still and waiting for the world to change. We are continuing to pursue our strategy on the basis that the playing field will remain tilted in favour of the major banks.

SUMMARY & OUTLOOK

BOQ GROUP

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

Bank of Queensland Limited 2019 Half Year Results Presentation 31

In summary, we will continue to build on our niche strategy which has transformed BOQ into a resilient, multi-channel business that is geographically diverse. Strong growth in Virgin Money, BOQ Finance and BOQ Specialist show there is good momentum in these parts of the business.

We are delivering on the foundational investments that will set BOQ up for future success.

Critical to this future success is addressing the challenges that are specific to our business head-on. We recognise the areas where we clearly need to improve so we are making the necessary changes to improve our long term return profile.

So if there is one message that I leave you with today it's that we know what has to get done and we are getting on with it.

Thank you for your time today. I'll now hand over to Tanny to moderate Q&A.

APPENDICES

BOQ GROUP

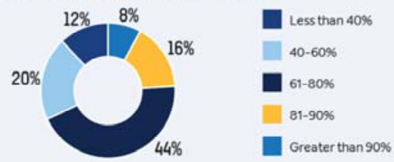
HOUSING PORTFOLIO

BOQ GROUP

SUMMARY

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

HOUSING PORTFOLIO LVR BANDS



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

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

(1) Includes Virgin Money

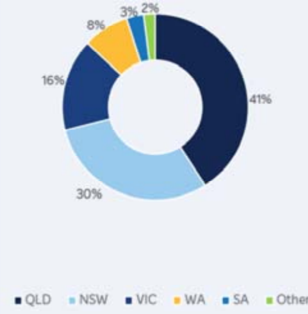
COMMERCIAL PORTFOLIO

BOQ GROUP

PORTFOLIO BY INDUSTRY

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

PORTFOLIO BY STATE



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

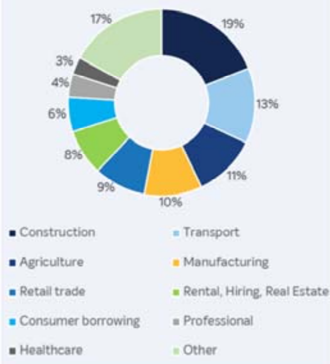
PORTFOLIO BY EXPOSURE SIZE

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

BOQ FINANCE PORTFOLIO

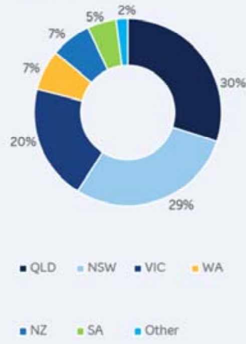
BOQ GROUP

ASSET BY INDUSTRY



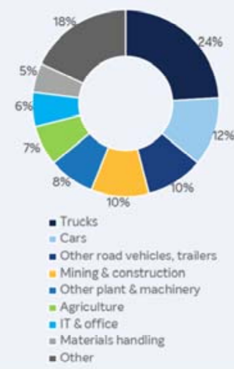
- Construction
- Transport
- Agriculture
- Manufacturing
- Retail trade
- Rental, Hiring, Real Estate
- Consumer borrowing
- Professional
- Healthcare
- Other

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

BOQ GROUP

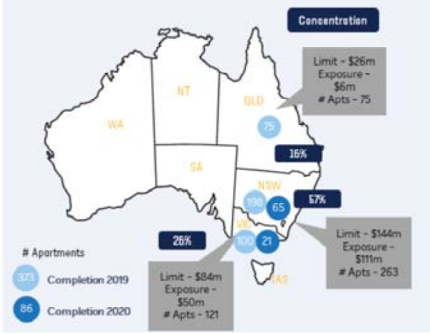
APARTMENT CONSTRUCTION EXPOSURES

- $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

BOQ GROUP

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

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BOQ GROUP

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