

FY19 RESULTS PRESENTATION

17 OCTOBER 2019

Year ended 31 August 2019

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

INTRODUCTION

Daniel Ryan Head of Investor Relations

WELCOME & OVERVIEW OF RESULTS

George Frazis Managing Director & CEO

RESULT ANALYSIS & FINANCIAL DETAIL

Matt Baxby Chief Financial Officer

SUMMARY & OUTLOOK

George Frazis Managing Director & CEO

Q&A

WELCOME & OVERVIEW OF RESULTS

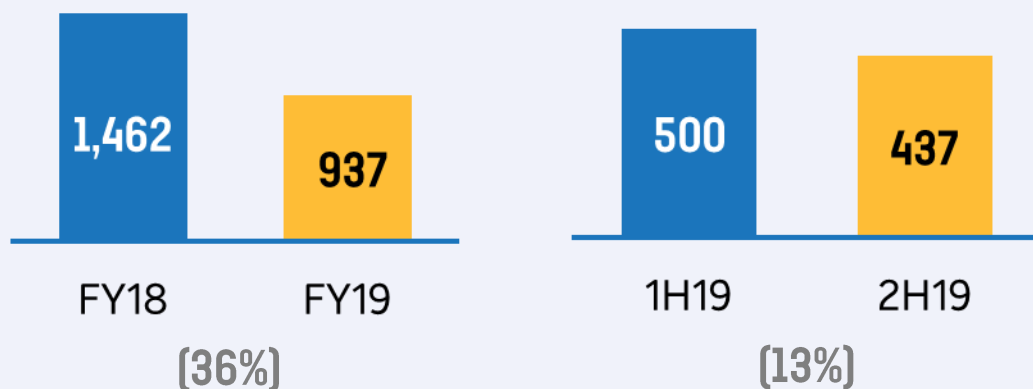
GEORGE FRAZIS
MANAGING DIRECTOR & CEO

RESULTS DISAPPOINTING IN A CHALLENGING ENVIRONMENT

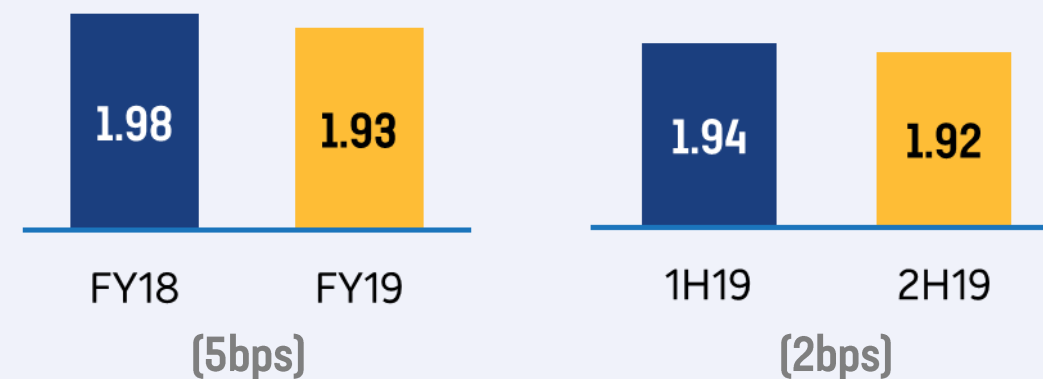
	FY19	FY19 v FY18	2H19	2H19 v 1H19
Statutory net profit after tax ⁽¹⁾	\$298m	(11%) ▼	\$142m	(9%) ▼
Cash earnings after tax	\$320m	(14%) ▼	\$153m	(8%) ▼
Cash return on average equity	8.3%	(160bps) ▼	7.8%	(100bps) ▼
Common Equity Tier 1 ratio	9.04%	(27bps) ▼	9.04%	(22bps) ▼
Cash earnings per share	79.6c	(16%) ▼	37.8c	(10%) ▼
Dividend per share	65c	(14%) ▼	31c	(9%) ▼

DRIVERS OF THE RESULT

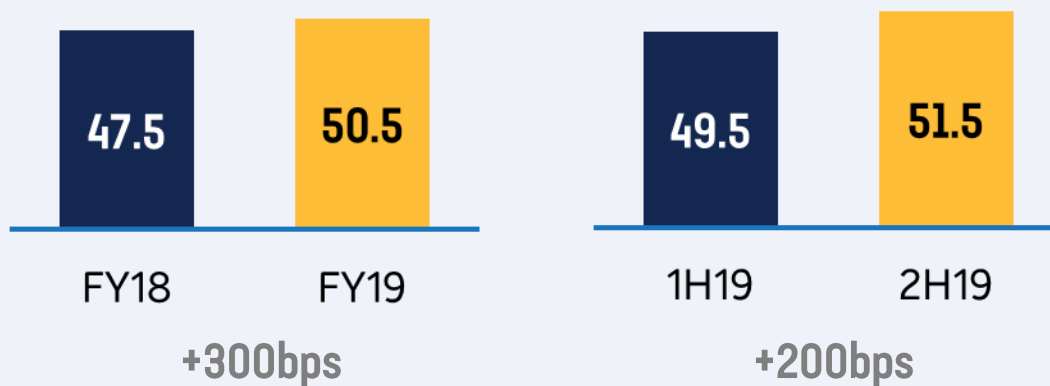
LENDING GROWTH (\$M)



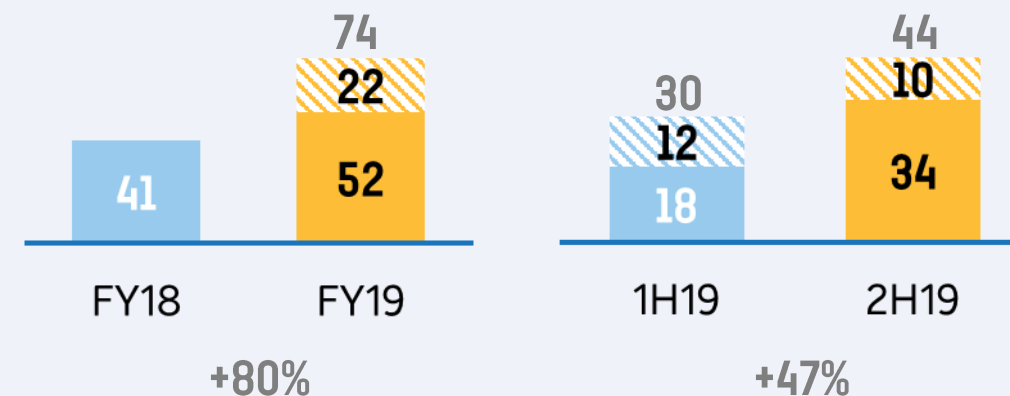
NET INTEREST MARGIN (%)



COST TO INCOME RATIO (%)



LOAN IMPAIRMENT EXPENSE (\$M)



FUNDAMENTALLY GOOD BUSINESS

- > Solid platform for differentiation
- > Growth in niche business segments
- > Virgin Money Australia momentum
- > Sound underlying asset quality
- > Solid balance sheet
- > People care about customers

AREAS REQUIRING ATTENTION

- > Retail Bank performance
- > Lending processes
- > Rising cost structure
- > Digital and data platforms
- > Skills and capability build

- 1 Return to profitable and sustainable growth
- 2 Embed our purpose-led, customer culture
- 3 Simplify our business, improve productivity and address costs
- 4 Close digital and data gap, deliver mobile and VMA
- 5 Continue to strengthen the Bank

RESULT ANALYSIS

MATT BAXBY
CHIEF FINANCIAL OFFICER

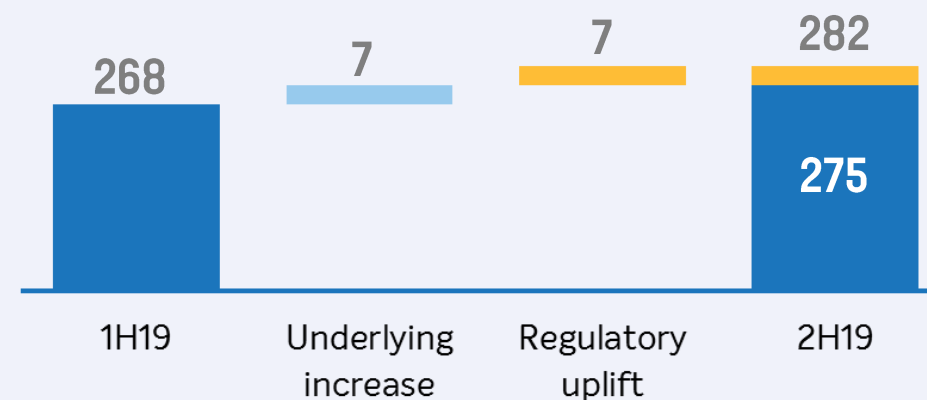
- 1 Disappointing results reflect challenging operating environment
- 2 Continued momentum in niche segments and VMA, further contraction in BOQ Retail
- 3 Good progress in foundational investments

CHALLENGING OPERATING ENVIRONMENT

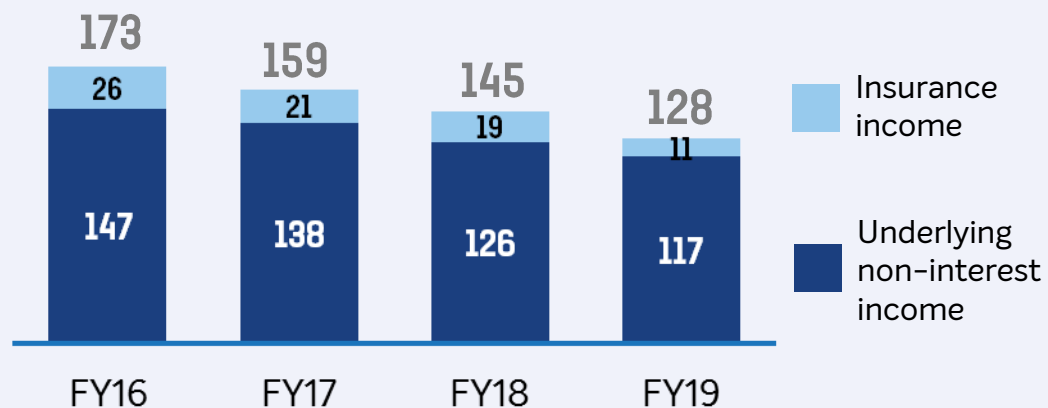
SUMMARY

- > Slow credit demand and lower interest rates
- > Regulatory changes impacting insurance income
- > Rise in regulatory costs as flagged in 1H19
- > Loan impairment expense impacted by new AASB9 collective provision model – underlying asset quality remains sound

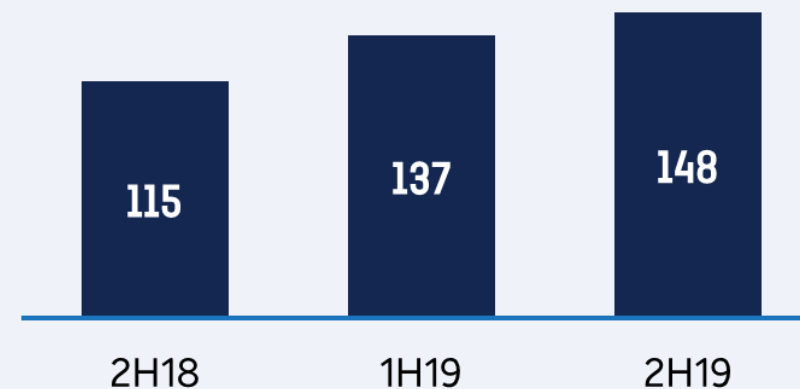
OPERATING EXPENSES (\$M)



UNDERLYING NON-INTEREST INCOME (\$M)⁽¹⁾



COLLECTIVE PROVISIONS (\$M)

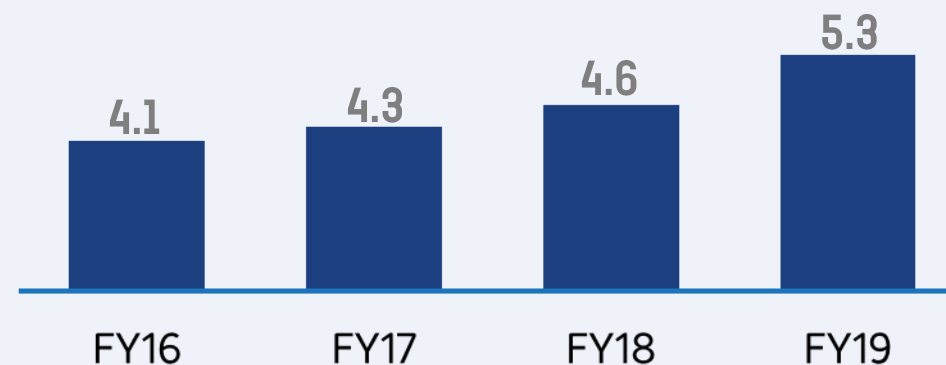


CONTINUED MOMENTUM IN NICHE SEGMENTS AND VMA

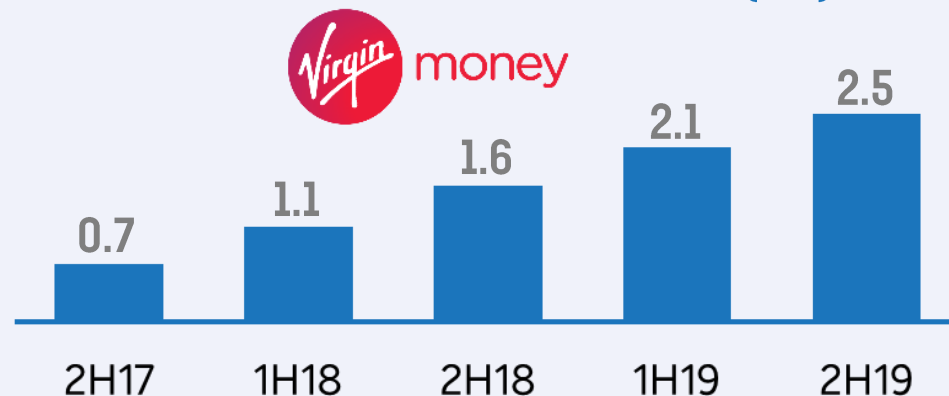
SUMMARY

- > BOQ Finance achieved consistently strong growth
- > BOQ Specialist housing volumes also remain solid
- > VMA housing loan growth continued
- > BOQ Retail contracted further

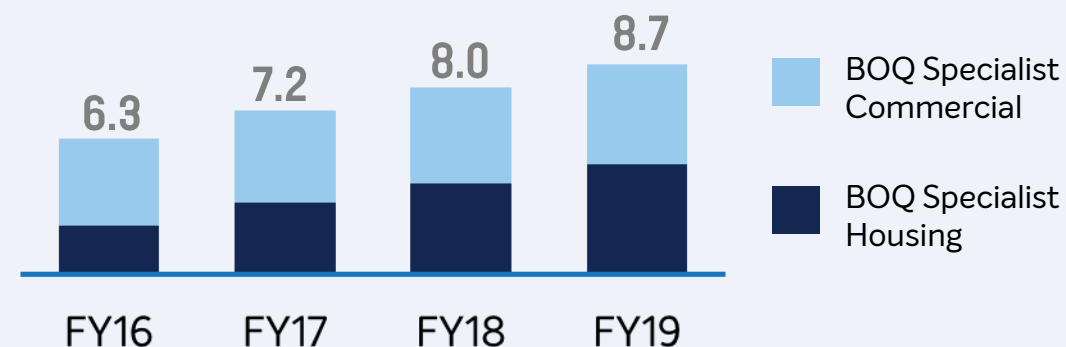
BOQ FINANCE LENDING BALANCES (\$B)



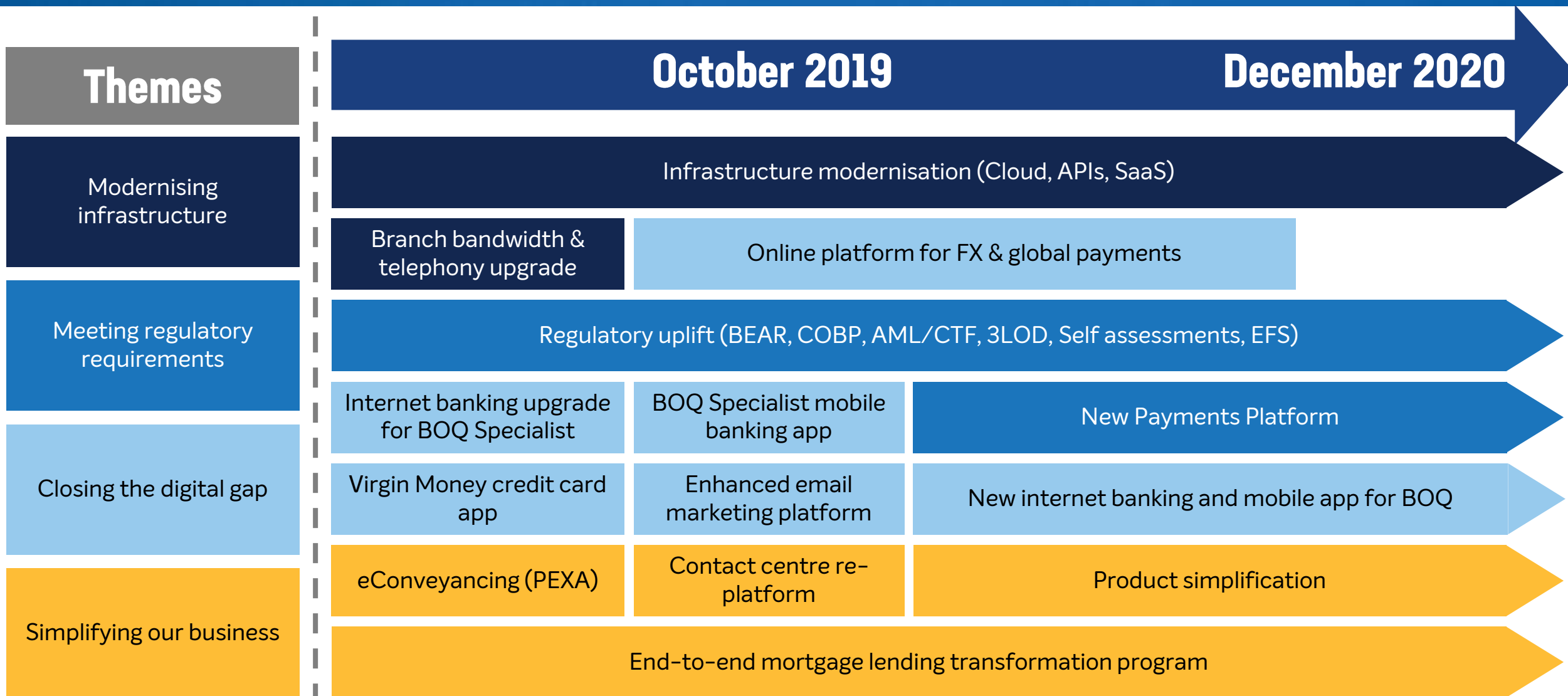
VMA HOUSING LENDING BALANCES (\$B)



BOQ SPECIALIST LENDING BALANCES (\$B)



GOOD PROGRESS IN FOUNDATIONAL INVESTMENTS



FINANCIAL DETAIL

MATT BAXBY
CHIEF FINANCIAL OFFICER

FINANCIAL PERFORMANCE: YEAR ON YEAR

	FY19	FY18	FY19 v FY18
Net interest income	\$961m	\$965m	(0%) ▼
Non-interest income	\$128m	\$145m	(12%) ▼
Total income	\$1,089m	\$1,110m	(2%) ▼
Operating expenses	(\$550m)	(\$527m)	4% ▲
Underlying profit	\$539m	\$583m	(8%) ▼
Loan impairment expense	(\$74m)	(\$41m)	80% ▲
Cash profit before tax	\$465m	\$542m	(14%) ▼
Income tax expense	(\$145m)	(\$170m)	(15%) ▼
Cash earnings after tax	\$320m	\$372m	(14%) ▼
Statutory net profit after tax⁽¹⁾	\$298m	\$336m	(11%) ▼
Cash basic earnings per share	79.6c	94.7c	(16%) ▼
Return on average tangible equity	10.8%	12.9%	(210bps) ▼

FINANCIAL PERFORMANCE: HALF ON HALF

	2H19	1H19	2H19 v 1H19
Net interest income	\$485m	\$476m	2% ▲
Non-interest income	\$63m	\$65m	(3%) ▼
Total income	\$548m	\$541m	1% ▲
Operating expenses	(\$282m)	(\$268m)	5% ▲
Underlying profit	\$266m	\$273m	(3%) ▼
Loan impairment expense	(\$44m)	(\$30m)	47% ▲
Cash profit before tax	\$222m	\$243m	(9%) ▼
Income tax expense	(\$69m)	(\$76m)	(9%) ▼
Cash earnings after tax	\$153m	\$167m	(8%) ▼
Statutory net profit after tax⁽¹⁾	\$142m	\$156m	(9%) ▼
Cash basic earnings per share	37.8c	41.8c	(10%) ▼
Return on average tangible equity	10.2%	11.4%	(120bps) ▼

SEGMENT PERFORMANCE: HALF ON HALF

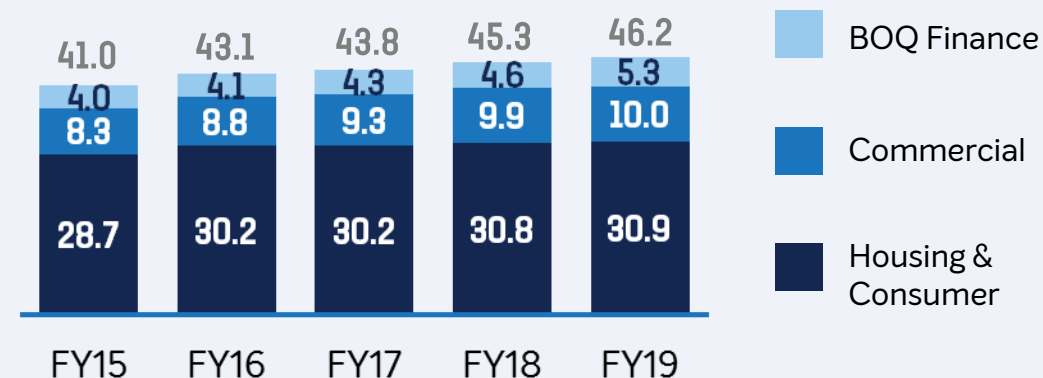
	RETAIL BANKING		BOQ BUSINESS	
	2H19	2H19 v 1H19	2H19	2H19 v 1H19
Net interest income	\$217m	1%	\$266m	2%
Non-interest income	\$31m	(3%)	\$24m	(8%)
Total income	\$248m	-	\$290m	1%
Operating expenses	(\$146m)	4%	(\$124m)	5%
Underlying profit	\$102m	(4%)	\$166m	(2%)
Loan impairment expense	(\$4m)	(60%)	(\$40m)	100%
Cash profit before tax	\$98m	2%	\$126m	(15%)
Income tax expense	(\$31m)	3%	(\$39m)	(17%)
Cash earnings after tax	\$67m	2%	\$87m	(15%)

LOAN PORTFOLIO AND GROWTH

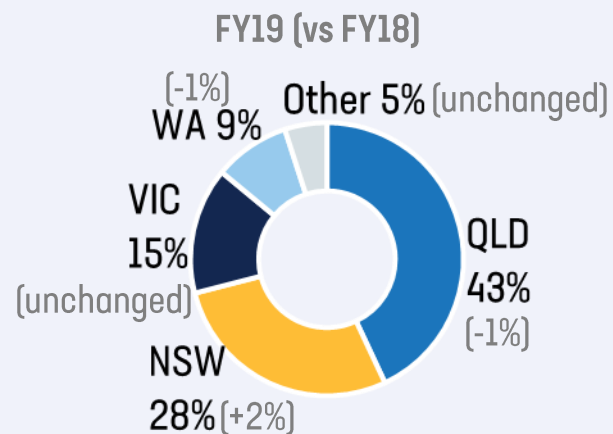
SUMMARY

- > Gross loan growth of 2% in a slowing market
- > BOQ Finance growth of 15%
- > Housing growth through VMA and BOQ Specialist, offset by contraction in branch network
- > Maintained discipline on credit standards

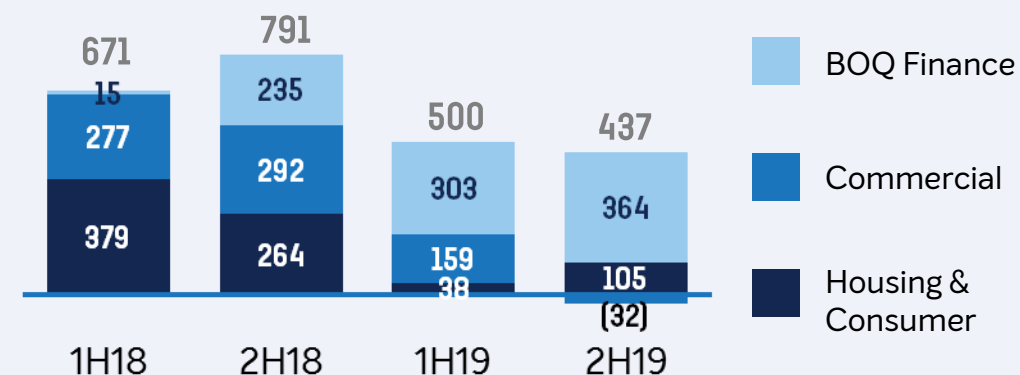
GROSS LOANS & ADVANCES (\$B)



TOTAL LENDING GEOGRAPHIC MIX



HALF YEARLY GROWTH COMPOSITION (\$M)

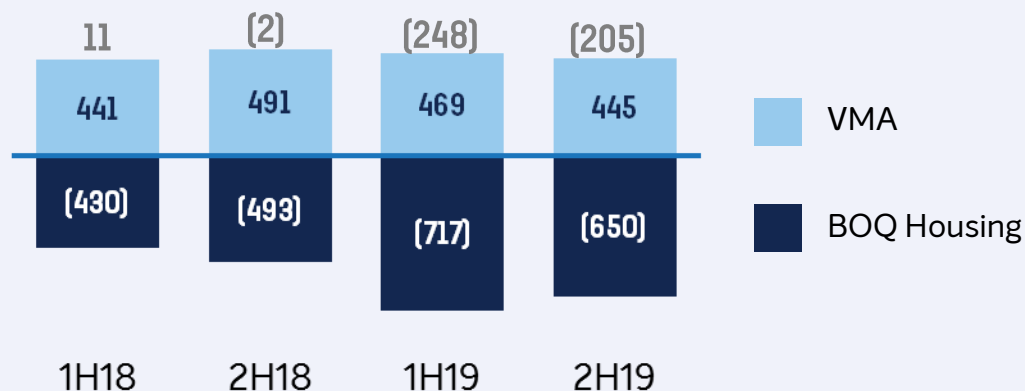


SEGMENT PERFORMANCE

RETAIL BANKING SUMMARY

- > Continued growth through Virgin Money Australia
- > Branch network contraction
- > Risk discipline maintained

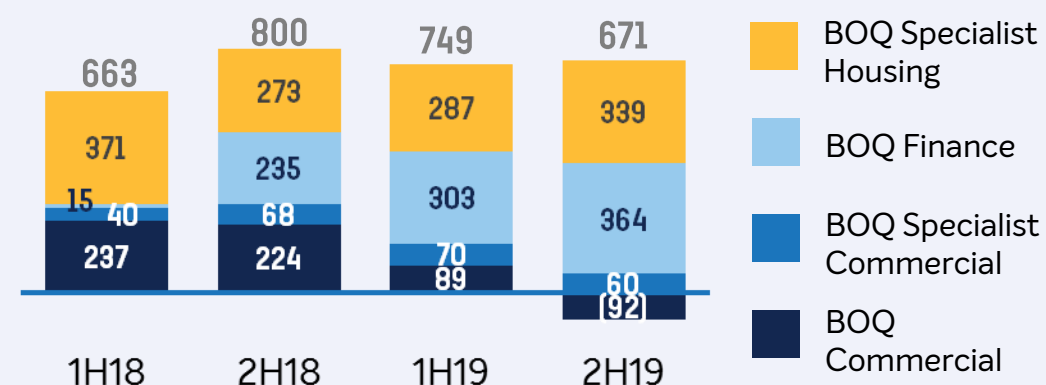
RETAIL HOUSING LOAN GROWTH BY CHANNEL (\$M)



BOQ BUSINESS SUMMARY

- > BOQ Finance delivered strong growth through equipment, dealer and structured finance programs
- > BOQ Specialist mortgage growth remains strong
- > Niche segment growth of \$237m
- > Paydown of large exposures constrained BOQ Commercial growth

BOQ BUSINESS LOAN GROWTH BY CHANNEL (\$M)



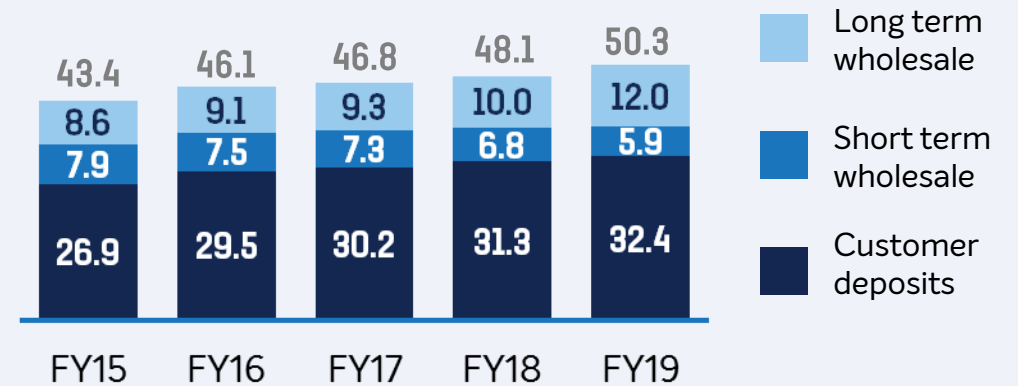
SUMMARY

- > \$1.1b growth in customer deposits, predominantly through savings and investment accounts
- > Deposit to loan ratio of 70%
- > Took advantage of favourable conditions for long term wholesale issuance

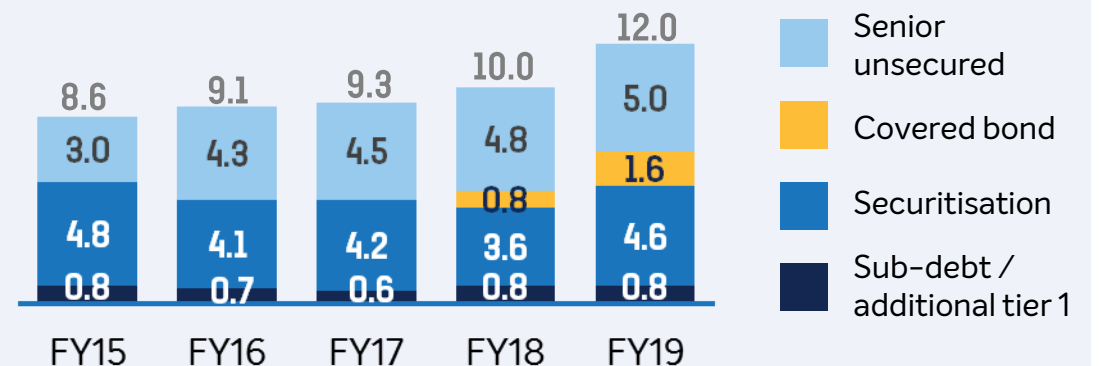
SUCCESSFUL NEW PRODUCT LAUNCHES

- > 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)

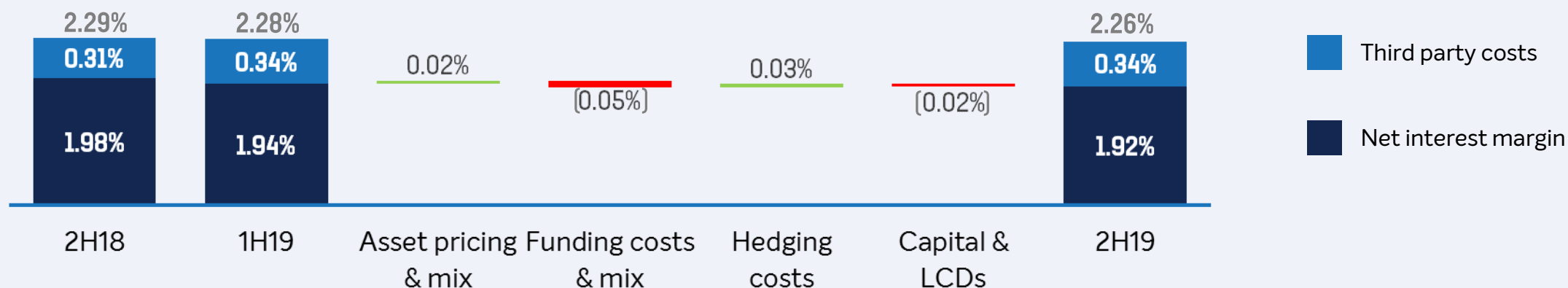


LONG TERM WHOLESALE FUNDING (\$B)



NET INTEREST MARGIN

NET INTEREST MARGIN MOVEMENTS 1H19 TO 2H19



2H19 CONSIDERATIONS

- > Asset pricing benefits from January & July 2019
- > Hedging cost headwind has become a tailwind
- > Front book vs back book impact ongoing
- > Funding costs impacted by higher TD spreads
- > Capital & LCDs impacted by lower yield curve

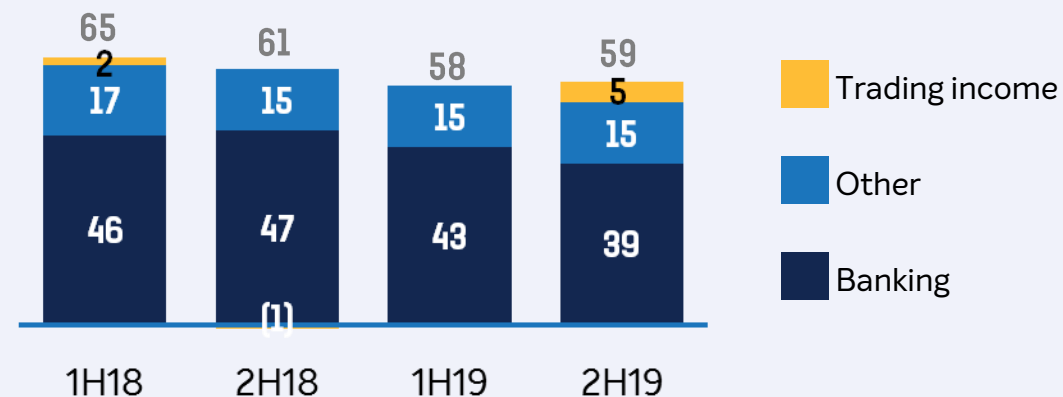
SUMMARY OF KEY MOVING PARTS

Element	2H18	1H19	2H19
Asset pricing benefits	+2bps	+4bps	+6bps
Front book pricing & mix	(5bps)	(4bps)	(4bps)
Funding costs & mix	+4bps	+2bps	(5bps)
Hedging costs	(2bps)	(3bps)	+3bps
Capital & LCDs	-	(1bp)	(2bps)

BANKING, TRADING & OTHER INCOME

- > Ongoing pressure on banking fees
- > Step down impact from merchant migration now embedded
- > Better half for trading income generation
- > Improved contribution from Virgin Money Australia

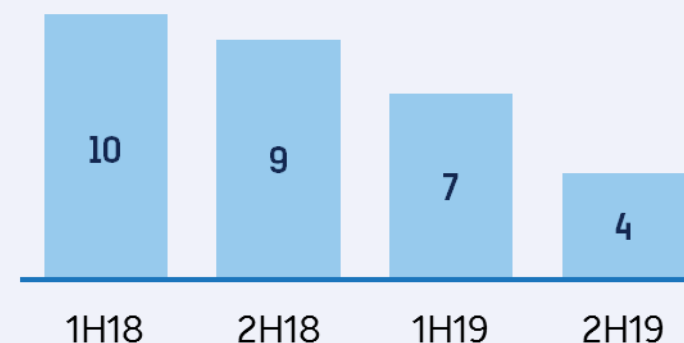
BANKING, TRADING & OTHER INCOME (\$M)



INSURANCE - ST ANDREW'S

- > Reduced contribution in 2H19
- > Cessation of Consumer Credit Insurance sales
- > Continue to serve existing customers
- > Options to maximise value being considered on an ongoing basis

INSURANCE INCOME (\$M)

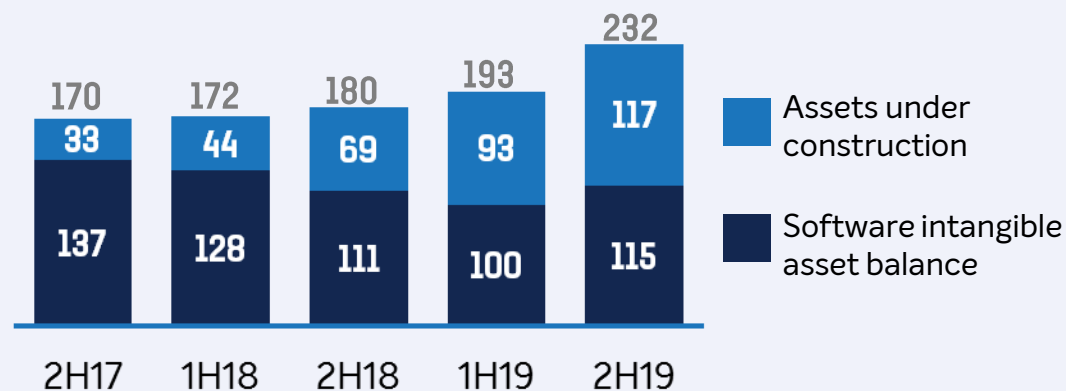


OPERATING EXPENSES

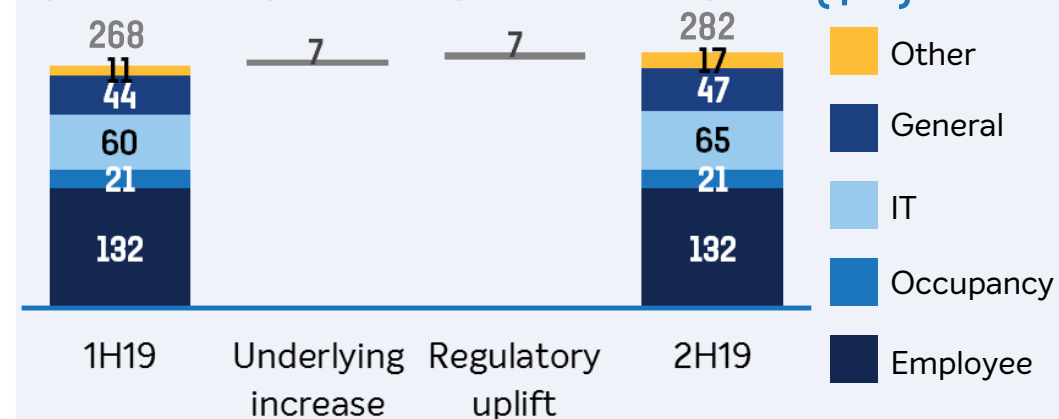
SUMMARY

- > Expense growth of 4%; CTI 50.5%
- > Underlying expense uplift reflects heightened regulatory and compliance requirements called out in 1H19
- > Higher amortisation and ongoing regulatory costs into FY20

CARRYING VALUE OF INTANGIBLE ASSETS (\$M)



OPERATING EXPENSE BREAKDOWN (\$M)



EXPENSE OUTLOOK

- > Regulatory uplift to continue through FY20
- > Higher amortisation from increased investment
- > Launch costs for VMA digital bank likely Q4 FY20 / Q1 FY21
- > Operating model review underway

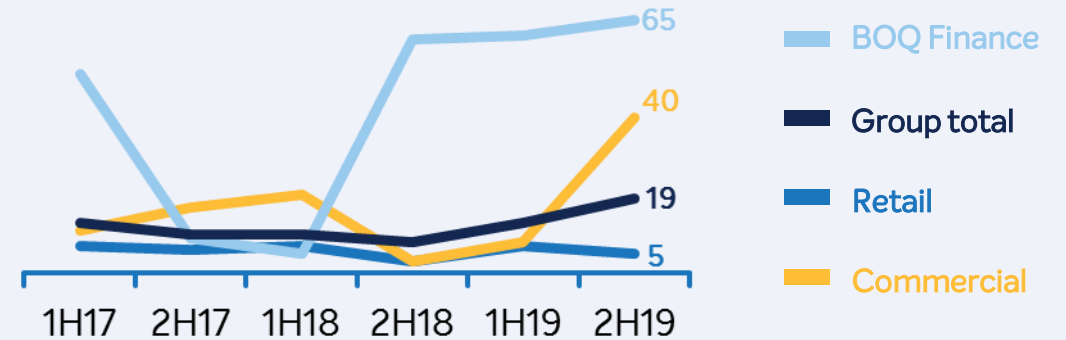
NON-CASH EARNINGS ITEMS

	FY19	FY18
Cash earnings after tax	\$320m	\$372m
Amortisation of acquisition fair value adjustments	(\$6m)	(\$7m)
Hedge ineffectiveness	(\$8m)	(\$3m)
Integration / transaction costs	(\$1m)	(\$1m)
Extraordinary regulatory /compliance	(\$6m)	(\$9m)
Software changes	-	(\$11m)
Legacy items	(\$1m)	(\$5m)
Statutory net profit after tax	\$298m	\$336m

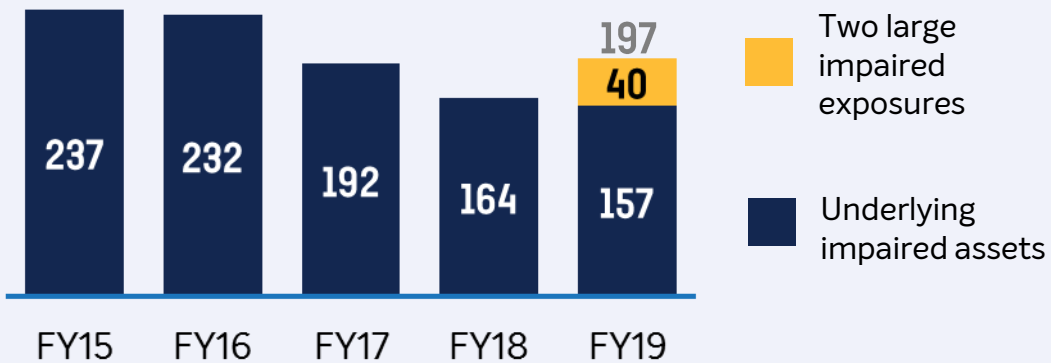
SUMMARY

- > Portfolio metrics remain sound
- > Application of new Collective Provisioning model under AASB9 and model adjustments were the key drivers of higher impairment expense
- > Impaired assets increased due to two large exposures

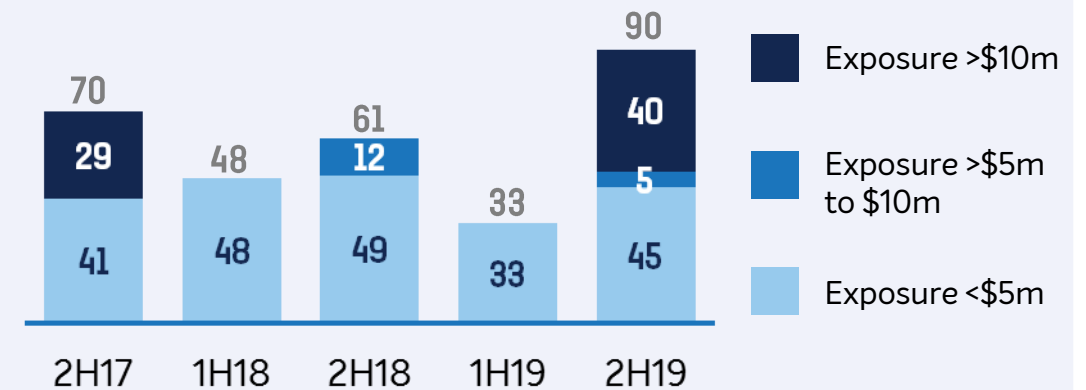
LOAN IMPAIRMENT EXPENSE BY PRODUCT (bps)⁽¹⁾



IMPAIRED ASSETS (\$M)



NEW IMPAIRED ASSETS (\$M)

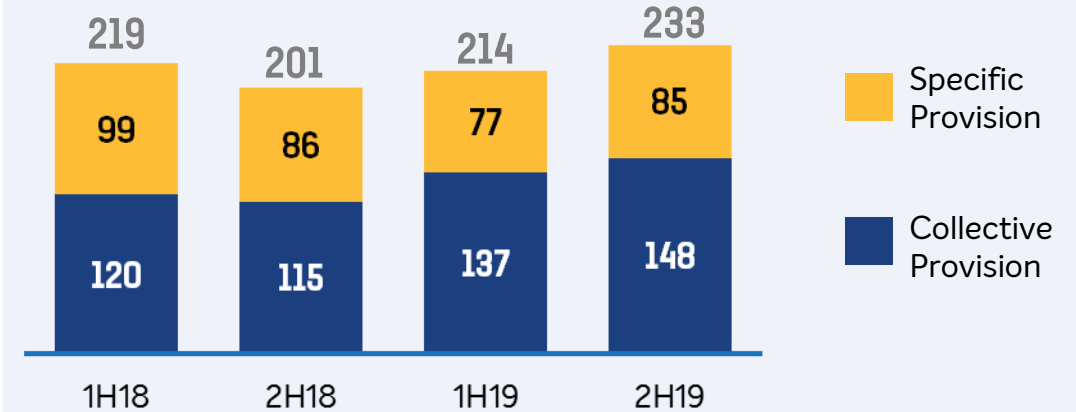


PROVISION COVERAGE

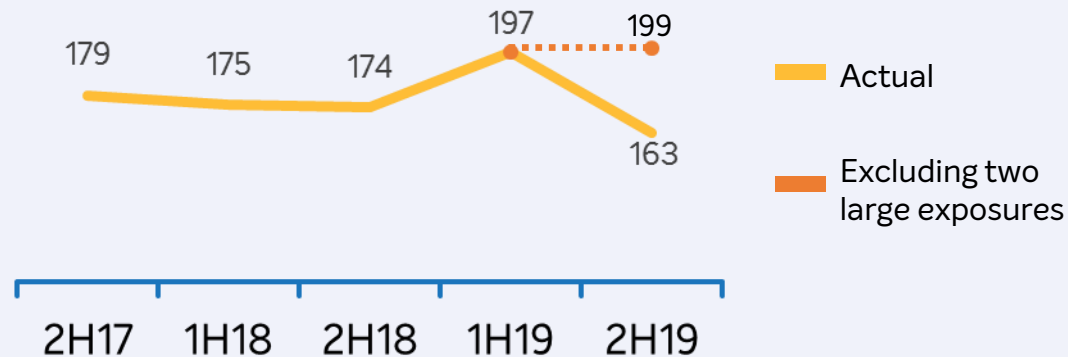
SUMMARY

- > Collective Provision increased 29% from 2H18, driven by application of new model under AASB 9
- > Specific Provision increased 10% from 1H19, driven by a small number of large exposures in 2H19

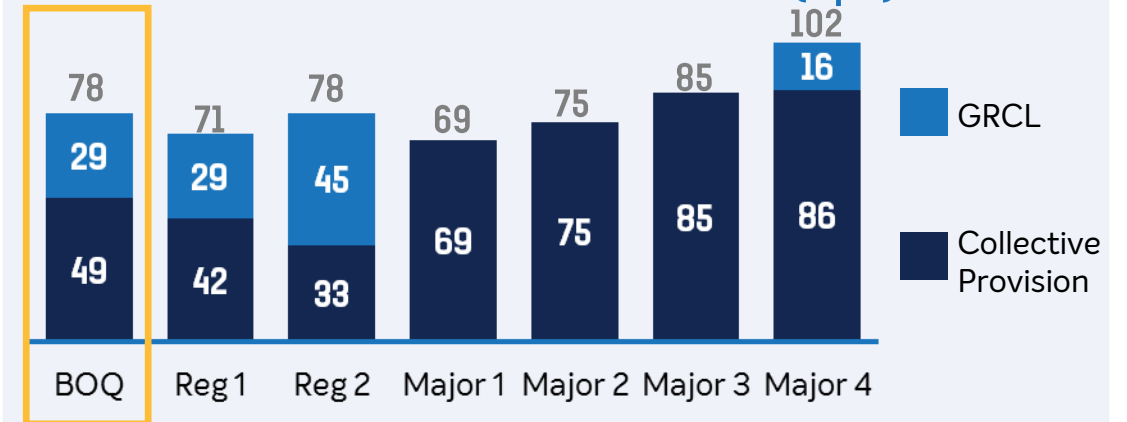
PROVISION BALANCES (\$M)



TOTAL PROVISIONS & GRCL / IMPAIRED ASSETS (%)⁽¹⁾



PROVISIONING COVERAGE VS PEERS (bps)⁽²⁾



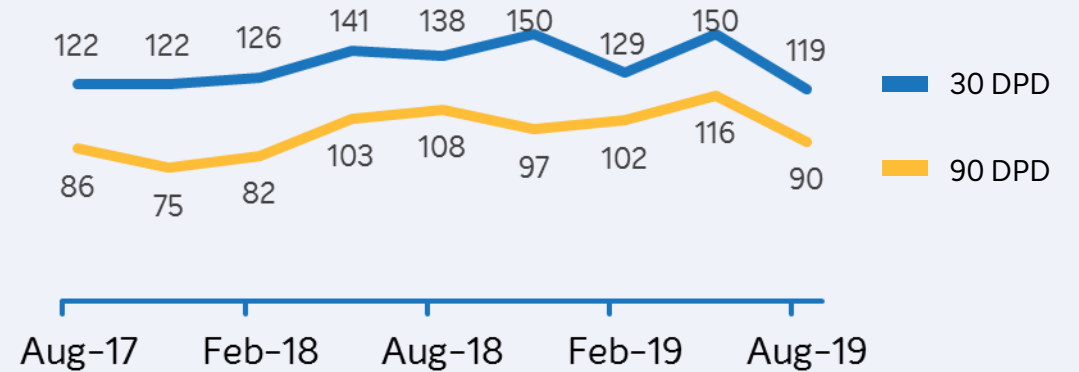
(1) Excluding two large exposures, 2H19 Total Provisions & GRCL / Impaired Assets is 199%.

(2) Collective Provision and GRCL as a proportion of risk-weighted assets.

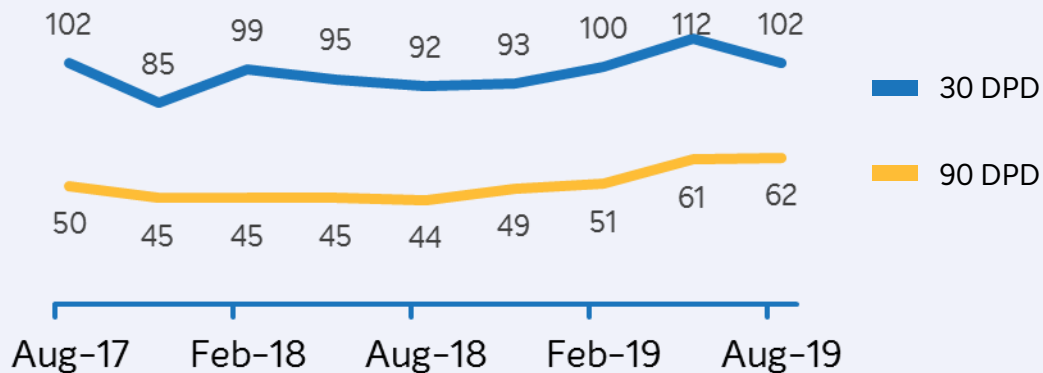
SUMMARY

- > Arrears level remain low across all portfolios
- > Small increase in 90 DPD Housing and BOQ Finance
- > No areas of concern emerging

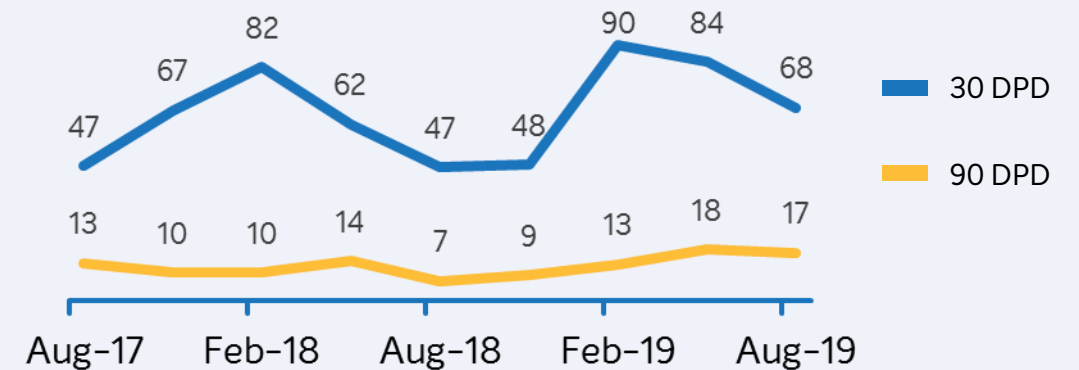
COMMERCIAL ARREARS (bps)



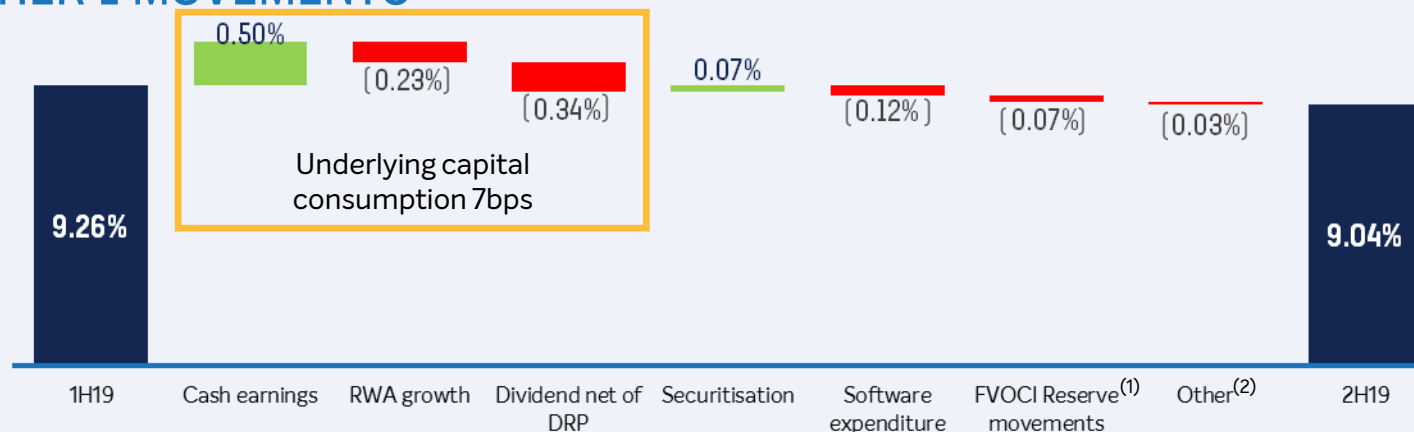
HOUSING ARREARS (bps)



BOQ FINANCE ARREARS (bps)



COMMON EQUITY TIER 1 MOVEMENTS



SUMMARY

- > 9.04% Common Equity Tier 1 ratio
- > Underlying capital consumption of 7bps
- > Mix of asset growth tilted to higher risk-weighted business lines
- > Increased investment spend reduced CET1 by 12bps

OUTLOOK

- > Remain appropriately capitalised
- > Well positioned for unquestionably strong
- > Focus on restoring organic capital generation including RWA optimisation
- > Capital calibration subject to regulatory clarity

- > Final dividend of 31 cents; full year dividend 65 cents
- > 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

GEORGE FRAZIS
MANAGING DIRECTOR & CEO

Households

- > Labour market strong, but wages growth remains constrained
- > Consumer confidence weaker
- > House price outlook stabilising, although mixed across regions
- > Recent approvals data suggests housing credit growth is bottoming

Businesses

- > Business conditions weaker – particularly for SMEs, also impacted by tightening of lending in mortgages
- > Business credit stronger, but driven by larger firms
- > Slowing global economy and trade wars add to uncertainty
- > Company balance sheets generally in good shape

HIGH LEVEL PRIORITIES

1 Return to profitable and sustainable growth

- > Optimise revenue and margin
- > Fix lending processes
- > Lift distribution performance
- > Profitably grow customer base

2 Embed our purpose-led, customer culture

- > Build our peoples' skills and capability
- > Quality appointments to key executive positions
- > Improving customer experience

3 Simplification and productivity

- > Structural productivity and operating model review
- > Simplify and reduce number of products
- > Migration to cloud, simplify IT platforms
- > Address costs

4 Close digital and data gap

- > Deliver new BOQ-branded front end digital/mobile offering
- > Ensure Virgin Money Australia digital bank milestones are met
- > Improve data and analytics platforms and capability

5 Continue to strengthen the Bank

- > Strong risk and compliance standards
- > Solid liquidity and funding
- > Segment by segment analysis to optimise RWAs
- > Strong balance sheet

VIRGIN MONEY AUSTRALIA DIGITAL BANK INVESTMENT

SUMMARY

- > Building on the strong momentum of VMA
- > Successful completion of stage 1 digital bank proof of concept; Now planning full build and implementation
- > Investing in long term value creation; move towards a common cloud based platform

DIGITAL BANK DELIVERY

- > ~\$30m capital expenditure required in FY20 to complete phase 1 build; targeting launch in late 2020
- > Will require higher operating expenses from launch but expected to deliver compelling long term value creation
- > Further detail to be provided at strategy update in February 2020



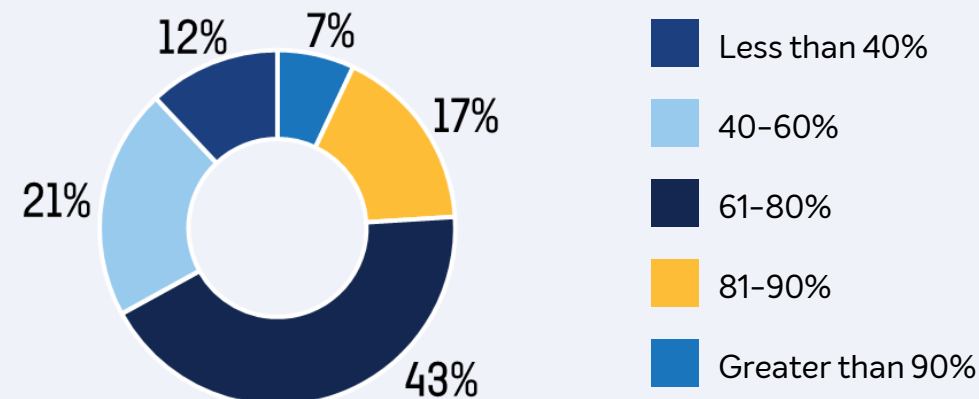
- 1 FY19 performance disappointing
- 2 Decisive action being taken to improve our performance
- 3 We anticipate lower year on year cash earnings in FY20
 - > FY20 will be another tough year as we transition
 - > Revenue & impairments broadly in line with FY19, subject to market conditions
 - > Costs growing due to regulatory compliance and increased technology investment
- 4 Transformation strategy update planned for late February 2020
 - > Fundamentally good business with a sound platform for differentiation
 - > Focus on business simplification and productivity improvement
 - > Strategic investment underway in Virgin Money Australia and BOQ
 - > Clear objective of returning to profitable and sustainable growth

APPENDICES

SUMMARY

- > Broker settlements 29% including VMA
- > Owner occupied P&I loans represent 53% of portfolio

HOUSING PORTFOLIO LVR BANDS



PORTFOLIO METRICS

Metrics (%)	2H18	1H19	2H19
Owner occupied	59	59	60
Investment	41	41	40
Interest only	29	25	25
Broker originated ⁽¹⁾	15	17	18
Weighted avg LVR	67	66	66
Line of credit	6	6	5
Avg loan balance	\$280k	\$274k	\$290k
Variable rate	74	77	78
Fixed rate	26	23	22

SETTLEMENT METRICS

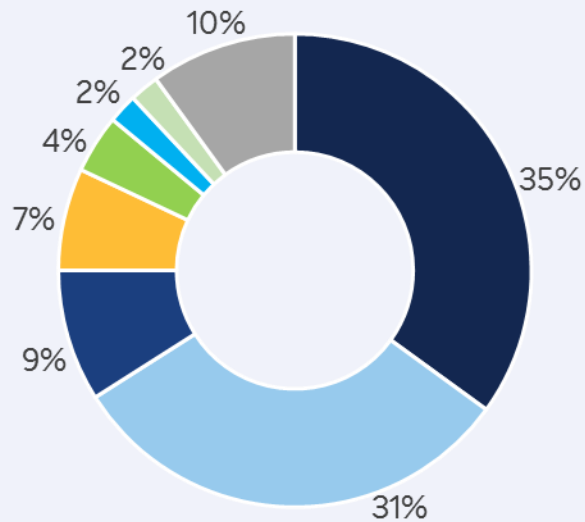
Metrics (%)	2H18	1H19	2H19
Owner occupied	61	61	66
Investment	39	39	34
Interest only ⁽²⁾	14	16	24
Broker originated ⁽¹⁾	30	30	29
Weighted avg LVR	69	68	68
Line of credit	1	1	1
Avg loan balance	\$408k	\$408k	\$402k
Variable rate	80	84	77
Fixed rate	20	16	23

(1) Includes Virgin Money

(2) 2H19 includes construction loans which were previously reported as P&I but have been reclassified as Interest Only. The comparative metric for 1H19 would be 21%

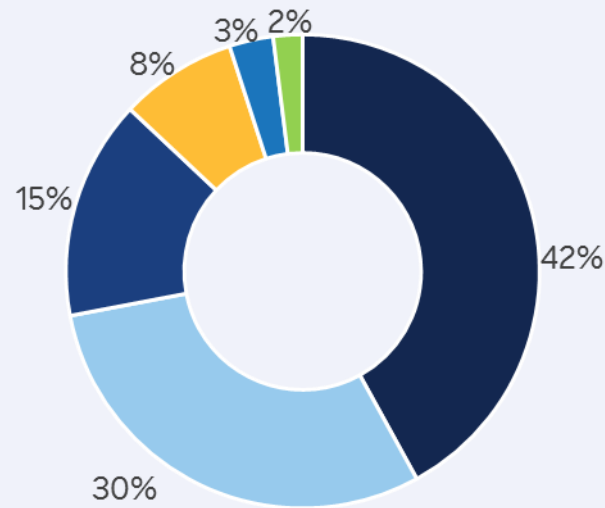
COMMERCIAL PORTFOLIO

PORTFOLIO BY INDUSTRY



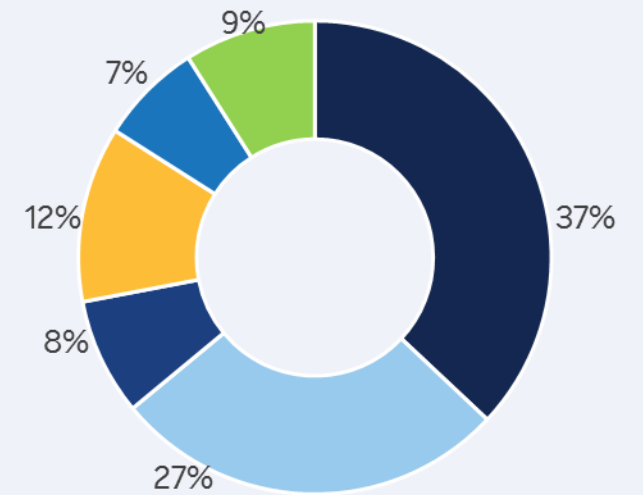
- Property & construction
- Healthcare
- Professional services
- Hospitality & accommodation
- Agriculture
- Manufacturing & Mining
- Retail
- Other

PORTFOLIO BY STATE



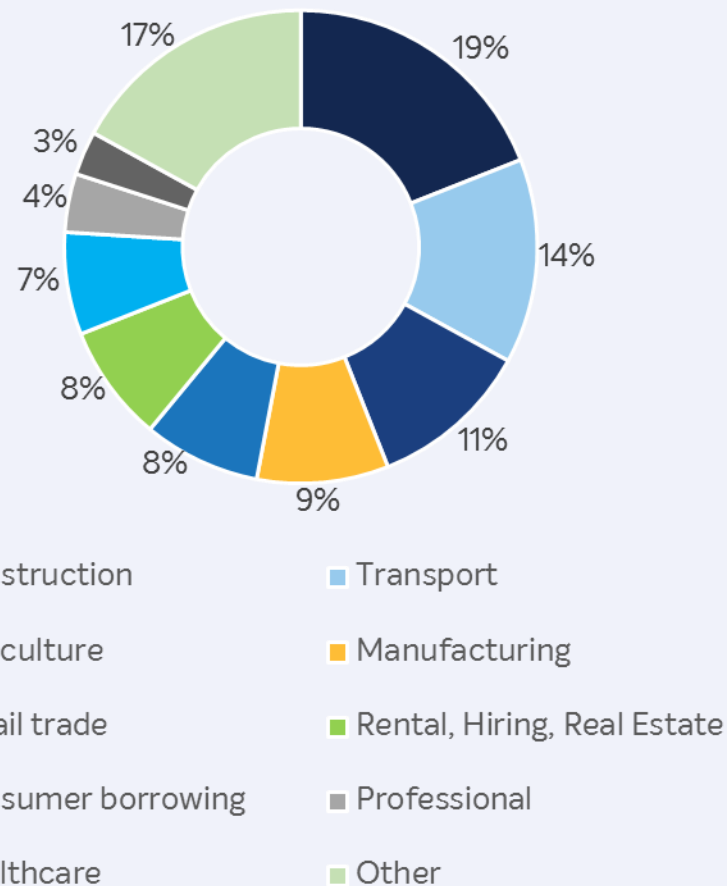
- QLD
- NSW
- VIC
- WA
- SA
- Other

PORTFOLIO BY EXPOSURE SIZE

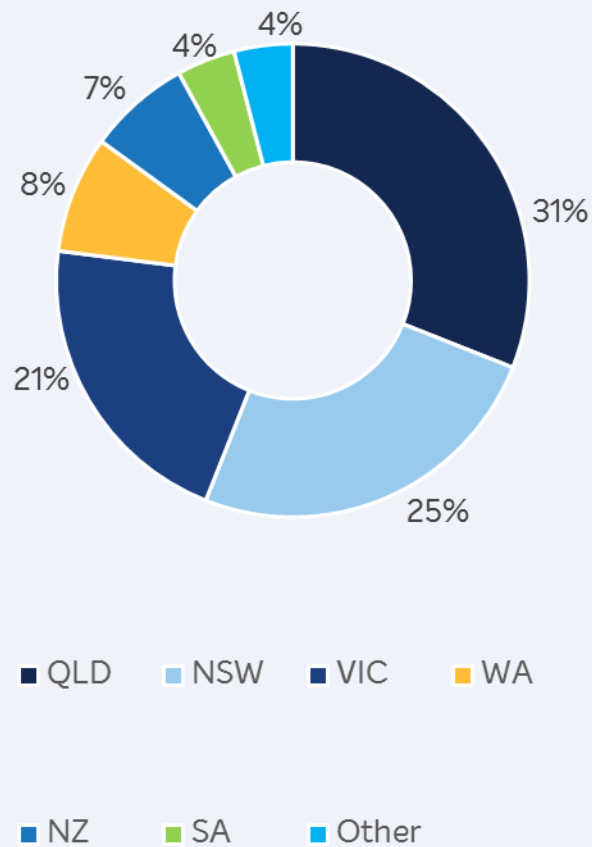


- <\$1m
- \$1m-\$5m
- \$5m-\$10m
- \$10m-\$25m
- \$25m-\$50m
- \$50m+

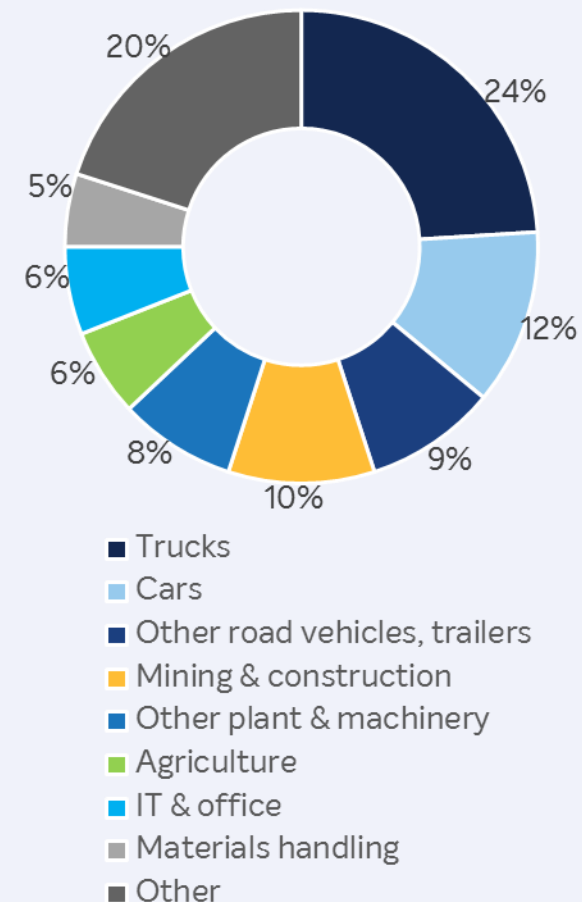
ASSET BY INDUSTRY



ASSET BY STATE



ASSET BY TYPE



LIMITED EXPOSURE TO HIGH RISK SECTORS

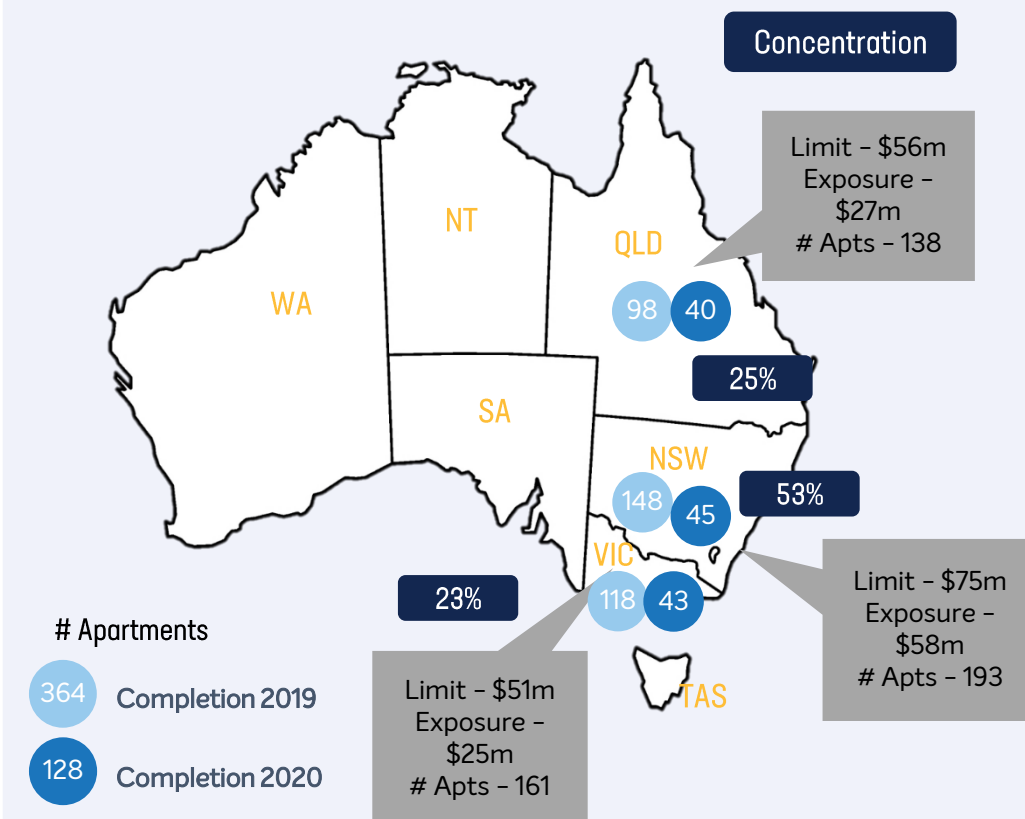
APARTMENT CONSTRUCTION EXPOSURES

- > \$110m current exposure to residential construction
- > 14 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 <\$130m

LENDING TO RESIDENTIAL APARTMENT CONSTRUCTION



OUTLOOK DEPENDENT ON:

- > Changes in cash rate and bank bill swap rate
- > Competitive actions
- > Unemployment rate
- > Consumer and business confidence
- > House prices
- > Pace of change of technology and customer preferences
- > Potential regulatory changes
- > Economic growth

ABBREVIATIONS

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

EFS: Economic and Financial Statistics

EPS: Earnings per share

FVOCI: Fair value through other comprehensive income

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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