20 APRIL 2023

BOQ GROUP

1H23

INVESTOR MATERIALS

Half year ended 28 February 2023

BOQ | me | Virgin money | BOQ FINANCE | BOQ SPECIALIST | BOQ BUSINESS

BOQ GROUP

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BOQ GROUP

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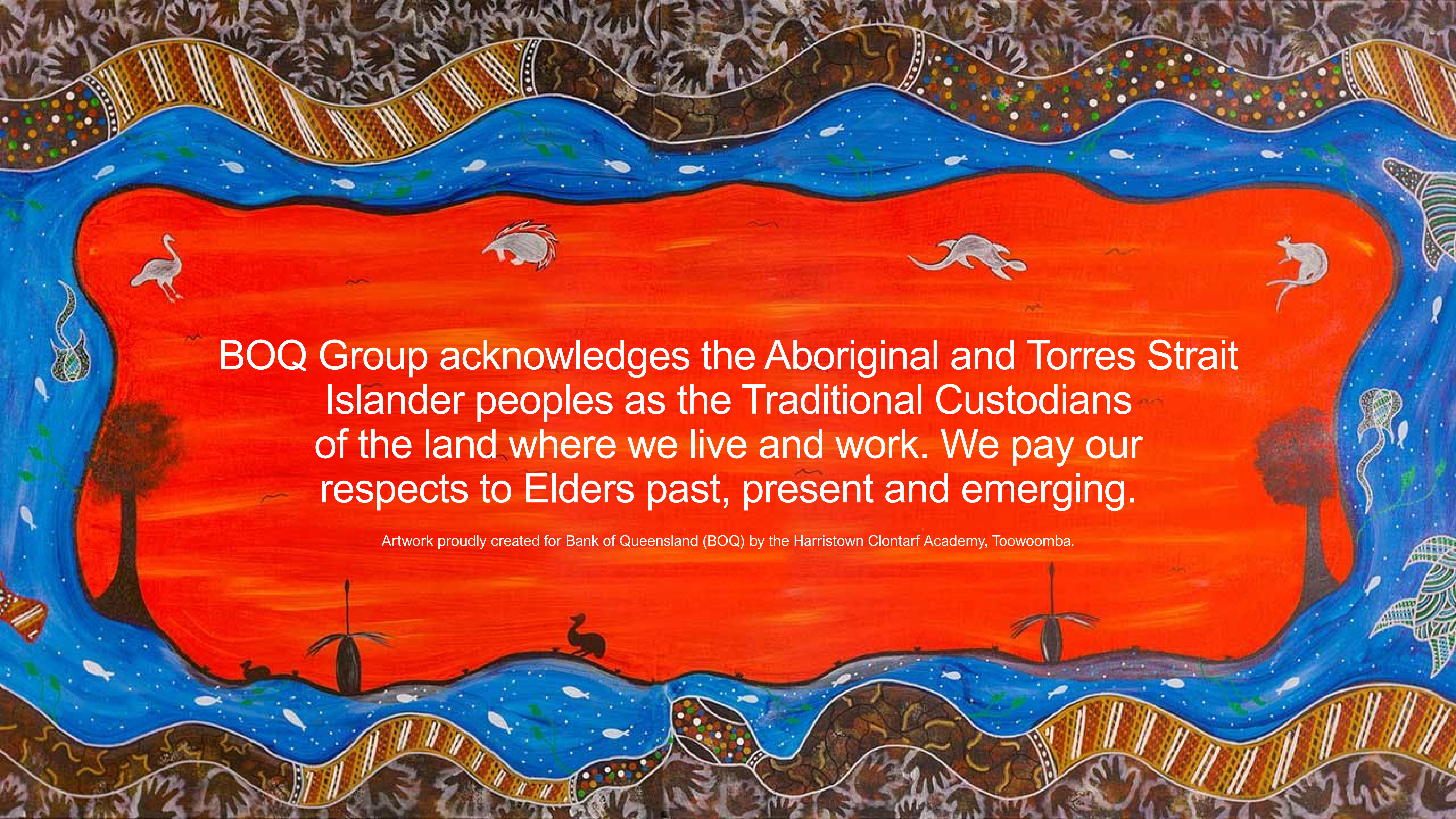
1H23 RESULTS PRESENTATION

20 APRIL 2023

Half Year ended 28 February 2023



BOQ Group acknowledges the Aboriginal and Torres Strait Islander peoples as the Traditional Custodians of the land where we live and work. We pay our respects to Elders past, present and emerging.

Artwork proudly created for Bank of Queensland (BOQ) by the Harristown Clontarf Academy, Toowoomba.

Agenda

Introduction

>**Tanya Aaskov**, General Manager Investor Relations

Results overview

> **Patrick Allaway**, MD & Chief Executive Officer

Financial detail

> **Racheal Kellaway**, Chief Financial Officer

Summary & outlook

> **Patrick Allaway**, MD & Chief Executive Officer

Q&A

> **Patrick Allaway**, MD & Chief Executive Officer

> **Racheal Kellaway**, Chief Financial Officer

> **Executive Team & Senior Leaders**

BOQ GROUP

RESULTS OVERVIEW

Patrick Allaway

Managing Director & Chief Executive Officer

BOQ GROUP

Key messages

We are continuing our transformation journey with a comprehensive and integrated program

1. **Strong progress since 2020 on digitisation, achieving growth across our brands, and improving our financial position and strength**
2. **Transformation program with a focus on building a stronger, simpler, and digitally enabled lower cost bank:**
   - **Strengthen:** Uplifting our operational resilience and compliance through our Integrated Risk Program
   - **Simplify:** Addressing our complex and duplicative operating structure and processes, driving productivity improvements
   - **Digitise:** We have high conviction to deliver on our digital strategy, improving the customer and employee experience, growing our customer and deposit base, developing scalable and agile systems and data capabilities, and decommissioning costly legacy and manual systems
   - **Optimise:** Improving margins with prudent capital allocation, portfolio diversification, and addressing our structural disadvantages, driving improved returns
3. **Retail business highly competitive focusing on customer retention and margin over growth during this cycle**
4. **ME acquisition delivering synergies, portfolio diversification, distinct customer segment and opportunity for early proof point of a national scalable digital brand**
5. **Business Bank delivering higher margin growth, lower CTI, and diversified earnings with well collateralised book**
6. **Purpose and values led, making a difference for our customers and people**

BOQ GROUP

1H23 results

Strong financial position, statutory result impacted by one-off non-cash impairment and risk program provision. Margin uplift offset by expense growth

Key financial results ($m)

	1H23	1H23 v 1H22
Total income	902	9% ▲
Operating expenses	(495)	7% ▲
Underlying profit	**407**	**10%** ▲
Loan impairment expense	(34)	large ▲
Cash profit before tax	**373**	**(3%)** ▼
Income tax expense	(117)	-
Cash earnings after tax	**256**	**(4%)** ▼
Statutory net profit after tax	**4**	**(98%)** ▼
Return on average tangible equity[1] (%)	10.6	(90bps) ▼
Return on average equity (%)	8.4	(70bps) ▼
Cash earnings per share (cents)	39.0	(5%) ▼
Cost to income ratio (%)	54.9	(60bps) ▼
CET1 ratio[2] (%)	10.71	103bps ▲
Dividends per ordinary share (fully franked)[3]	20c	(9%) ▼

(1) Based on cash earnings after tax applied to average shareholders' equity (excluding preference shares and treasury shares) less goodwill and identifiable intangible assets (customer related intangibles/brands and computer software)
(2) 1H22 CET1 reported under Basel II regulatory framework. 1H23 is reported under the Basel III framework which took effect 1 January 2023. The CET1 increased 114bps comparative to 2H22
(3) The dividend will be fully franked and the dividend reinvestment plan will operate with a 1.5% discount

BOQ GROUP

Retail banking overview

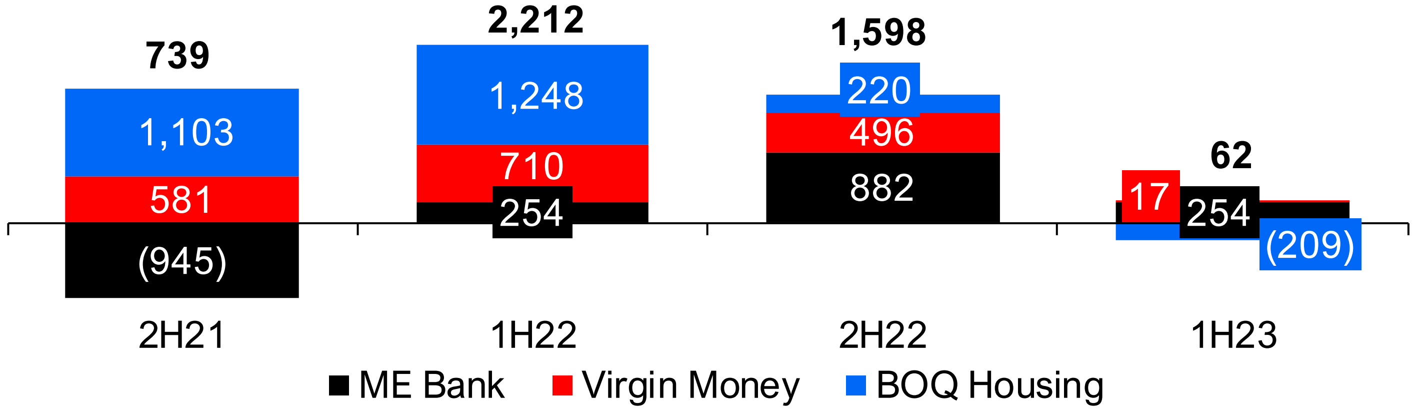
me BOQ Virgin money

Digital strategy delivering customer growth in a competitive environment

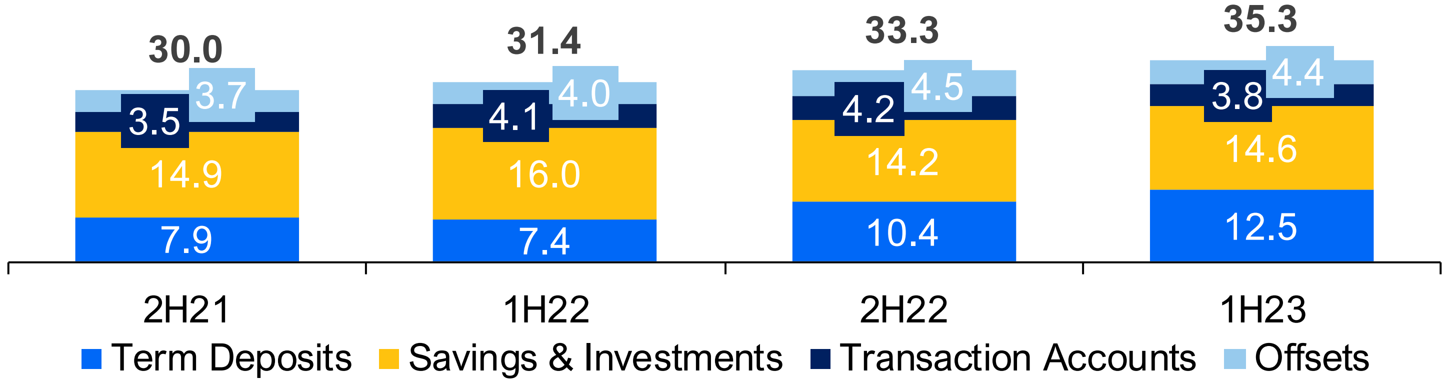
Summary

- Total income increased 4%, as deposit margin recovery more than offset the normalisation of non-interest income
- Housing volumes were broadly flat, reflecting the prioritisation of margin and economic return over volume growth in a highly competitive market
- $2bn of growth in customer deposits, driven by term and digital deposits, contributing to the Group's funding profile
- $3.8bn of deposit balances across c.110k deposit customers on the new digital platform[1]
- Ongoing focus on proactively supporting customers transitioning from fixed to variable rate loans

Home lending growth ($m)



Deposit funding ($bn)



Note: All FY21 comparatives are on a pro forma basis
(1) 171k customers on the new digital platform including card customers

BOQ GROUP

Business banking overview

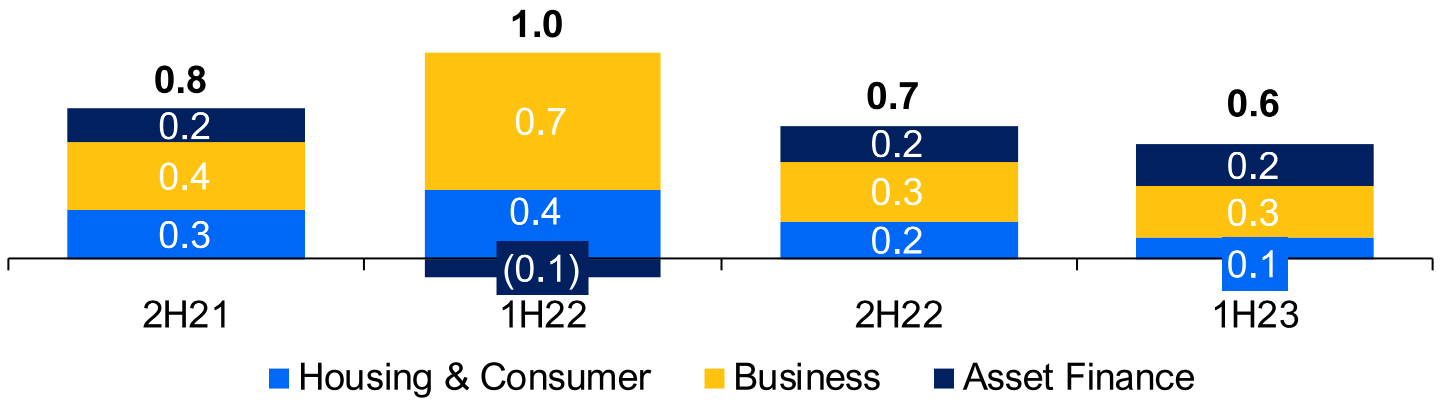
BOQ BUSINESS BOQ FINANCE BOQ SPECIALIST

Strong performance underpinned by higher revenue, lower CTI, increased margins and improved returns

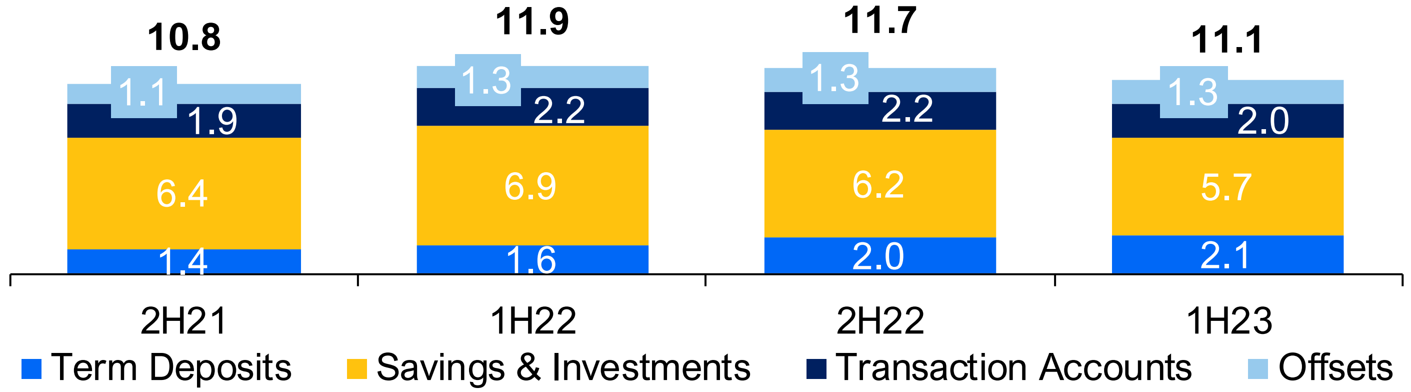
Summary

- Total income grew 19% on 1H22, reflecting targeted lending balance growth of 5% and optimisation of margins across both lending and deposits
- Lending growth was driven by strategic focus on medium sized family businesses (SME), healthcare, agriculture and equipment finance
- Business Banking delivering strong performance with lower CTI of 40.2%, increased margins and improved returns
- Quality growth delivered further portfolio diversification across geography, channel, and asset class
- The business remained focused on portfolio optimisation and delivering improved risk adjusted returns
- $0.6bn contraction in deposit balances as transaction and savings accounts reversed some of the growth experienced during COVID

Lending growth ($bn)



Deposit funding ($bn)



Significant transformation progress

BOQ is progressing through its transformation journey, with considerable progress made but more work to do

Completed ME Integration

c$70-80m
Synergies annualised run rate FY23 (F)

30
Technology systems decommissioned since acquisition

1H22
Returned ME Bank to growth

Launched digital platform

171K
Customers onboarded with a lower avg. age of 32 compared to 45 for BOQ legacy

$3.8bn
Deposits on platform as at 1H23

47%
myBOQ customers as MFI 1H23

Customer & Employee

+10 to +17
Improved Group customer NPS 1H23 vs 1H22

+30 vs +8
myBOQ NPS vs legacy platform

⇧5%
Improved employee engagement since August 2020

Improved balance sheet

CET1 ⇧114bps
Strengthened capital position compared to 2H22[1]

⇧4%
Spot LCR 1H23 (143%) vs FY22

⇧5%
Improved DTL ratio 1H23 (80%) vs 2H22 (75%)

(1) 2H22 CET1 reported under Basel II regulatory framework. 1H23 is reported under the Basel III framework which took effect 1 January 2023

STRATEGY UPDATE

Patrick Allaway

Managing Director & Chief Executive Officer

Building a stronger, simpler, low cost digitally enabled bank

Group Purpose

BUILDING
SOCIAL CAPITAL
THROUGH BANKING.

Strategic Pillars

Differentiating through exceptional customer and people experience

STRENGTHEN	SIMPLIFY	DIGITISE	OPTIMISE
Stronger financial buffers and risk settings supported by integrated risk program	Simplifying our operating model, products, processes and technology environment	Digital transformation delivering a data led, low cost scalable bank with a broader funding base	Optimising our margins with prudent capital allocation and portfolio diversification
Improved financial and operational resilience and risk culture	**Improved productivity and efficiency**	**Improved customer and employee experience**	**Improved returns, with strong capital position**

BOQ GROUP

Strengthening BOQ

A focus on financial and operational resilience and risk culture building stronger foundations

- $60m provision for multi-year Integrated Risk Program covering the costs associated with reducing complexity in systems, manual processes, uplifting risk controls and culture and program assurance
- Integrated Risk Program underway following reviews[1] which have identified that an uplift is required in respect of BOQ's operational resilience, risk culture and AML/CTF program and compliance. This follows work already undertaken in the Half Year to strengthen BOQ's financial resilience
- Proactive engagement with regulators and external subject matter experts engaged to assist. The program will be independently assured

FINANCIAL RESILIENCE

- Strengthened our financial resilience through increasing our capital and liquidity buffers
- Slowed lending growth with a focus on prudent risk settings and deployment of our capital with appropriate returns
- Shifted to lower DTI and LVR lending
- Maintain our credit quality through clear customer segment strategy and disciplined return hurdles
- Diversified and well collateralised Business Banking Portfolio

OPERATIONAL RESILIENCE

- Improve ability to deliver critical operations through disruptions
- Embed a high quality control environment with responsiveness to adverse events
- Risk and control uplifts across five areas:
  - AML
  - Non-financial risk
  - Technology environment
  - Process management
  - Program management

RISK CULTURE

- Governance and leadership
- Accountability and personal responsibility
- Decisioning, transparency and challenge
- Capability
- Enablement
- Performance and reward

(1) As previously disclosed, internal and external reviews have identified that a material uplift is required in respect of BOQ's operational resilience, risk culture and AML/CTF program and compliance

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Simplifying BOQ

Driving greater productivity through a simpler operating model, underpinned by scalable technology

Existing initiatives delivering uplift in productivity

PROCESS OPTIMISATION	18%	Reduction in mortgage application inefficiency
PRODUCT SIMPLIFICATION	>160	Products and features grandfathered since FY20[1]
TECHNOLOGY CONSOLIDATION	66	Technology systems decommissioned bank-wide since FY20

Material productivity initiative to address expenses. Detailed update to be provided 2H23

OPERATING MODEL

- Moving to a low cost, horizontally integrated operating model supporting BOQ relationship brand and ME/Virgin digital brands
- Removing complexity and duplication across the organisation and improving enterprise-wide processes
- Sale of a portfolio of assets held by BOQ Finance (NZ) Limited
- Consolidation of suppliers and corporate property footprint

PROCESS, PROCUREMENT & TECHNOLOGY

- Leverage of partners to support non-core activities
- Decommissioning of legacy technology
- Process reengineering removing waste and rework
- Realising the benefits of digitisation and automation

(1) Product and product features grandfathered relates to BOQ Retail

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Digitising BOQ

Digital strategy improving customer experience, providing strong deposit growth and lower cost to serve

FY2021 - 2023[1] — FY2024 - 2025 — Post FY2025

Retail Bank

FY2021 - 2023[1]
- VMA and BOQ transaction and savings launched on new cloud digital bank ✓
- ME customers migrated to v.18, Ultracs decommissioned (7 apps, 51 servers) ✓
- ME transaction and savings launched on new cloud digital bank

FY2024 - 2025
- Digital mortgage for all brands on new cloud digital bank
- ME home loan and remaining customers migrated to new digital bank and commence decommissioning of legacy platform
- Digital personal loans for all brands on new digital bank
- Unified origination system across all retail brands
- Deposit only ME customers' migration to new digital bank commenced
- Commence payments hub build

Post FY2025
- BOQ/VMA customer migration completed
- Complex home loan and retail small business migrated to BOQS
- Retire BOQ legacy systems

Business Bank

FY2021 - 2023[1]
- Leasing systems consolidated on latest version of InfoLease ✓
- Upgraded internet banking capability for SMEs ✓
- Business Bank Temenos core banking platform upgraded to latest v.22
- Enhanced working capital product capability

FY2024 - 2025
- Unified 360 view of customers across the Business Bank

Post FY2025
- New complex lending origination capability (complex home loan customers serviced by Business Bank)
- Integrated supply chain capability
- Digital transaction account capability for small business
- Migration of SME, Agri and Property customers to new core
- Unified origination system across all Business Bank brands
- Enhanced payments hub, enabling critical use cases

Group

FY2021 - 2023[1]
- Data centres migrated to private cloud ✓
- Intelligent data platform ✓

FY2024 - 2025
- Implement Customer Experience Platform
- Real time connectivity of data insights
- Data centres migrated to public cloud
- Cloud based ERP platform (Finance & HR)

Post FY2025
- Integrated cloud-based data platform enabling omni-channel personalisation

Legend
- ✓ Achieved
- On track
- Reprioritised (delayed) as part of refresh
- Reprioritised (brought forward) as part of refresh

(1) Changed horizons to financial year for ease of reporting

Optimising BOQ

Increasing competition requires a simple, low-cost, scalable operating model

SOLID FOUNDATIONS

- **Completed integration of ME Bank**, with synergies realised
- **Completed Digital Bank foundations**, with launch of VMA and BOQ digital bank
- **High quality portfolio**, with well collateralised assets
- **Strong capital and liquidity position**
- **Multi-brand portfolio** serving targeted customer segments
- **Strong QLD heritage** to be celebrated

MATERIAL PERFORMANCE UPLIFT TO BE DRIVEN BY

- **Moving off complex legacy systems to the new digital based platform**
- **Productivity benefits from simplification and digitisation**
- **Scalable national direct brands (ME and Virgin) – simple low unit cost offering on digital platforms**
- **Relationship banking brand (BOQ) – understanding our customer needs**

FY26 FINANCIAL TARGETS REAFFIRMED

Cost to Income Ratio

<50%

Return on Equity

>9.25%

FY26 Targets supported by considered financial model. Risks include:

- Current heightened competitive mortgage and funding market being structural not cyclical
- Material deterioration in credit markets

BOQ GROUP

Building a sustainable business through living our purpose and values

Supporting the transition towards decarbonisation, our customers and communities and enriching our people

Supporting our customers and communities

Supporting regional areas – through owner manager deep relationships

Actively engaging our customers through the challenging and uncertain economic environment

Supporting our communities – partnerships with Orange Sky, Clontarf, Head Start Homes, Stars Foundation and Mother's Day Classic

Building the resilience of our customers – particularly vulnerable customers and those in financial distress

Enriching our people

Strengthening risk culture – our people increasingly feel safe to speak up, and our organisational culture promotes positive risk outcomes

Building a future fit capability – transformation and digital capabilities required for future state

Developing curious bankers and an agile organisation – execution capability, ability to pivot quickly, banker tools and a flexible digital platform

Driving a diverse workforce and employee engagement – grounded in purpose, a clear strategy, inclusive leadership and empowered teams

Environmental commitments

Supporting our customers to transition – funding sustainable assets such as solar, electric vehicles and energy efficient infrastructure or property

Carbon neutral certified – reducing our operational footprint

Targeting 100% renewable energy by 2025

Carbon footprint to be reduced by 90% for scope 1 and scope 2 emissions and 40% for scope 3 by FY30[1]

(1) Compared to a 2020 baseline. Scope 3 refers to organisational supply chain emissions

FINANCIAL DETAIL

Racheal Kellaway

Chief Financial Officer

BOQ GROUP

Financial performance

Solid cash earnings delivering 10% uplift in underlying profit and positive jaws both PCP and sequentially

Key financial results ($m)

	1H23	2H22	1H23 v 2H22	1H22	1H23 v 1H22
Net interest income	832	788	6% ▲	741	12% ▲
Non-interest income	70	63	11% ▲	90	(22%) ▼
Total income	**902**	**851**	**6%** ▲	**831**	**9%** ▲
Operating expenses	(495)	(476)	4% ▲	(461)	7% ▲
Underlying profit	**407**	**375**	**9%** ▲	**370**	**10%** ▲
Loan impairment expense	(34)	(28)	21% ▲	15	large ▲
Cash earnings after tax	**256**	**240**	**7%** ▲	**268**	**(4%)** ▼
Statutory net profit after tax	**4**	**214**	**(98%)** ▼	**212**	**(98%)** ▼

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Non-cash items

Statatory result impacted by one-off non-cash impairment and integrated risk program provision

Reconciliation of cash earnings to statutory net profit after tax ($m)

	1H23	2H22	1H22
Cash earnings after tax	**256**	240	268
Goodwill impairment[1]	(200)	-	-
Integrated risk program[1]	(42)	-	-
ME Bank integration costs	(13)	(32)	(25)
Amortisation of acquisition fair value adjustments	4	11	(4)
Hedge ineffectiveness	(1)	(7)	(1)
St Andrew's[2]	-	2	(26)
Statutory net profit after tax	**4**	214	212

(1) Further detail has been provided in BOQ's Investor Information and Consolidated Interim Financial Report and its disclosure to the ASX
(2) The sale of St Andrew's Insurance (St Andrew's) to Farmcove Investment Holdings was completed on 28 October 2021

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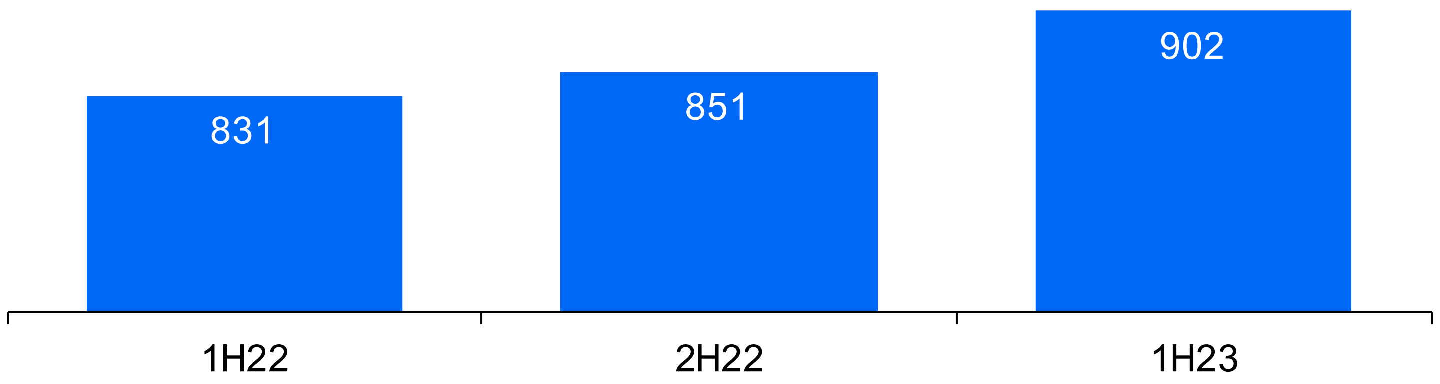
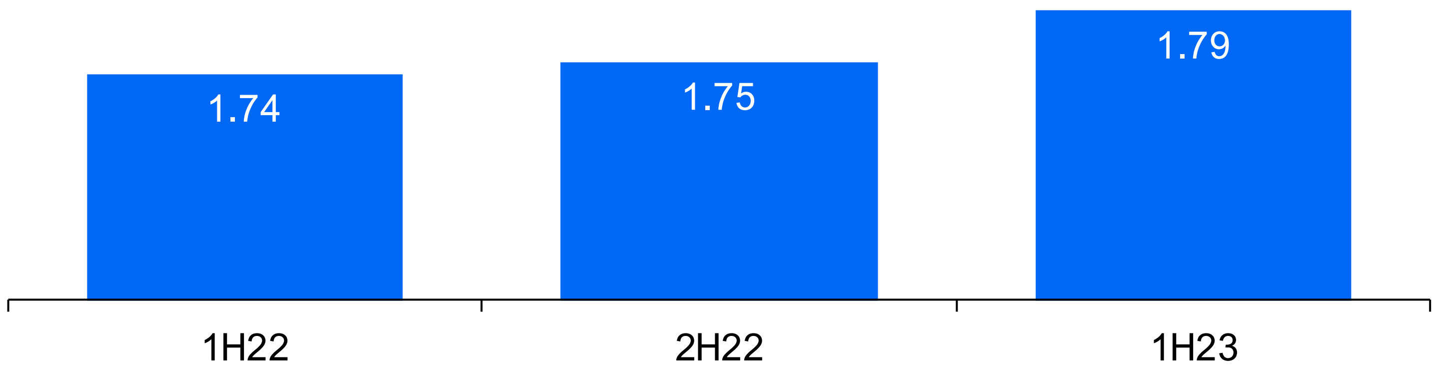
Key elements

Income growth supported by a higher margin, with selective capital deployment for better returns

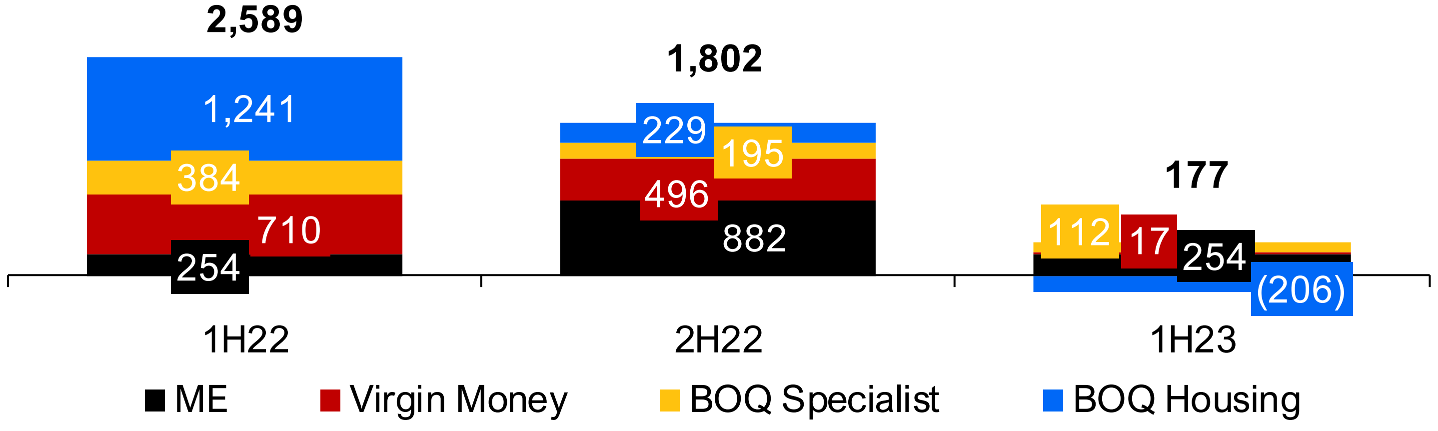
Total income ($m)



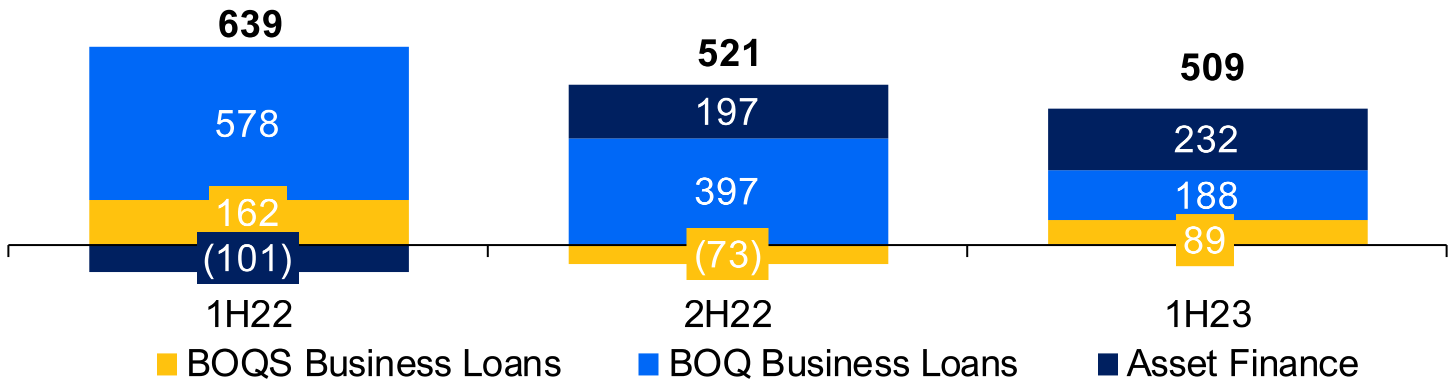
Net interest margin (%)



Housing GLA growth ($m)



Business lending GLA growth ($m)



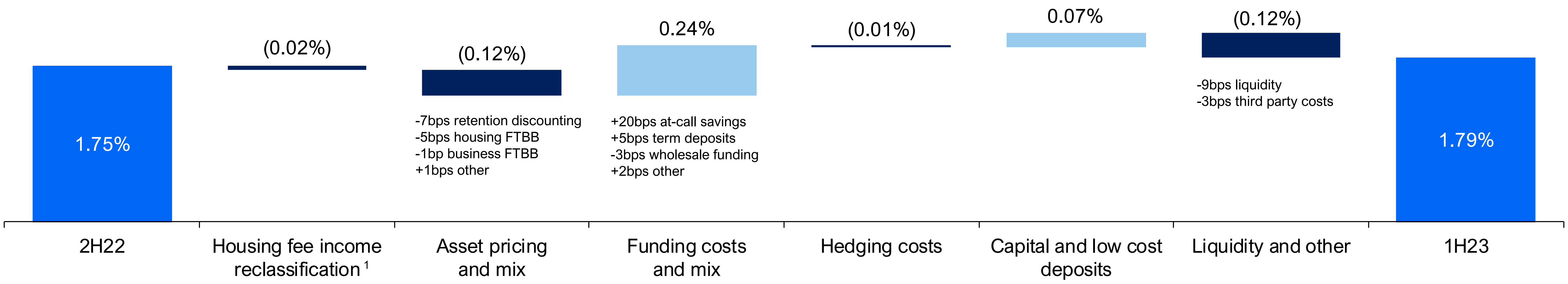
Net interest margin

NIM higher due to funding cost benefits, partially offset by retention discounting and competition

Summary

- NIM increase in 1H23 with higher cash rates benefiting deposit margins, partly offset by rising wholesale funding costs
- Ongoing competition and discounting continuing to impact asset margins
- Increased liquidity build due to removal of the CLF and to prepare for the TFF replacement
- NIM peaked in October 2022

Net interest margin (%) – 2H22 to 1H23



(1) Reclassification of $9m ME housing fee income from net interest income to non-interest income

Net interest margin future considerations

Retention and competition driving industry margin headwinds

NIM Driver	2H23
Asset pricing and mix	› Competition continuing through retention and front book discounting › Focus on optimising portfolio mix
Funding costs and mix	› Tailwinds from savings offset by mix as customers seek yield › Competition for deposits impacting term deposit pricing › Wholesale funding headwinds including TFF replacement
Capital and low cost deposits	› Continued benefit from replicating portfolio
Liquidity, third party costs and other	› Ongoing impact of the liquidity build › No material impacts from third party costs › Potential shortening of average loan term

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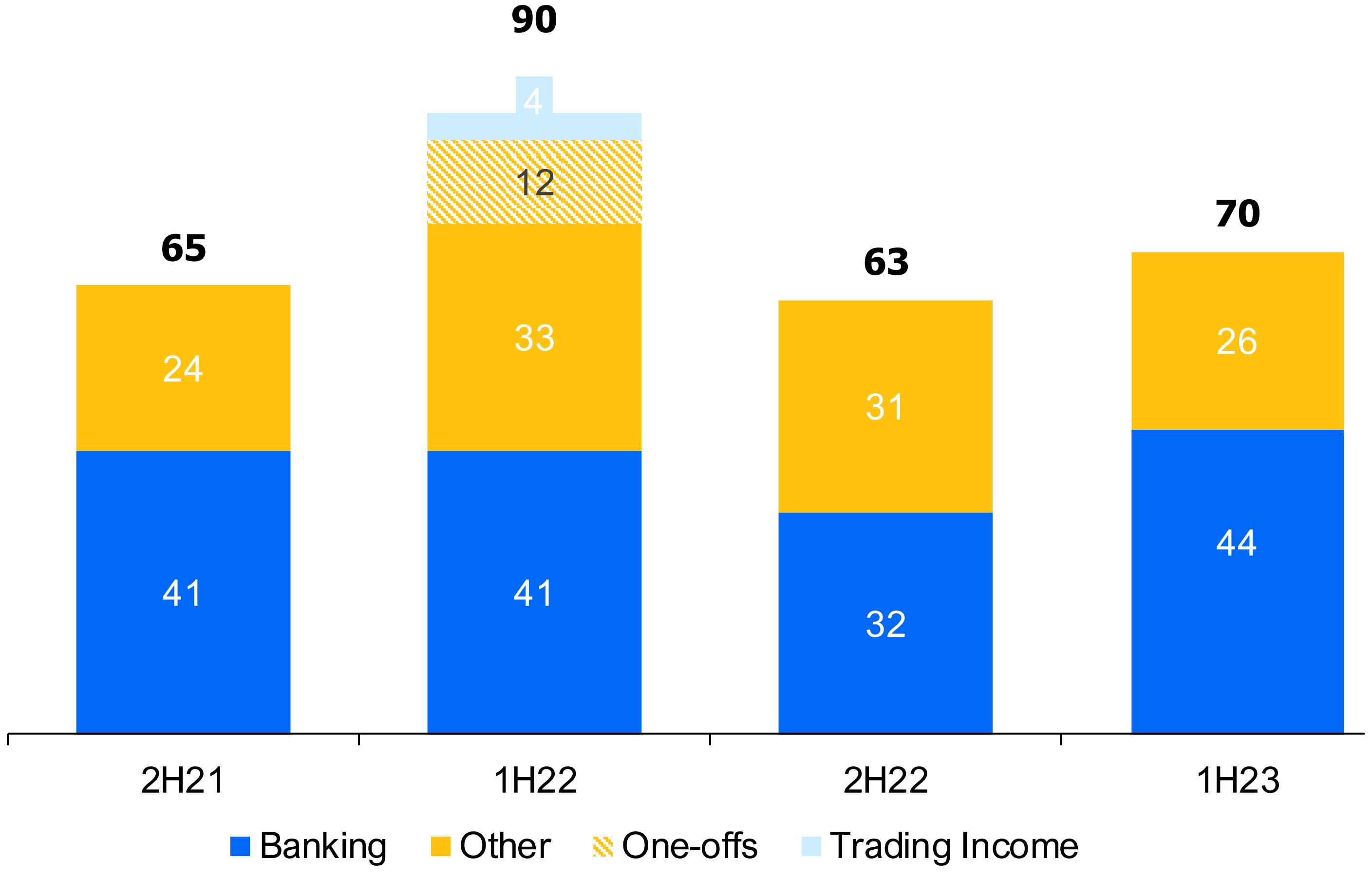
Non-interest income

Stable non-interest income excluding historical one-off benefits

Summary

- Non-interest income of $70m reflects the non-recurrence of one-off benefits seen in 1H22
- As compared to 2H22:
  - Banking income higher predominately due to housing fee income reclassification[1]
  - Other income impacted by lower third party card services and lower insurance income

Non-interest income breakdown ($m)



Note: All FY21 comparatives are on a pro forma basis
(1) Reclassification of $9m ME housing fee income from net interest income to non-interest income

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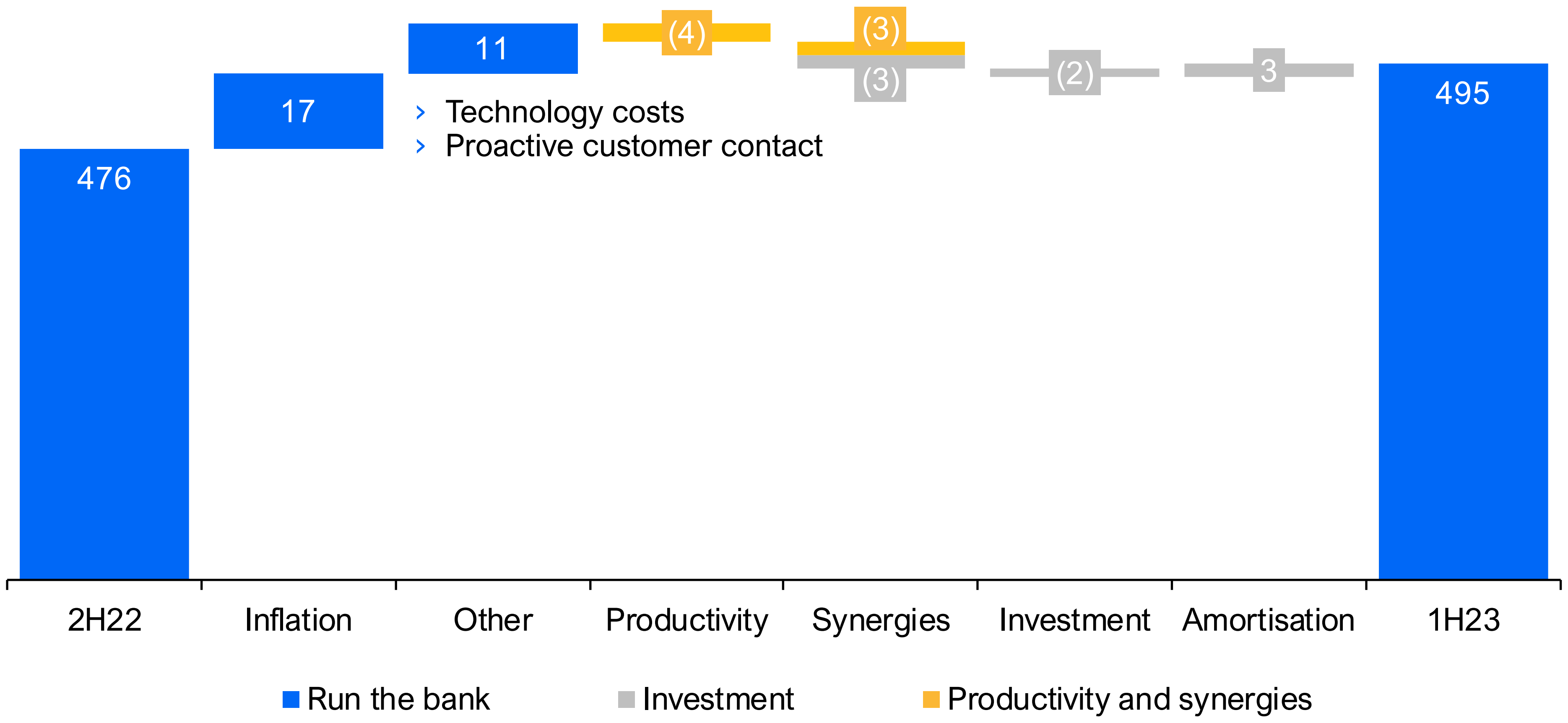
Operating expenses

Inflation and technology costs partially offset by productivity and synergy benefits

Operating expenses ($m)



2H23 considerations

- Ongoing inflationary pressures
- Higher employee costs
- Maintenance of legacy core banking platform during development of new digital bank
- Final year of synergy benefits on track to deliver
- Strategic program to simplify the Bank
- Uplift in investment spend

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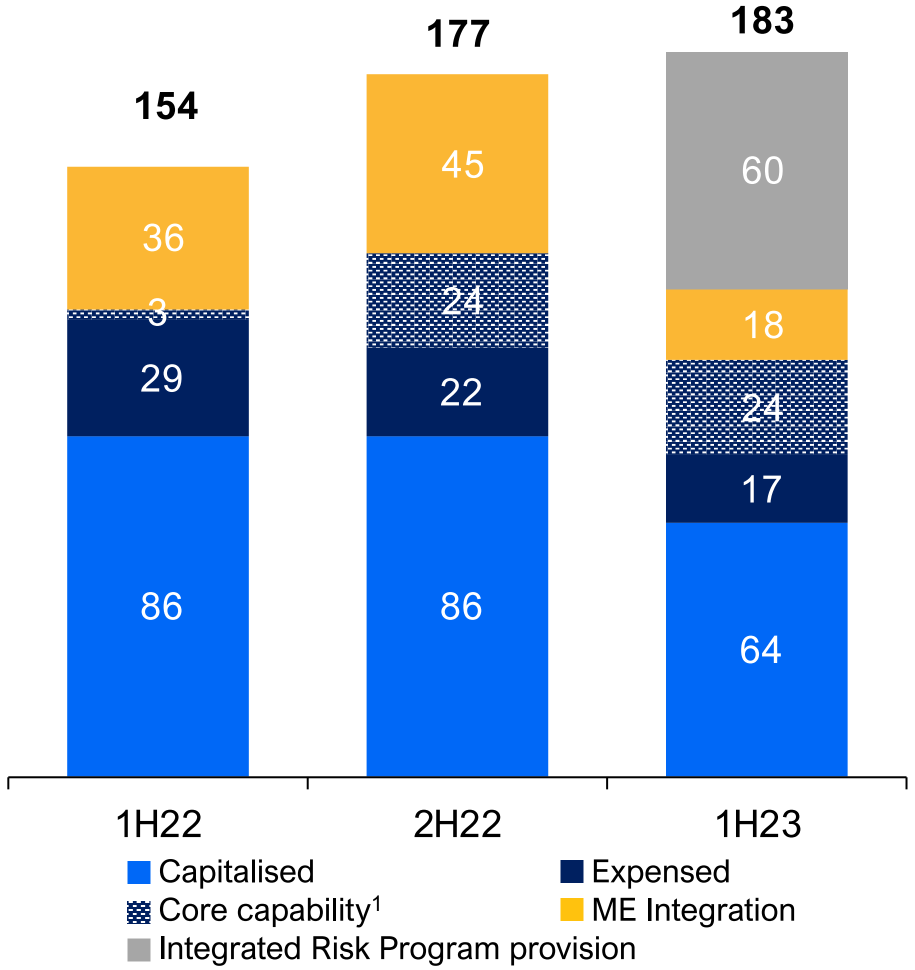
Transformation investment

Investment in strengthening the Bank and ongoing investment to deliver transformation roadmap

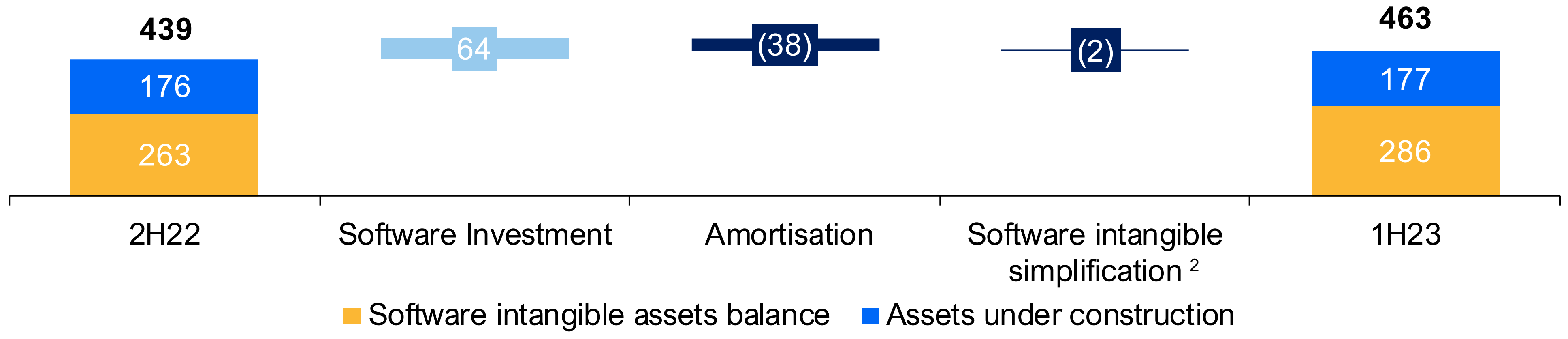
Investment spend ($m)



Summary

- Investment spend increased due to Integrated Risk Program partly offset by lower ME Integration program costs
- Investment in 1H23 focused on retail digital transformation, data capability and ME Integration
- Velocity and cost of digital bank delivery is improving with each additional phase
- Assets of the combined entity have an average useful life of 5.3yrs, with an average remaining life of 2.8yrs
- Amortisation is anticipated to increase as assets under construction complete

Software intangible asset balances ($m)



Note: ME Integration costs are not included in cash earnings
(1) Represents capability transitioning from investment to underlying cost base (Note: these costs are already included in OPEX per slide 27)
(2) SaaS accelerated amortisation

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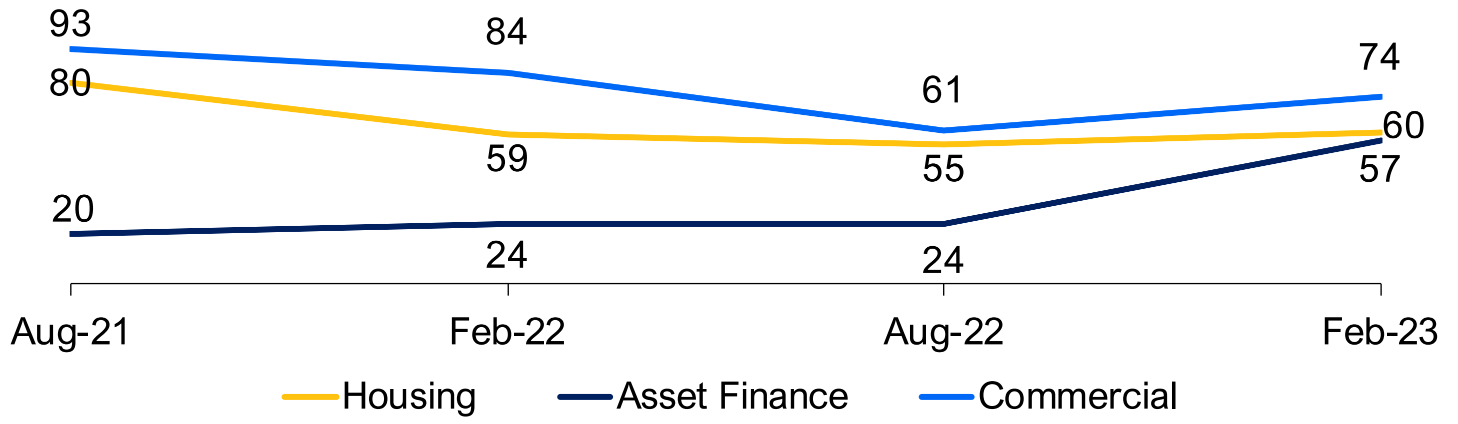
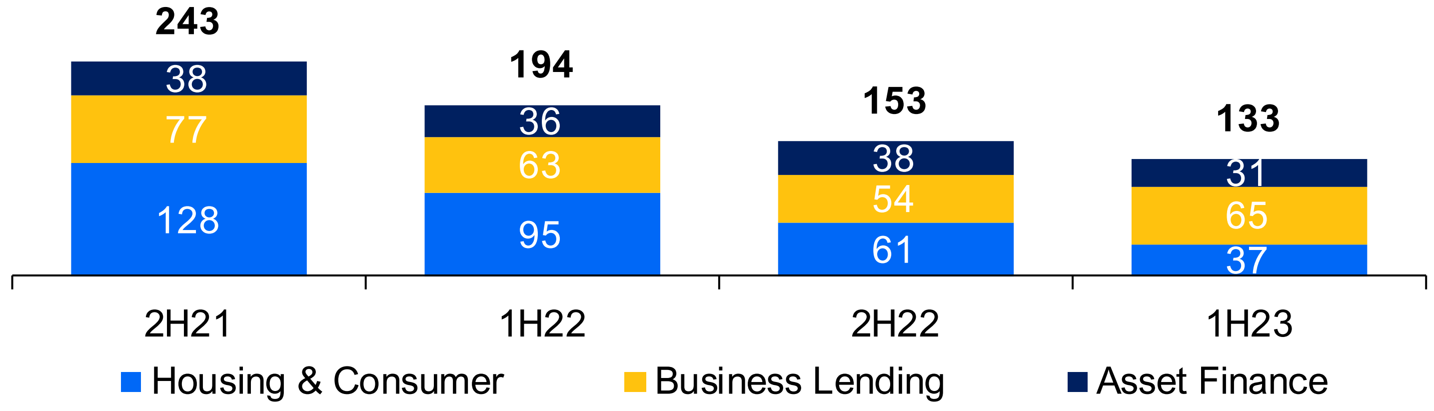
Provisioning and loan impairment expense

Sound provisioning levels maintained in light of changing economic conditions

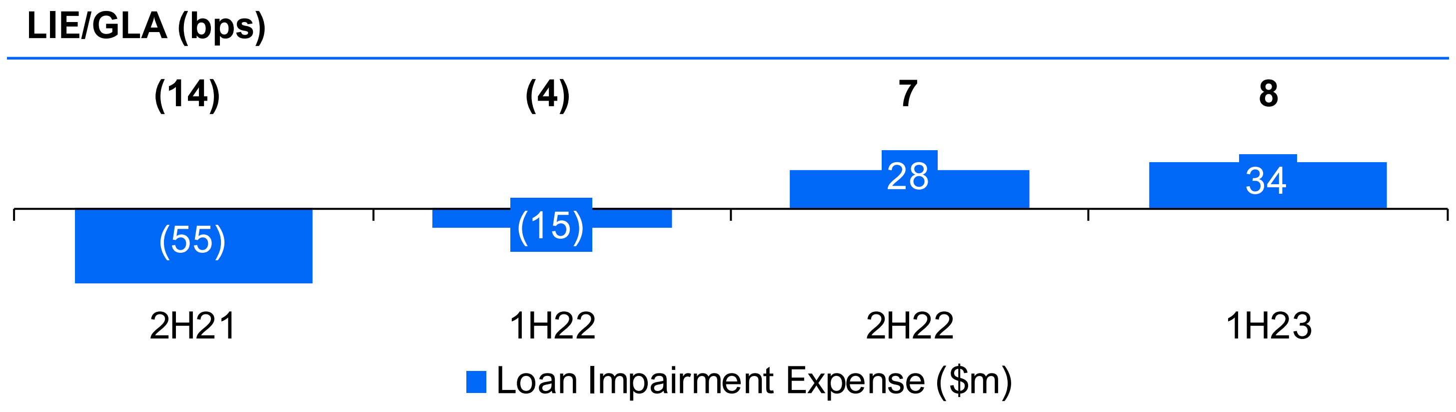
Housing, asset finance and commercial arrears 90DPD (bps)



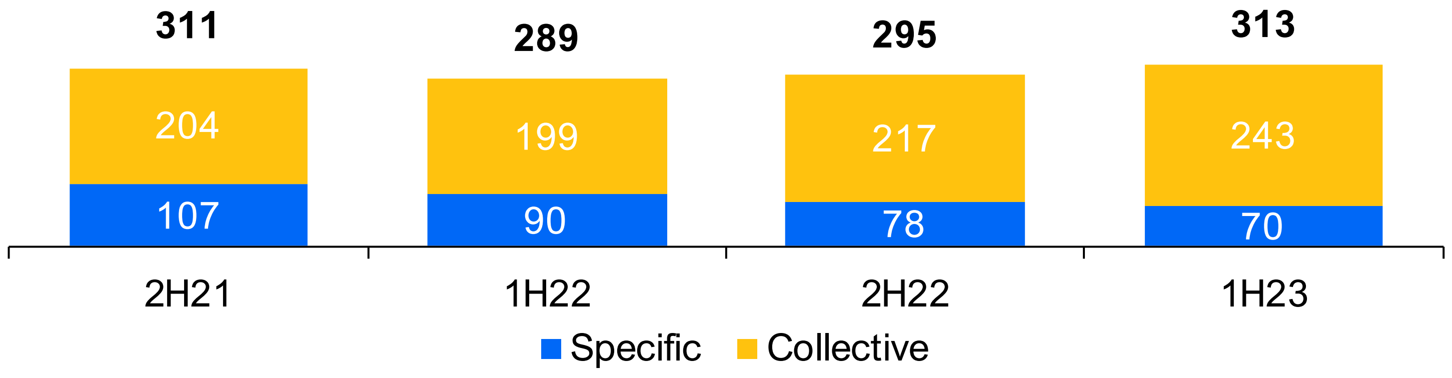
Impaired assets ($m)



Loan impairment expense



Provisions ($m)



Note: All FY21 comparatives are on a pro forma basis

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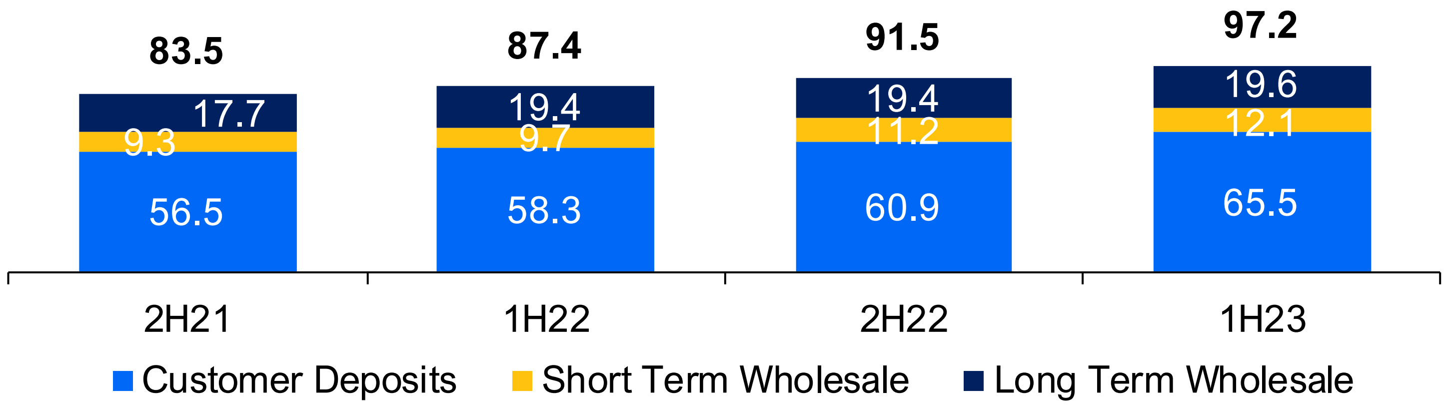
Funding & liquidity

Increased liquidity coverage demonstrating financial resilience through the cycle

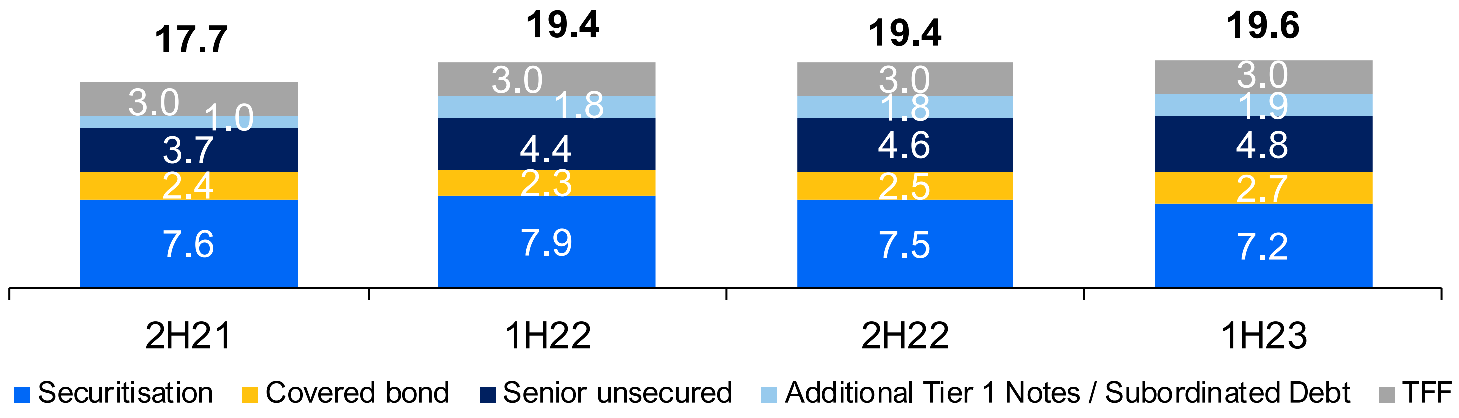
Summary

- Strong liquidity position
  - 1H23 spot LCR of 143% up 4% half on half
  - Spot NSFR of 126% up 1% half on half
  - Build of liquidity during the period in preparation for TFF replacement and removal of the CLF. February 2023 quarterly average LCR of 151%, 12% higher than the previous November 2022 quarter average of 139%

Funding mix ($bn)



Long term wholesale funding[1] ($bn)



(1) Includes $0.1bn additional tier 1 capital notes at 28 February 2023, which are in ‘other equity instruments’ in the financial statements: Consolidated statement of changes in equity

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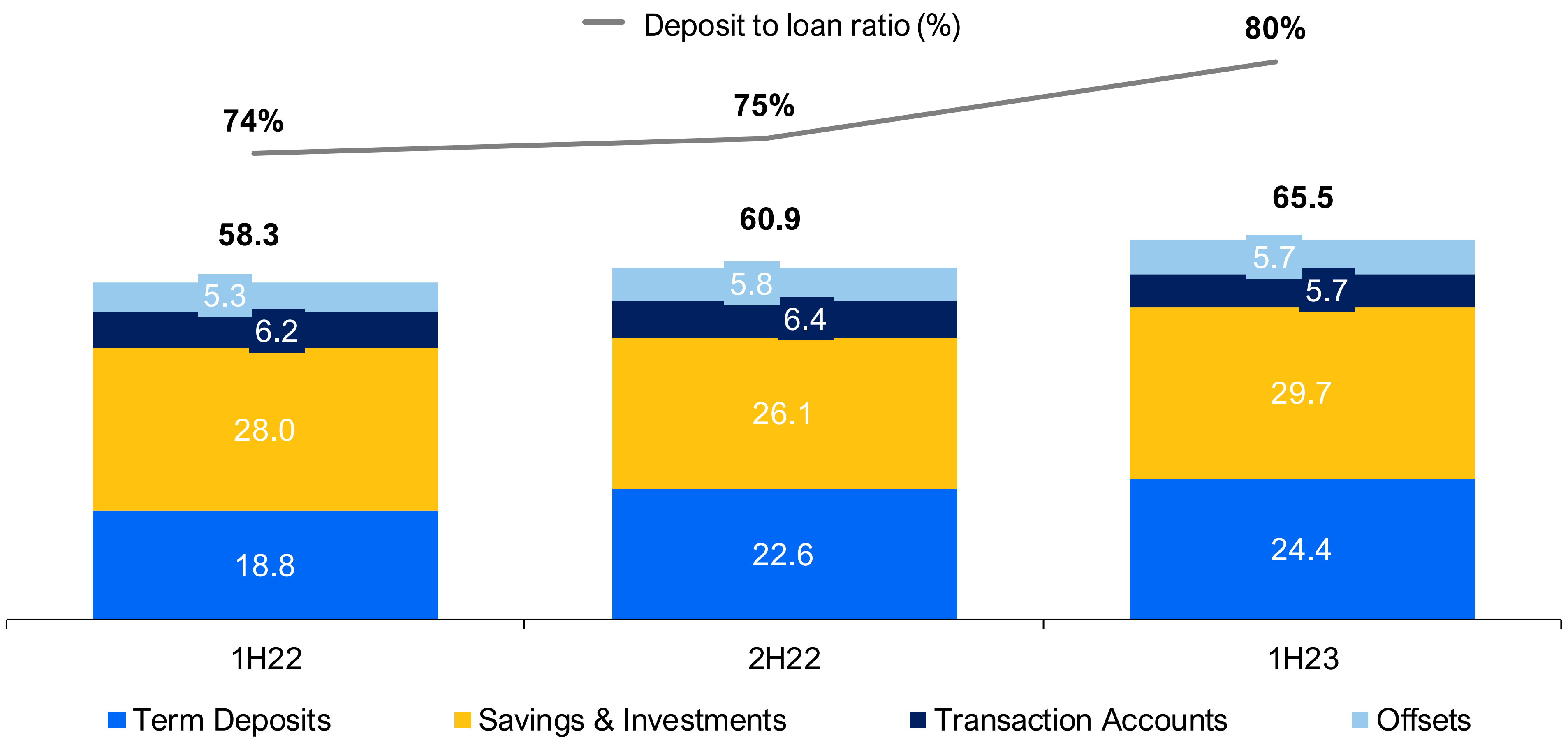
Customer deposits

Strong growth in customer deposits with digital strategy starting to deliver

Summary

- 12.3% growth in customer deposits vs 1H22
- Deposit to loan ratio increased to 80%
- Growth in higher interest paying products as customers seek yield
- TD's continued to provide relatively low cost of funding
- Growth in platform arrangements to support stable funding
- $2.3bn deposit growth on the new digital platform
- Acquiring transactionally active, younger customers. The average age of new to bank myBOQ customer is 32 years compared to 45 years for BOQ legacy
- Launch of ME Go in 2H23 to support further customer growth

Customer deposit balances[1] ($bn)



(1) To align underlying product characteristics, $1.9bn at Feb-22 and $2.5bn at Aug-22 of term deposits were reclassified to savings and investment accounts. In addition, in 2H22 $414m of short term wholesale funding were reclassified to savings & investments

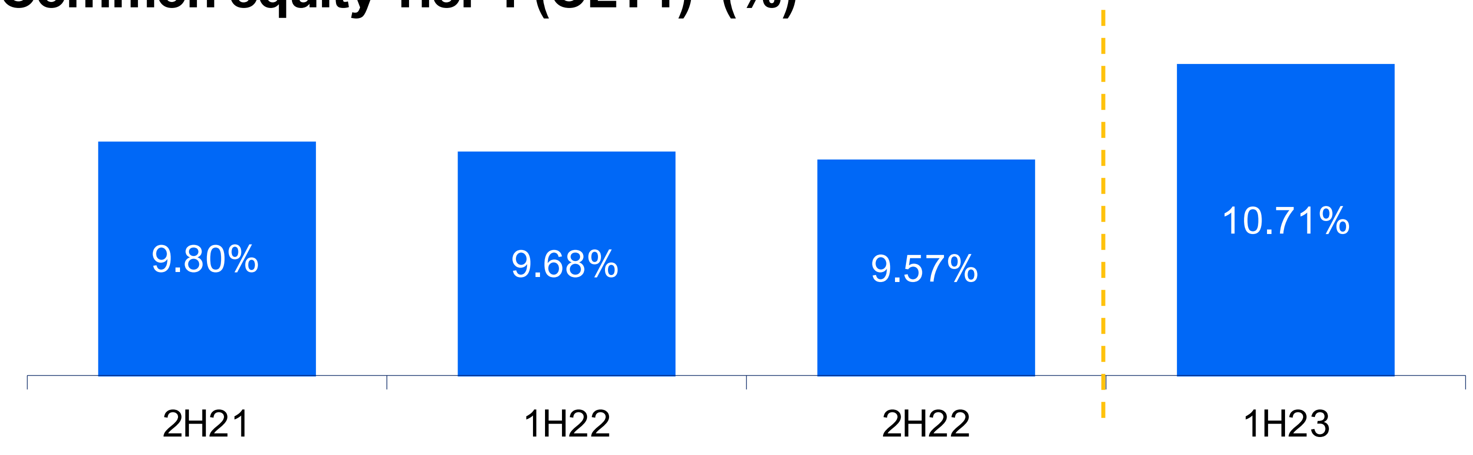
Capital

Strong CET1 ratio demonstrating financial resilience whilst investing in transformation

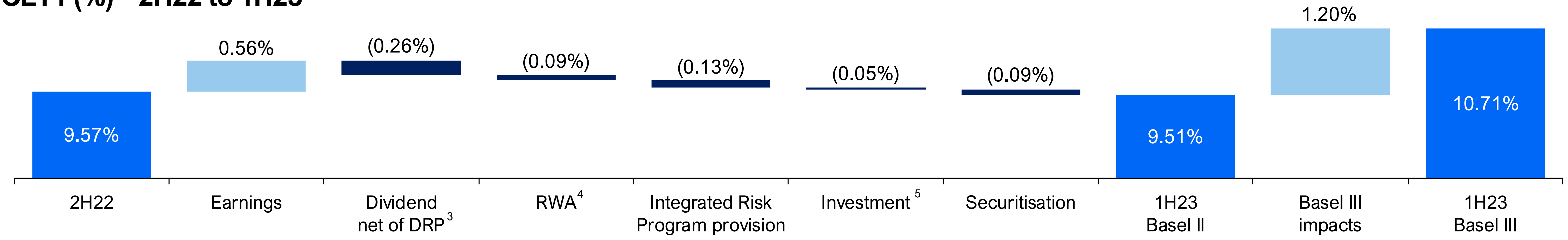
Summary

- Benefit to CET1 under Basel III. New target range of 10.25-10.75%
- CET1 ratio at upper end of new target range, at 10.71%
- Quality earnings supporting underlying capital generation
- Interim dividend below target range at 51%, within target range including the cost of the IRP[1]. DRP discount of 1.5% to ensure strong capital position continues
- Continued investment in strengthening, simplifying, digitising and optimising the business

Common equity Tier 1 (CET1)[2] (%)



CET1 (%) – 2H22 to 1H23



(1) Integrated Risk Program provision
(2) All comparative periods reported under Basel II regulatory frameworks. 1H23 is reported under the Basel III framework which took effect 1 January 2023
(3) DRP operated with a 1.5% discount. Participation was 23.8%
(4) Includes loan origination costs
(5) Capitalised expenses net of amortisation

SUMMARY & OUTLOOK

Outlook

FY23 outlook[1]

- Australian economy resilient supported by low unemployment and strong terms of trade
- Strong Australian banking system and regulatory environment supporting financial stability
- Escalating risks into FY24 due to elevated inflation and the recent rapid rise of interest rates
- Ongoing heightened mortgage competition. Deposit competition escalated in Q2, likely to continue with Term Funding Facility refinancing
- Interim margin compression anticipated
- BOQ asset quality remains sound, diversified and well collateralised
- Simplification to deliver productivity benefits, commencing in FY24, addressing cost inflation[2]
- Focus on disciplined execution of strategic priorities to transform to a scalable lower cost bank with strong foundations
- Revised CET1 range of 10.25-10.75%
- Dividend payout ratio target range of 60-75% of cash earnings[3]

(1) FY23 outlook is subject to no material change in market conditions
(2) Productivity benefits detail to be provided in 2H23
(3) The amount of any dividend paid will be at the discretion of the Board and will depend on several factors, including (a) the recognition of profits and availability of cash for distributions; (b) the anticipated future earnings of the Company; or (c) when the forecast timeframe for capital demands of the business allows for a prudent distribution to shareholders

1H23 summary

- Strong financial position with increased capital and liquidity buffers and sound asset quality with prudent risk settings
- Cash earnings supported by higher NIM offset by expense growth
- NIM peaked in October 2022
- Expense growth driven by inflation and transformation spend
- Statutory profit impacted by non-cash impairment and risk program provision
- Priorities to strengthen, simplify, digitise and optimise
- Asset quality remains sound, watching brief on changing economic conditions
- Digitisation and final year of ME Integration on-track
- More work to do in strengthening operational resilience through the integrated risk program

BOQ GROUP

ABOUT BOQ GROUP

BOQ | me | Virgin money | BOQ FINANCE | BOQ SPECIALIST | BOQ BUSINESS

BOQ GROUP

BOQ Group

Unique brands in niche segments serving customers for 149 years

Our differentiators

- Unique brands with proud history
- Deeply anchored in local communities
- Highly specialised bankers, with niche industry segments
- Building an innovative digital offering and loyalty

Our distinctive brands

Retail Banking

BOQ — **Human, empathetic relationship-led banking**

Virgin money — **The digital bank of bigger possibilities**

me — **The bank helping all Australians get ahead**

Business Banking

BOQ BUSINESS, BOQ FINANCE, BOQ SPECIALIST — **Specialised banking solutions that meet core business and personal needs**

Key statistics for 1H23

c. 1.3m Customers

c. 540k BOQ
c. 290k VMA
c. 350k ME

c. 10k BOQ Business
c. 30k Specialist
c. 80k Finance
c. 50k Retail SME

153 Branches[1]

37 ME Mobile & Direct Bankers

>3.4k Employees
c. 950 OMB Employees

$147b[2] Footings

80% Deposit-to-Loan Ratio

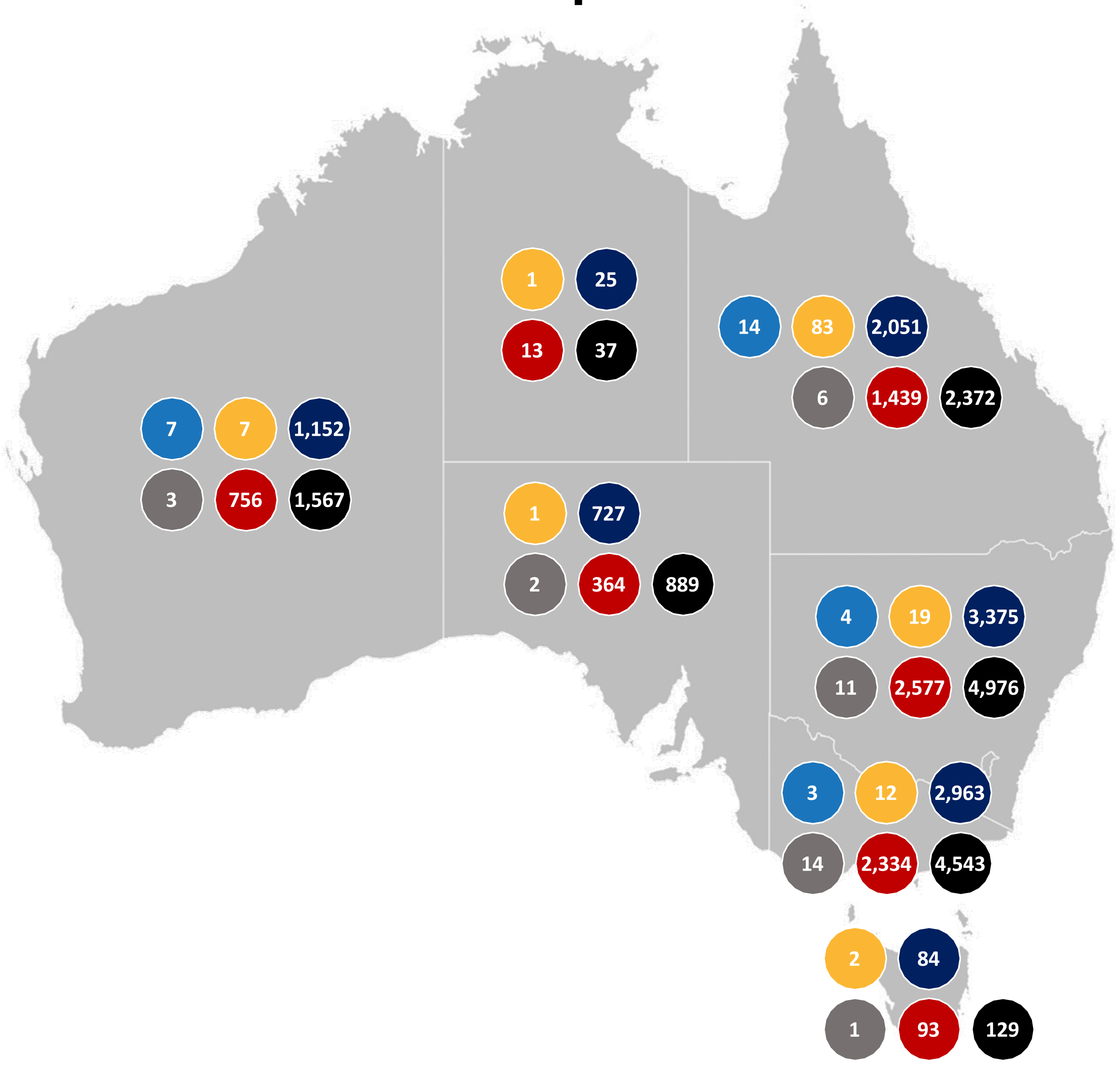
2.92%[3] Market share - Housing

1.52%[3,4] Market share - Business

(1) Total branches includes transaction centres
(2) Footings refer to gross loans and advances plus customer deposits
(3) Internal BOQ Analysis and APRA monthly authorised deposit-taking institution statistics excluding International banks, February 2023
(4) Excluding BOQF

BOQ GROUP

Distribution footprint



Summary

- 1H23 branch numbers at 153 (incl. transaction centres)
- The franchise network remains a key differentiator for BOQ and is pivotal to the Bank's deposit raising capabilities and growth in mortgages and SME lending

As at 28 February 2023

28	CORPORATE BRANCHES	10,377	BROKERS ACCREDITED WITH BOQ
125	OWNER MANAGER BRANCHES	7,576	BROKER ACCREDITED WITH VMA
37	ME MOBILE & DIRECT BANKERS	14,513	BROKERS ACCREDITED WITH ME

BOQ GROUP

Distribution footprint movements

Feb-23	QLD	NSW / ACT	VIC	WA	NT	TAS	SA	Total
Corporate branches	14	4	3	7	0	0	0	28
Owner managed branches	83	19	12	7	1	2	1	125
Total	97	23	15	14	1	2	1	153

Aug-22	QLD	NSW / ACT	VIC	WA	NT	TAS	SA	Total
Corporate branches	17	4	5	10	-	-	-	36
Owner managed branches	80	19	10	5	1	2	1	118
Total	97	23	15	15	1	2	1	154

Corporate, owner managed branches & transaction centres

	1H23 Actual YTD	
Summary of changes	Gross	Net Branch Movement
Corporate closure	1	(1)
OMB closure	-	-
OMB to corporate	-	-
Corporate to OMB	7	-
OMB to OMB sale	1	-
New branch opening	-	-
Total changes	9	(1)

BOQ GROUP

Cultural transformation

Cultural transformation delivering improved outcomes for our people and business

Engagement	Culture	Safe to speak up	I know the level of risk in my role	Alignment of role to strategy
August 2020	August 2020	May 2020	August 2022[2]	August 2020
59%	54%	58%	85%	72%
February 2023	August 2022[1]	February 2023	February 2023	February 2023
64%	65%	78%	90%	77%
+5	+11	+20	+5	+5

(1) Most recent Culture index undertaken in August 2022
(2) Risk culture accountability and personal responsibility introduced in August 2022 survey

BOQ GROUP

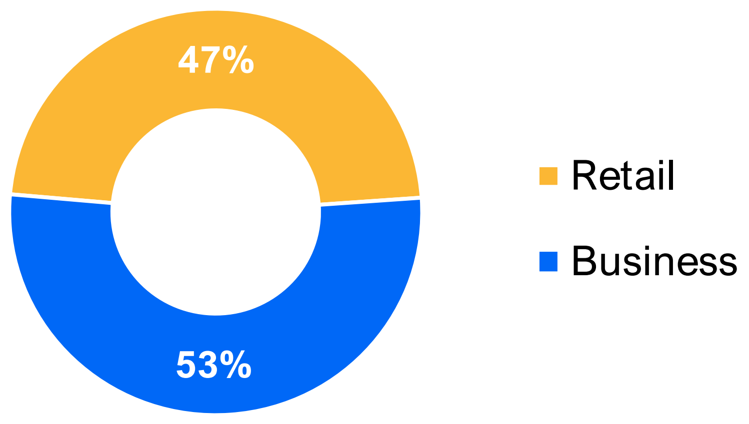
Balanced portfolio for growth and geographic diversity

Well diversified portfolio across Retail and Business Banking

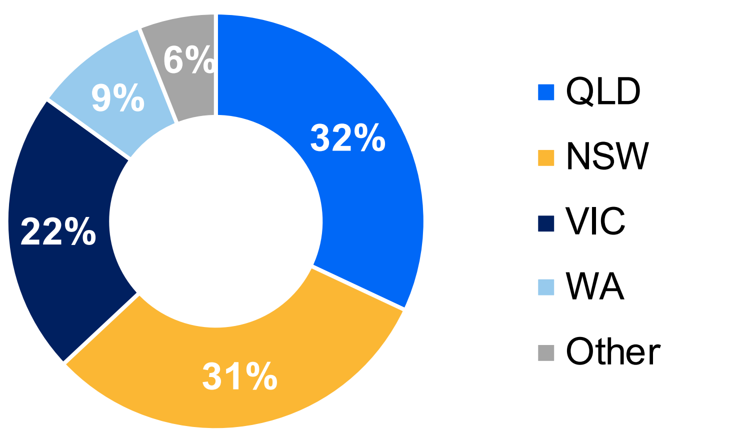
Summary

- Well diversified portfolio, with 47% of profits from Retail Banking and 53% from Business Banking
- Lending portfolio diversified geographically across the East Coast of Australia
- Multi-brand and business bank targeted strategy enables differentiated customer propositions
- Capital investment leveraged across a broader base while scaling common technology

1H23 Cash profit by division[1] (%)



Total loans by geography (%)



(1) Excludes $3m in other segment business loss

ME INTEGRATION DETAIL

BOQ GROUP

ME Integration update

Final year of integration program delivering ahead of plan

Expense synergy profile

	1H22	FY22	1H23	FY23
Synergies annualised run rate	$33m	$47m	$60m	c.$70m - $80m
Delivered percentage[1]	44%	63%	79%	100%

ME Integration costs[2]

	FY21	FY22	1H23	FY23
ME Integration costs	$13m	$81m	$18m	c.$40m
Cumulative	$13m	$94m	$112m	c.$135m

Execution on the ME Integration

- 1H23 annualised cost synergies of $23m achieved through the successful implementation of divisional operating model changes, consolidating project delivery service teams, and operations simplification
- ME Integration costs of $18m primarily relates to operations simplification, contact centre consolidation, migration to group end user computing platform, and operating model change costs. A further $22m is expected to spent in 2H23
- Expedited transition of ME Integration program to BAU with remaining integration activities aligning under the Group simplification program

(1) Based on $75m mid-point of synergies range
(2) ME Integration costs are not included in cash earnings

DIVISIONAL RESULTS

BOQ GROUP

Divisional performance

Positive NII growth in BOQ Business and Retail Bank, NPAT down due to operating expenses and one-offs in 1H22

	Retail 1H23	Retail 1H22	Retail 1H23 v 1H22	Business 1H23	Business 1H22	Business 1H23 v 1H22
Net interest income	500	460	9% ▲	339	280	21% ▲
Non-interest income	45	62	(27%) ▼	24	25	(4%) ▼
Total income	545	522	4% ▲	363	305	19% ▲
Operating expenses	(349)	(321)	9% ▲	(146)	(140)	4% ▲
Underlying profit	196	201	(2%) ▼	217	165	32% ▲
Loan impairment expense	(16)	(19)	(16%) ▼	(18)	34	Large ▲
Cash profit before tax	180	182	(1%) ▼	199	199	0% –
Income tax expense	(57)	(55)	4%	(63)	(61)	3%
Cash earnings after tax	123	127	(3%) ▼	136	138	(1%) ▼

BOQ GROUP

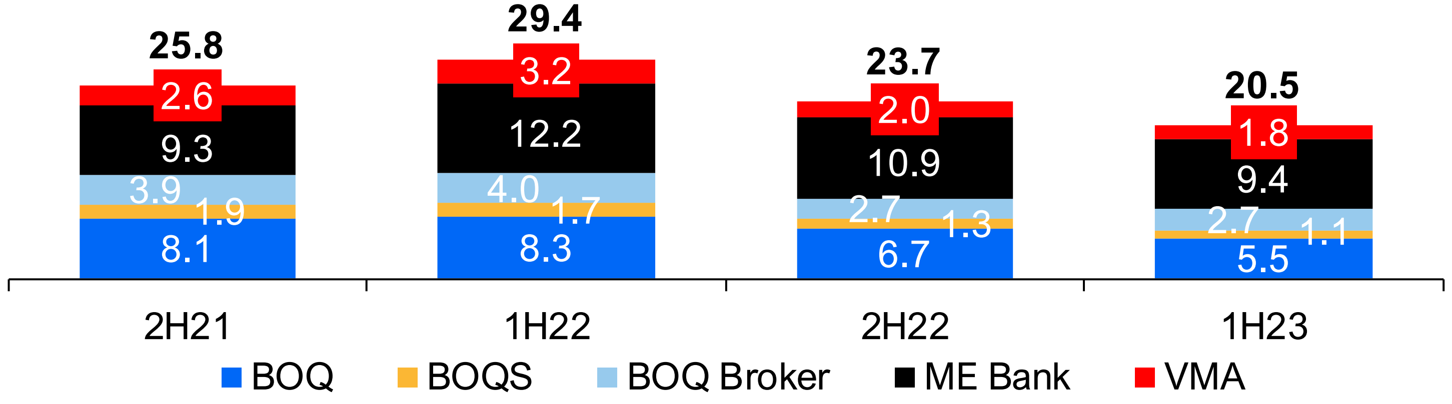
Home lending performance

Moderated housing growth, reflecting decision to prioritise return over volume growth

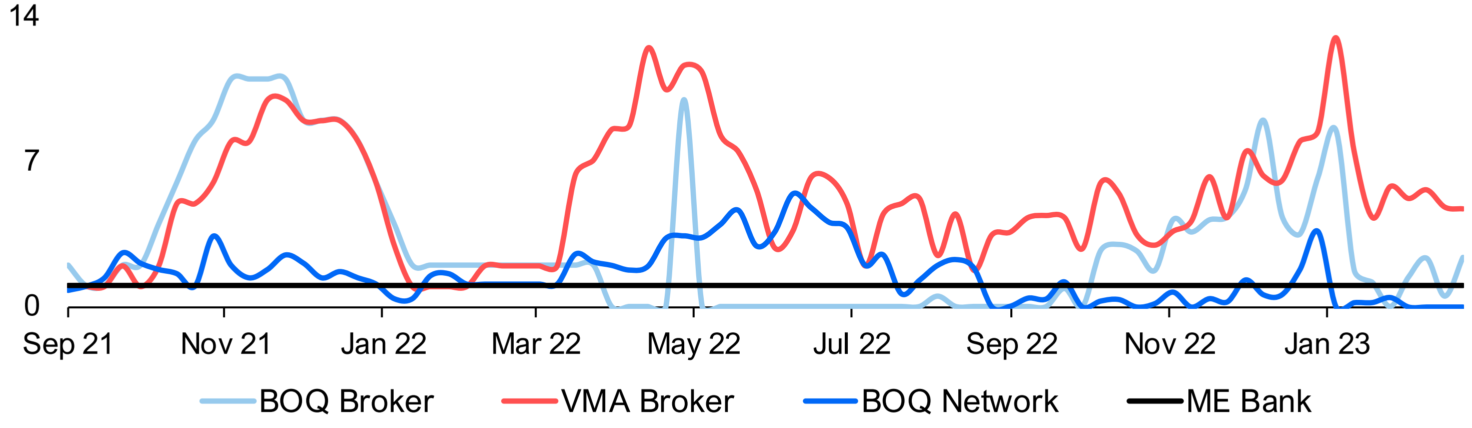
Quality housing growth metrics

Quality Growth	Portfolio 1H23	Flow 1H23
LVR > 90% (%)	2.1	1.3
LVR > 80% (%)	14.2	8.8
90 Days past due	60bps	
Interest only %[1]	12	10
Investor %	30	26
PAYG %	78	83
DTI >6x %		8.9
Fixed %	31	7
Broker %	45	56
BOQ & VMA system growth[2]		Negative
BOQS system growth[2]		0.7x
ME system growth[2]		0.4x
Overall BOQ Group system growth[2]		0.1x
Serviceability buffer	Customer repayment ability assessed on the higher of the minimum floor rate which is currently 5.75% or actual customer interest rate plus buffer of 3%	

Housing application volumes (# ‘000)



Turnaround times – Housing (days)[3]



Note: All comparative periods prior to FY22 are on a pro forma basis
(1) Excluding construction loans
(2) Multiple based on YTD system to February 2023, APRA monthly banking statistics
(3) Conditional approval with median turnaround times reported. ME’s process has automated Conditional approval prior to verification, BOQ’s process is a fully verified Conditional Approval

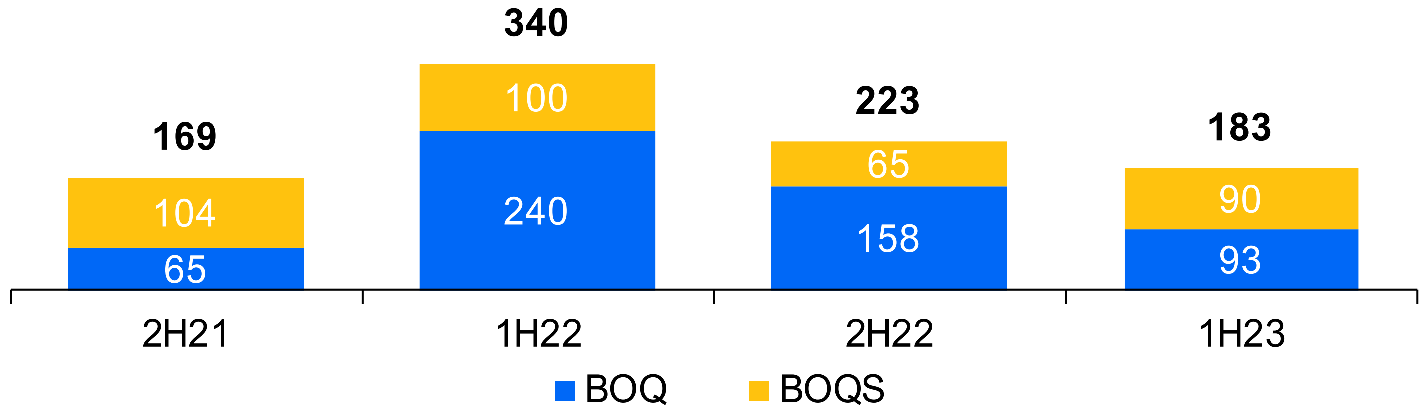
Business Banking SME and corporate lending

SME continuing to deliver above system growth driven by healthcare and owner-occupied property sectors

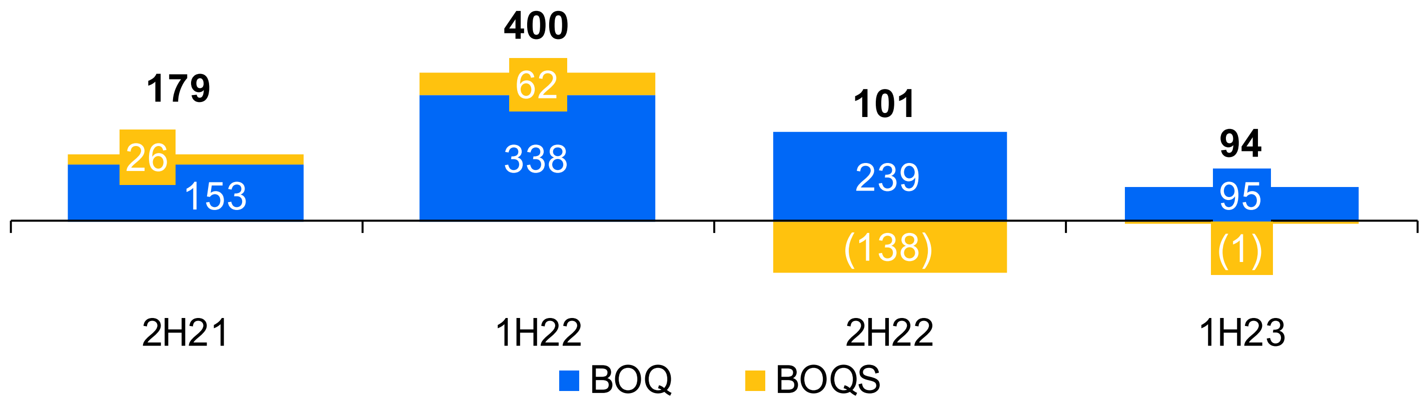
Summary

- Focus on lending to SME businesses delivered 1H23 growth of \$0.2bn at 2.4x system[1,2]
- Growth was driven by the healthcare sector and owner-occupied property lending across a diversified range of businesses
- The SME strategy remains focused on policy simplification, capability build, product features and process simplification
- Lending to large corporates grew \$0.1bn, reflecting a continued focus on portfolio optimisation and delivering improved risk adjusted returns
- Portfolio quality remains strong despite the challenging economic environment, with business lending 30+ and 90+ days past due arrears lower than in 1H22

Growth in SME lending GLAs ($m)



Growth in corporate lending GLAs ($m)



(1) The SME portfolio of customers represents an internal view of small and medium sized businesses, with the majority of customers having lending exposure of less than \$10m
(2) System growth represents the latest RBA data as at February 2023. RBA figures include both business lending and asset finance growth. The RBA definition of SME will not directly correlate to the BOQ internal definition

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Lending to households (APRA data)

	Lending to Households (APRA)			Multiple (APRA)			
	YTD (A)	3M (A)	1M	YTD	3M	1M	Market share
Major 1	15.78%	14.27%	0.90%	3.2	3.2	3.5	5.01%
Major 5	7.55%	5.65%	0.35%	1.5	1.3	1.4	13.16%
Major 3	5.79%	5.76%	0.41%	1.2	1.3	1.6	25.92%
Regional 1	5.73%	4.19%	-0.22%	1.2	1.0	Neg	2.40%
System	4.90%	4.39%	0.26%				
International 1	4.01%	11.47%	1.41%	0.8	2.6	5.5	1.36%
Major 4	3.07%	2.07%	0.21%	0.6	0.5	0.8	21.35%
Major 2	2.56%	2.82%	0.14%	0.5	0.6	0.5	14.76%
ME	1.82%	2.83%	0.05%	0.4	0.6	0.2	1.27%
BOQ + ME	0.67%	0.98%	0.01%	0.1	0.2	0.0	2.92%
BOQ	-0.20%	-0.42%	-0.02%	Neg	Neg	Neg	1.66%
Regional 2	-1.54%	-3.22%	-0.30%	Neg	Neg	Neg	2.75%
International 2	-3.07%	-2.58%	-0.09%	Neg	Neg	Neg	2.63%

Source: APRA Monthly Banking Statistics September 2022 to February 2023
Note: Majors comprise CBA, NAB, WBC, ANZ and Macquarie, Regionals comprise SUN and BEN and Internationals comprise HSBC and ING

Lending to business (APRA data)

	Lending to Businesses (APRA)			Multiple (APRA)			
	YTD (A)	**3M (A)**	**1M**	**YTD**	**3M**	**1M**	**Market share**
Major 2	9.59%	9.79%	0.53%	1.8	4.6	1.3	21.03%
Major 5	7.43%	0.79%	-0.30%	1.4	0.4	Neg	16.30%
Regional 1	7.42%	6.14%	0.82%	1.4	2.9	2.0	1.40%
International 1	7.20%	-10.74%	0.03%	1.3	Neg	0.1	0.41%
System	5.44%	2.14%	0.40%				
Major 1	4.01%	3.65%	1.34%	0.7	1.7	3.3	1.92%
International 2	3.67%	7.60%	0.79%	0.7	3.6	2.0	1.57%
BOQ	3.02%	4.81%	0.68%	0.6	2.2	1.7	1.52%
Major 4	1.93%	0.01%	0.25%	0.4	0.0	0.6	19.24%
Major 3	1.48%	-3.69%	0.62%	0.3	Neg	1.5	25.34%
International 3	0.01%	-7.46%	1.15%	0.0	Neg	2.8	1.86%
Regional 2	-5.65%	-7.99%	0.05%	Neg	Neg	0.1	1.70%

Source: APRA Monthly Banking Statistics September 2022 to February 2023
Note: Majors comprise CBA, NAB, WBC, ANZ and Macquarie, Regionals comprise SUN and BEN and Internationals comprise HSBC and ING

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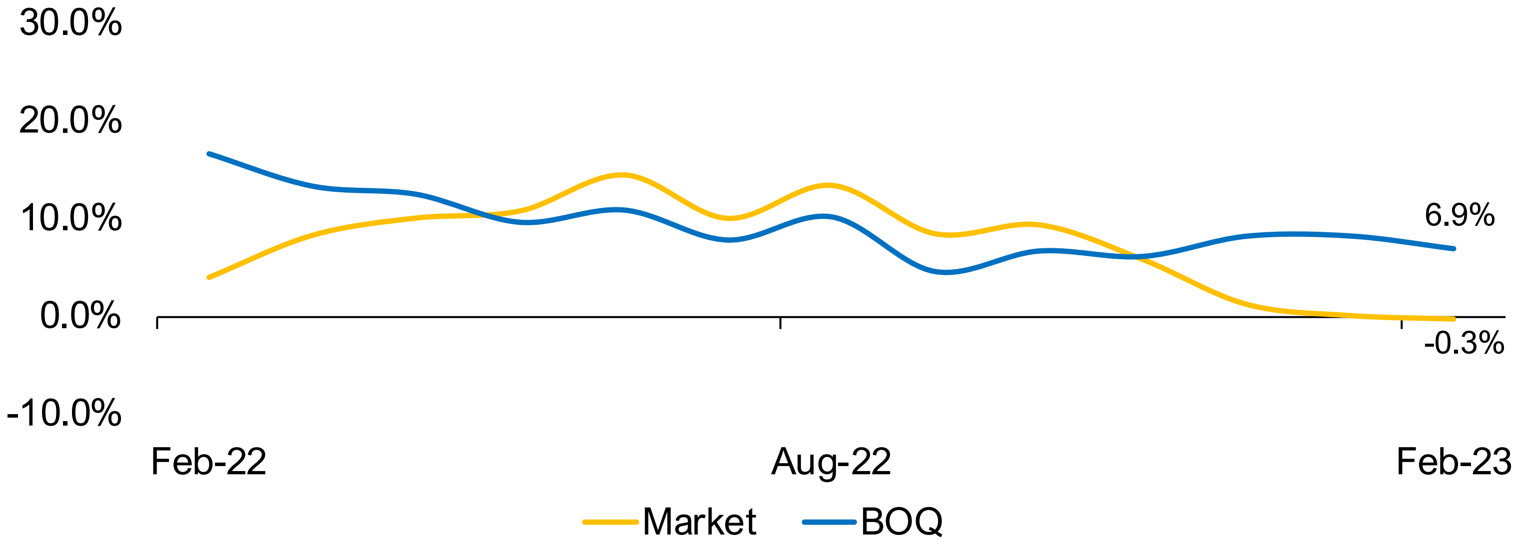
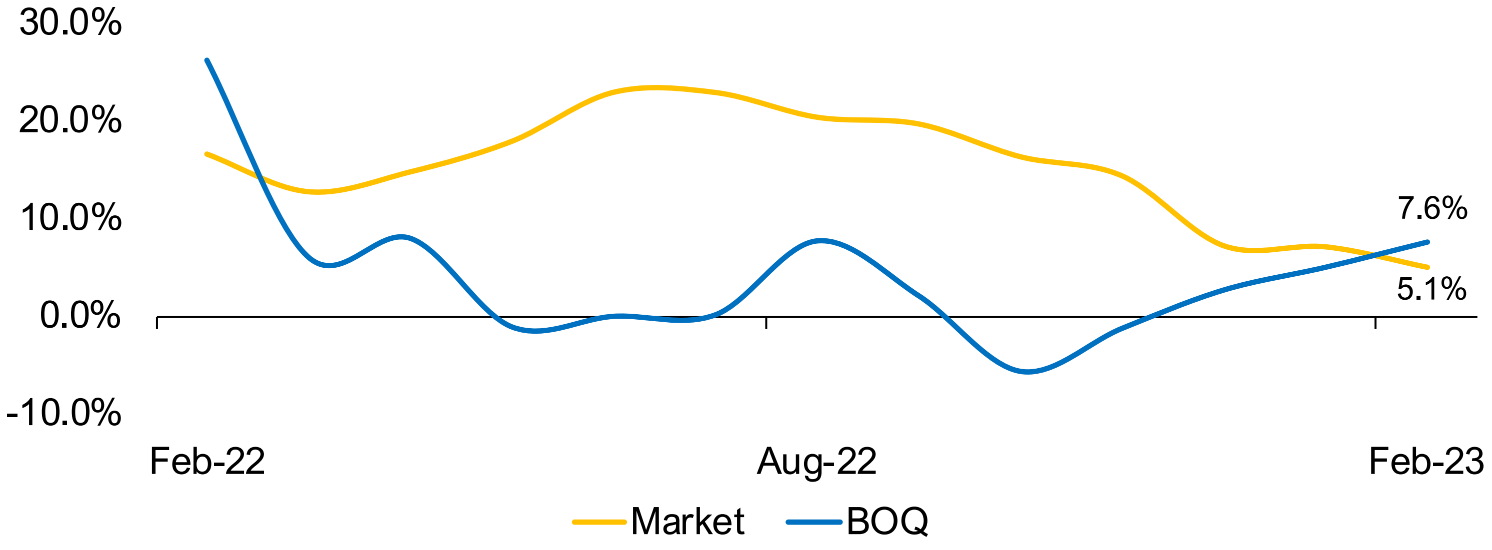
Business lending (RBA data)

Strategic focus on SME lending providing solid business growth

Small and medium (rolling 3m growth rate) – RBA



Large (rolling 3m growth rate)



Small and medium	YTD (A)
Market growth – RBA (as at 28 Feb 2023)	2.7%
BOQ growth (as at 28 Feb 2023)	6.5%
BOQ multiple (as at 28 Feb 2023)	2.4x

Large	YTD (A)
Market growth – RBA (as at 28 Feb 2023)	9.8%
BOQ growth (as at 28 Feb 2023)	3.1%
BOQ multiple (as at 28 Feb 2023)	0.3x

Source: BOQ data is internal GL based and market data is sourced from the RBA D14.1 lending to business – business finance outstanding by business size and industry
Note: The RBA defines small business as an entity with exposure of less than $1 million and business turnover of less than $50 million, medium business is defined as an entity with exposure of more than $1 million and turnover of less than $50 million, and large business is defined as an entity with turnover of $50 million or more

PORTFOLIO QUALITY

BOQ GROUP

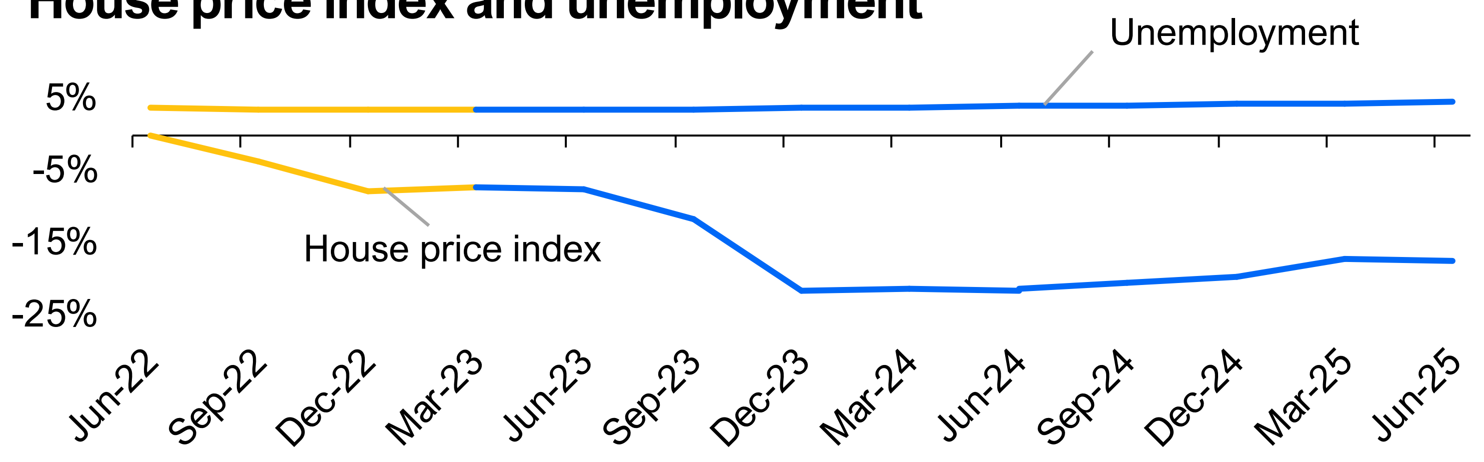
Collective provisioning

Prudent economic forecasts reflective of a changing environment

Provision model assumptions

- The base case scenario reflects conservative economic assumptions and is supported by RBA forecasts where available
- Downside scenario represents the risk of stagflation effects, with further rises in interest rates, falling GDP and rising unemployment
- Downside and Severe scenario weights have remained consistent with FY22 in line with the uncertainty posed by the current economic environment

House price index and unemployment



Economic forecasts (calendar year) (%)[1]

	Base			Downside		
	2023	2024	2025	2023	2024	2025
GDP (YoY growth %)	1.50	1.50	1.75	(0.75)	-	0.50
Unemployment rate (%)	3.75	4.25	4.50	5.75	7.50	7.75
Residential Property Prices (cumulative % change)	(15.00)	2.50	5.00	(19.5)	(8.25)	(1.50)
Commercial Property Prices (cumulative % change)	(10.00)	(5.00)	-	(16.25)	(10.25)	(5.00)
Cash Rate (%)	3.95	3.20	3.20	4.75	4.00	4.00

Scenario weights

	Upside		Base		Downside		Severe	
	Feb 23	Aug 22	Feb 23	Aug 22	Feb 23	Aug 22	Feb 23	Aug 22
Weighting	5%	5%	50%	50%	30%	30%	15%	15%

(1) Economic forecasts reflect calendar year end numbers and were prepared as at February 2023, based on RBA and market consensus at the time and prepared for the purpose of collective provision updates

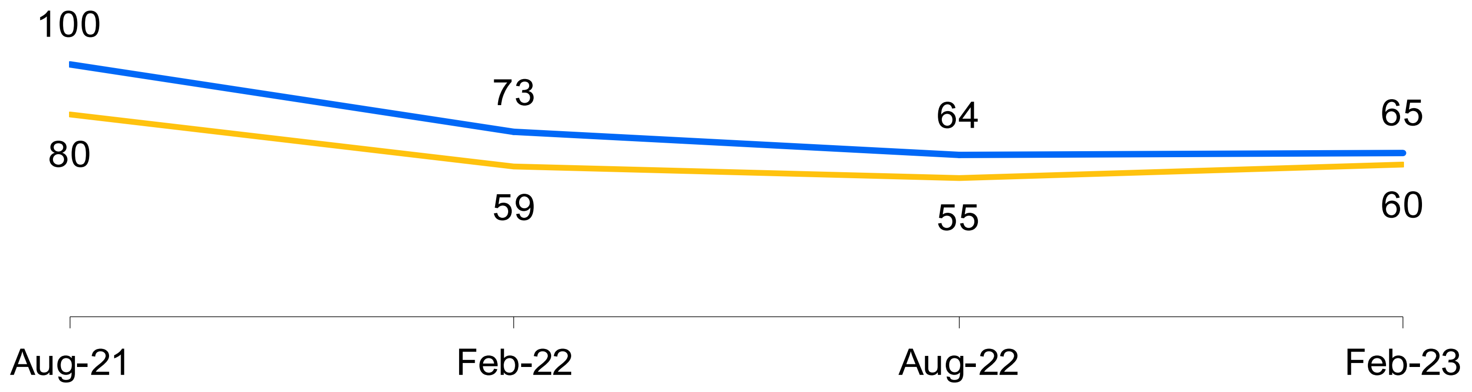
Portfolio quality

Housing, Commercial and Asset Finance arrears increasing, reflecting the economic environment

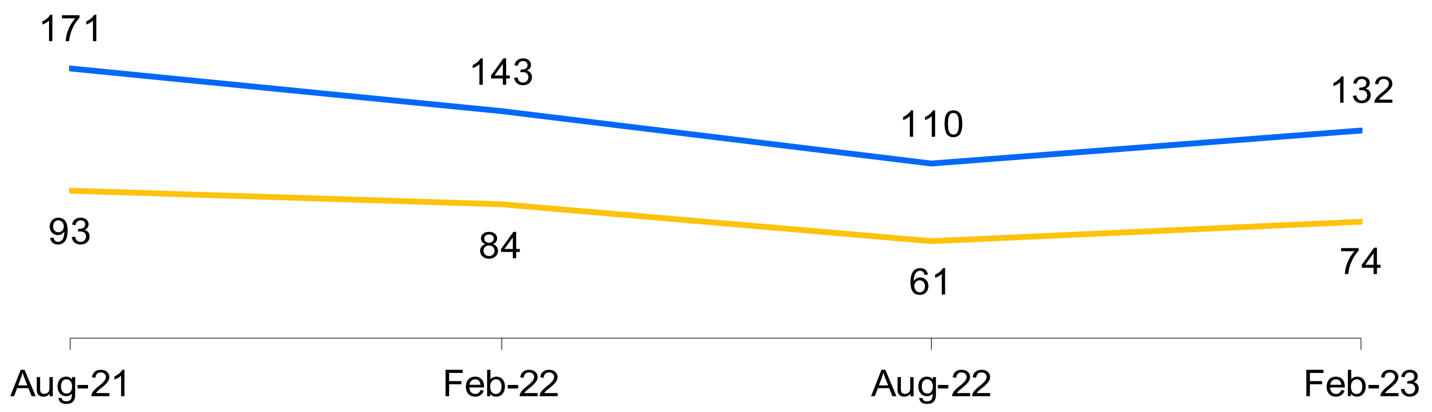
Summary

- Rising interest rates, inflation, and seasonality are the primary drivers increasing arrears across the portfolios
- Portfolio quality remains high with repayment buffers in place and low LVR in the housing portfolio and business banking well secured
- Stable housing arrears with 90DPD remaining below historical levels
- Commercial arrears impacted by two large expired facilities which are under negotiation and a large new impaired facility
- Asset Finance arrears reflect the Group's approach to working with customers impacted by challenges facing a small number of industries

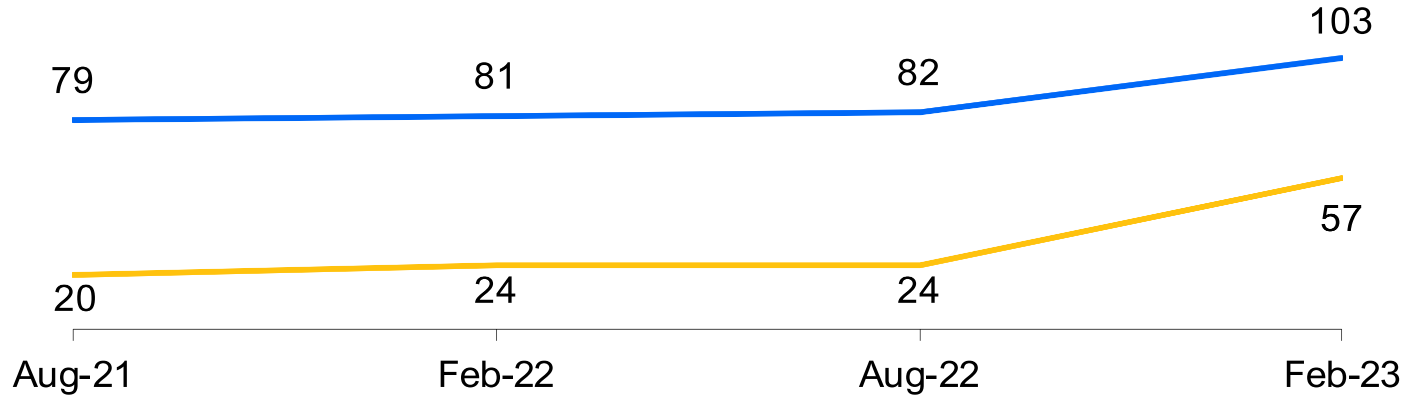
Housing arrears (bps)



Commercial arrears (bps)



Asset finance arrears (bps)



90DPD 90DPD + Impaired

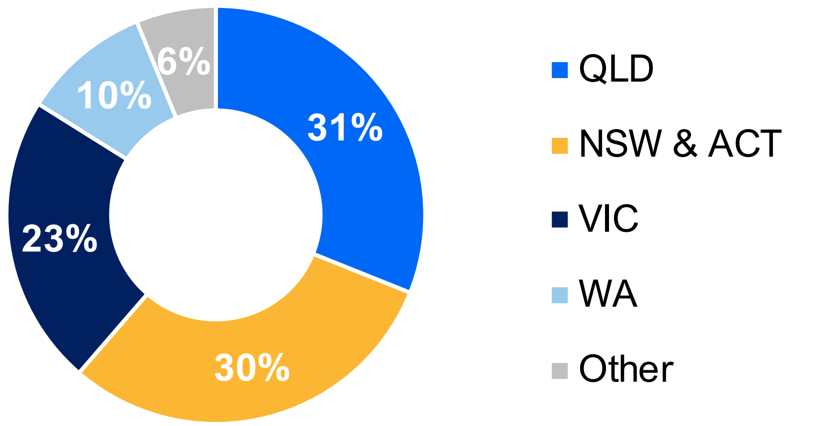
Housing loan portfolio

Strong portfolio quality with diversified portfolio and conservative LVR lending

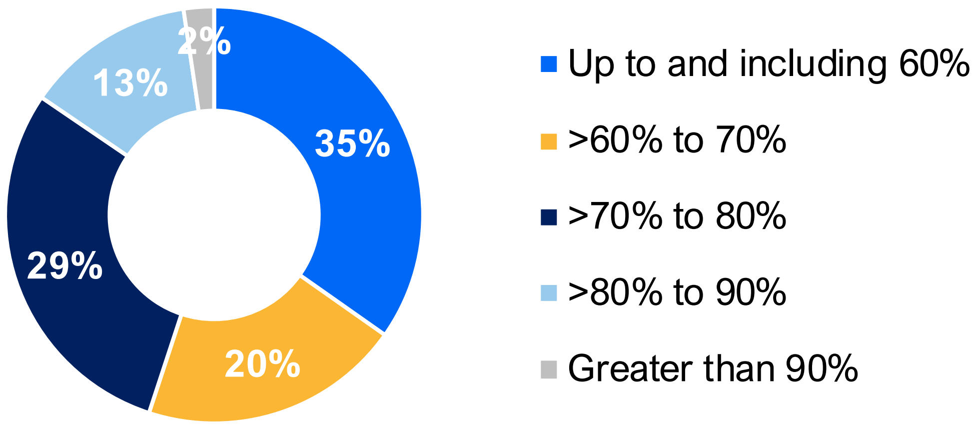
Summary

- Housing portfolio diversified across geography and channel
- 98% of customers with LVR <90%, with 1H23 flow above 90% at 1.3%
- 1H23 flows from home loan customers with LVR>80% reducing to 8.8% from 11% in 2H22

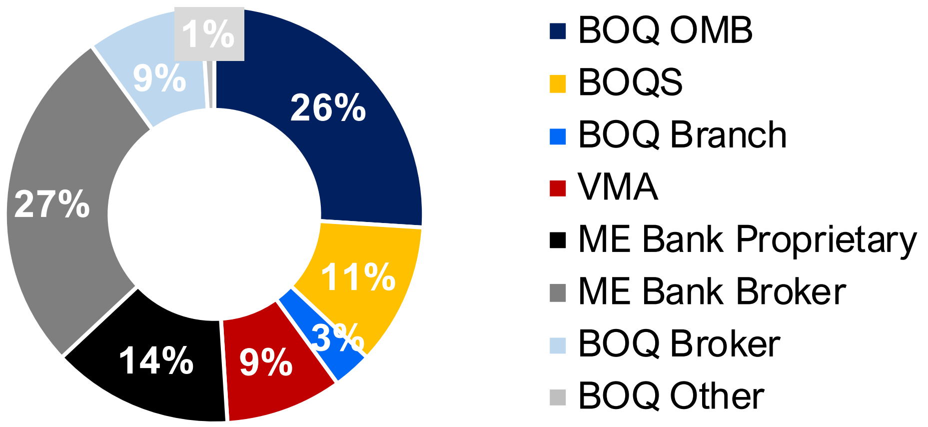
Housing portfolio by geography (%)



Housing portfolio by LVR (%)



Housing portfolio by channel (%)



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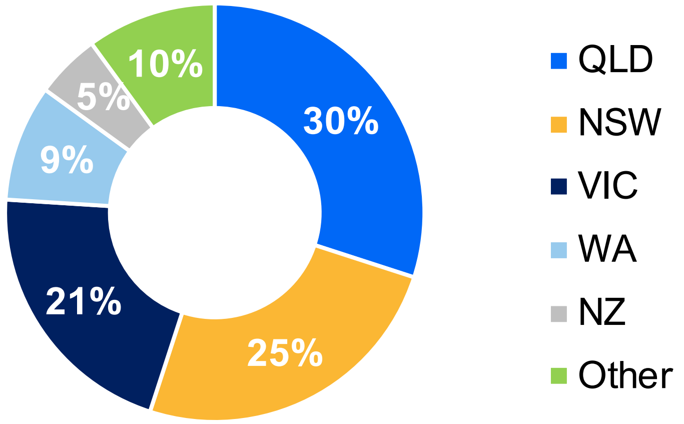
Asset finance portfolio

Portfolio remains well diversified

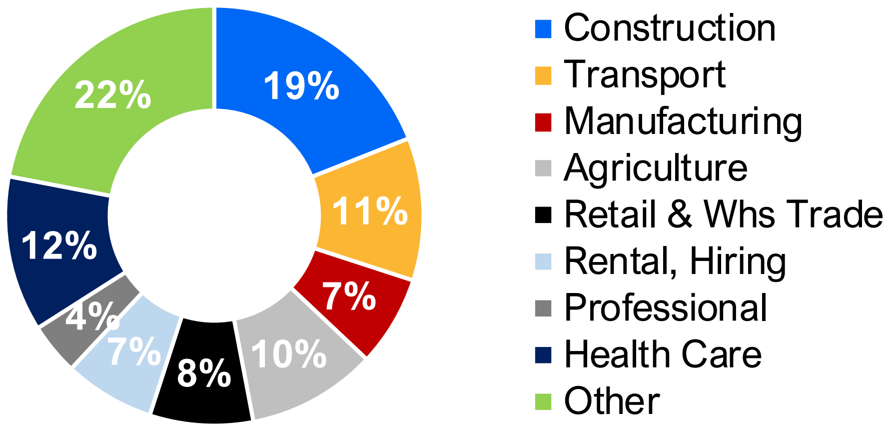
Summary

- Broad industry spread reducing concentration of asset finance portfolio

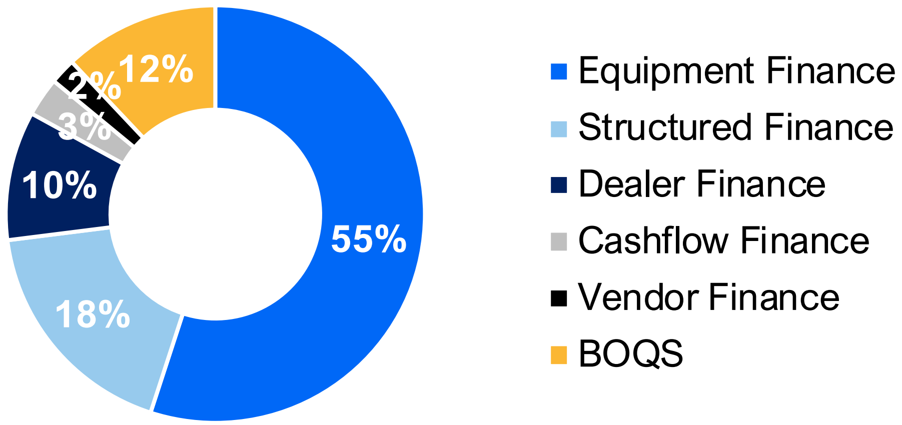
Asset finance by geography (%)



Asset finance by industry (%)



Asset finance by channel (%)



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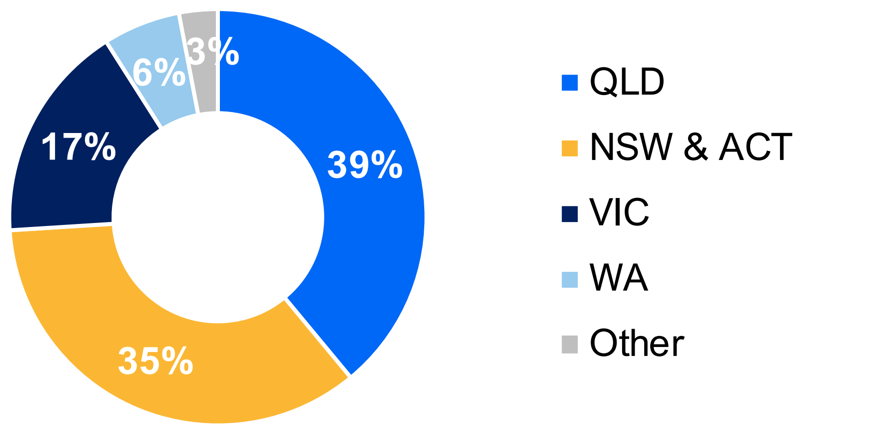
Business portfolio

Strong growth across the core distribution channels of Business Banking, BOQS & owner managed branches

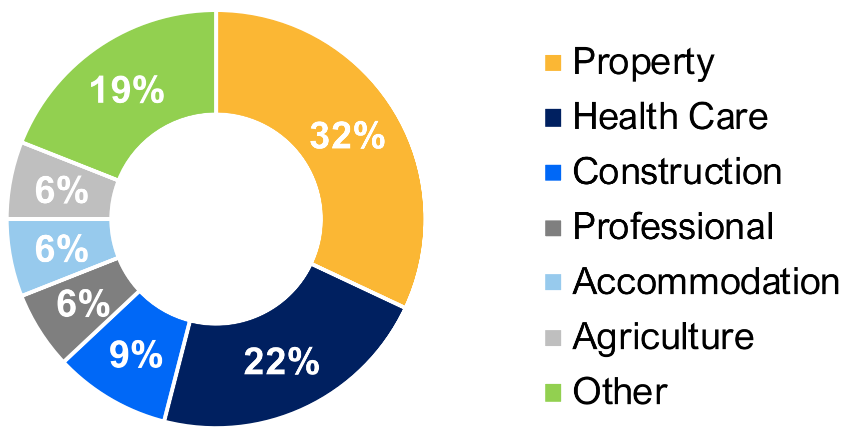
Summary

- Business portfolio diversified geographically with a diverse channel mix
- The portfolio is well secured with less than c.9% of unsecured lending
- Property and construction industry segments are diversified and performing well with no material indication of stress emerging in the portfolios. This will continue to be monitored given current market conditions

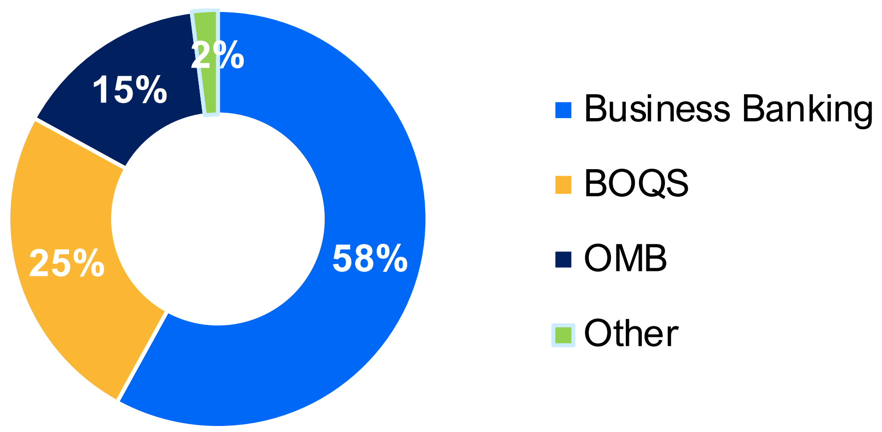
Business by geography (%)



Business by industry (%)



Business by channel (%)



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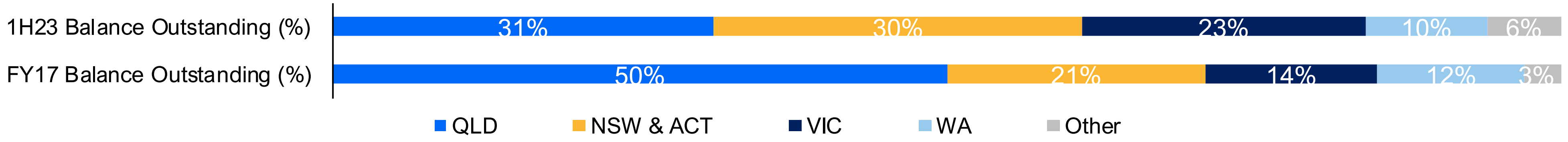
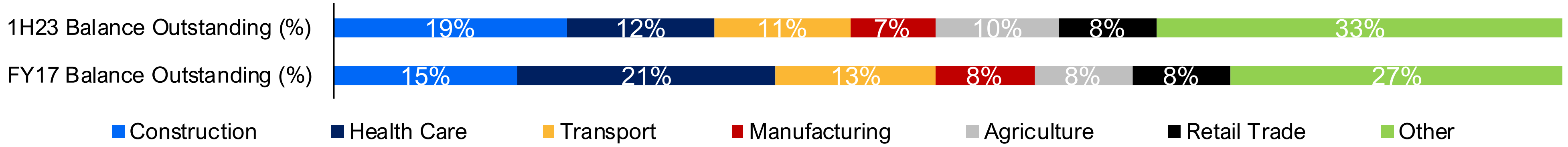
Industry and geographic split over time[1]

Enhanced geographic and sector diversification over time

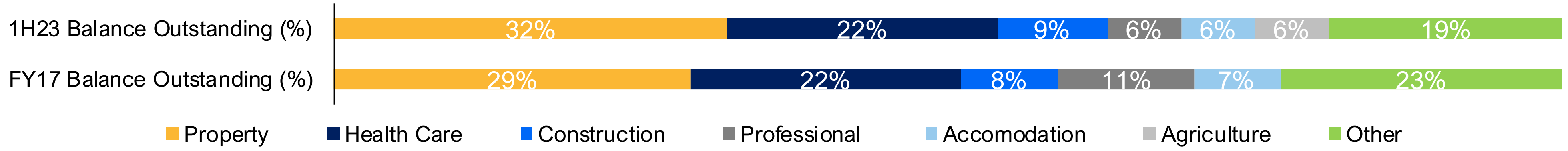
Housing loans - geographic split over time (%)



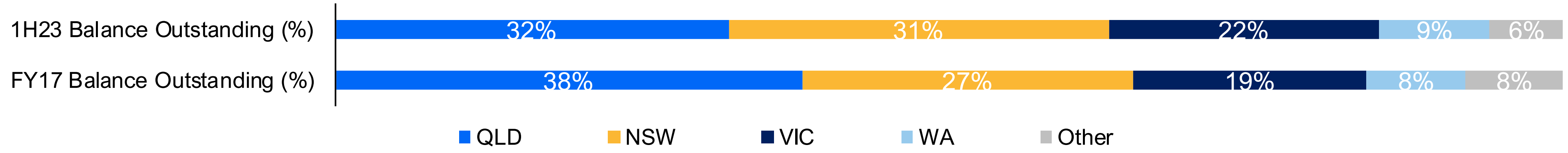
Asset finance - industry segments over time (%)



Business - industry segments over time (%)



Total lending - geographic split over time[2] (%)



(1) 1H23 includes ME, FY17 has not been restated
(2) Excludes consumer

Summary

- Enhanced geographic diversification, Queensland housing portfolio reducing from 50% in FY17 to 31% in 1H23
- The addition of ME has further diversified the geographic diversity of the housing portfolio
- Asset Finance and Business lending portfolios remain diversified across a broad range of industries

Emerging risks

Macro economic environment

- Rising interest rates and inflation, with cash rates forecast to peak in the latter half of 2023
- House price declines over the last 6 months, with further reductions expected over the short to medium term
- Weakening global economy amidst higher inflation and interest rates
- Historically low unemployment forecast to remain
- Competitive funding conditions for retail deposits and wholesale funding
- Higher interest rates to remain for the medium term

Outlook for credit losses

- Specific provisions remain low, collective provisions have been increasing due to outlook
- Early evidence of the impacts of rising interest rates on housing customers – collective provisioning catering for this performance
- Fixed rate maturities being carefully managed to ensure prudent collective provisions in place and customers being supported as required
- Overlays in place for key industries that will be impacted by rising interest rates or continued supply chain challenges
- BOQ remains well provisioned and has prudently factored in possible economic deterioration into our provisioning outcomes

Commercial real estate

- Sector risks emerging given economic outlook
- Property comprises 32% of BOQ’s commercial portfolio
- Property sector exposure is well diversified by asset type and geography
- Prudent collective provisioning in place which considers sector health
- Property prices remain buoyant however market sales volumes are low
- No material signs of stress currently emerging, however will continue to be closely monitored

CAPITAL, FUNDING & LIQUIDITY

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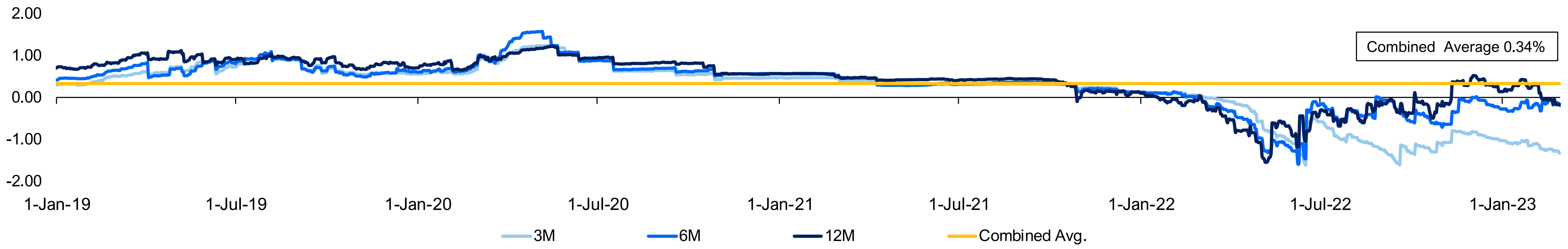
Term deposits continued to provide a lower cost of funding

Summary

- Growth in TDs continuing as customers seek yield from higher interest paying products
- 1H23 term deposit growth of 8% half on half[1]
- Strategic growth of lower cost term deposits due to relatively low cost of funding, favourable carded rates in 1H23 remained below BBSW vs normalised rates positioned above BBSW
- Increased competition into 2H23 will see a increased cost of funds compared to the prior 12 months

BOQ term deposit carded rates compared to BBSW (%)



(1) To align definitions to liquidity reporting, $2.5bn at Aug-22 of term deposits were reclassified to savings and investment accounts

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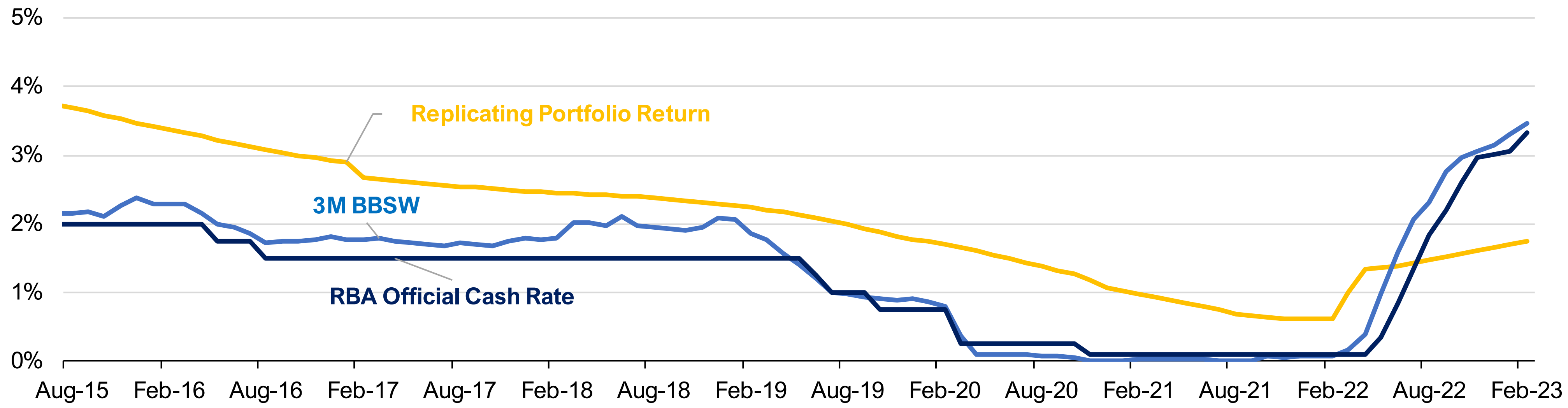
Replicating portfolio & uninvested capital and low cost deposits

Summary

- Replicating portfolio has an investment term of 5 years, this remains appropriate in current market conditions
- For every 25bps cash rate increase, the uninvested capital and low cost deposit portfolio increases NIM by c.0.51bps

Replicating portfolio



	FY22 Balance ($bn)	1H23 Balance ($bn)	1H23 Avg. Return	Exit Return Rate	Investment Term
Capital	3.9	3.9	1.47%	1.60%	5 years
Low cost deposits	4.3	4.3	1.79%	1.90%	5 years
Total Replicating Portfolio	**8.2**	**8.2**	1.64%	1.76%	5 years
Uninvested capital and low cost deposit	2.2	1.9	2.97%	3.44%	3 months

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Hedging costs - basis risk

Summary

- The impacts of hedging costs had a -1bp NIM impact in 1H23
- Basis exposure has normalised to historical levels with customers favouring variable over fixed rate lending and continued term deposit growth as attractive rates become available in the rising interest rate environment
- Current sensitivity given increasing basis exposure is c.1bps of NIM for every 10bps in basis swap spread

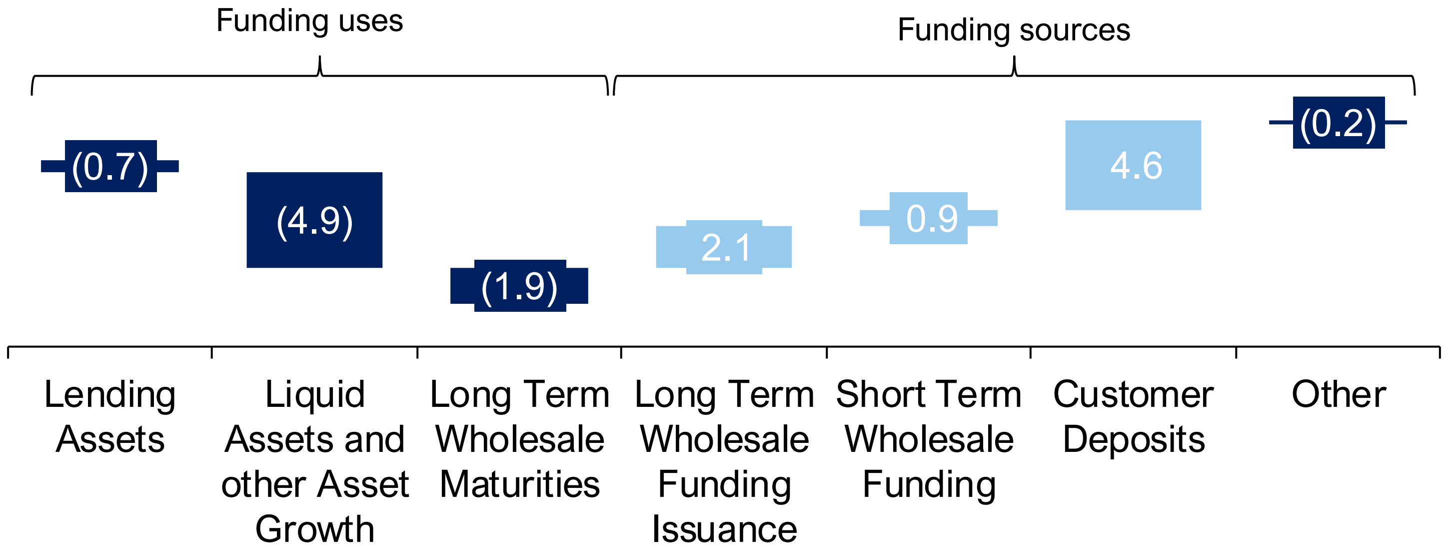
Long term basis risk avg - 21 bps

Funding

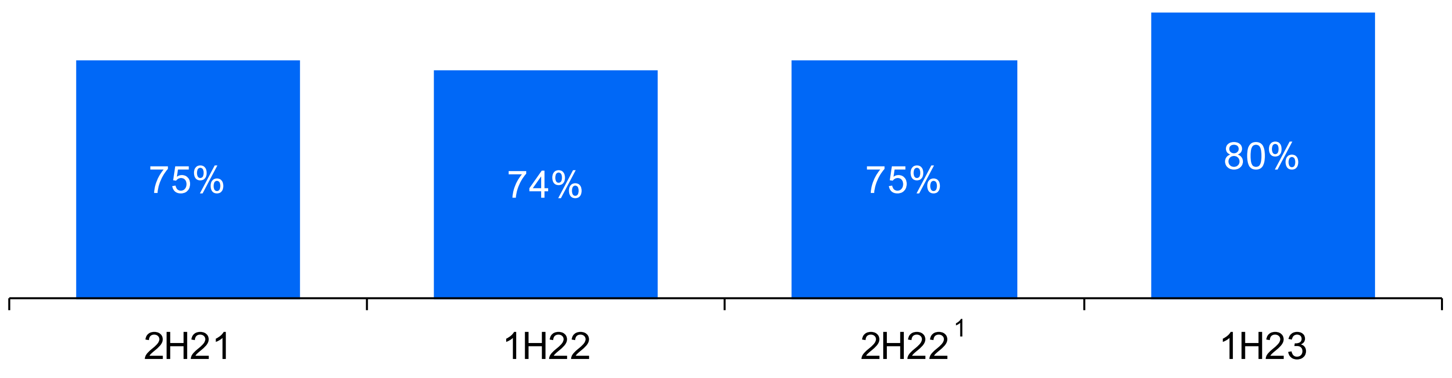
Summary

- Loan growth funded through stable funding sources, including customer deposits and long term wholesale funding
- Strategic focus on customer deposits has seen an increase to the deposit to loan ratio of 5% to 80%

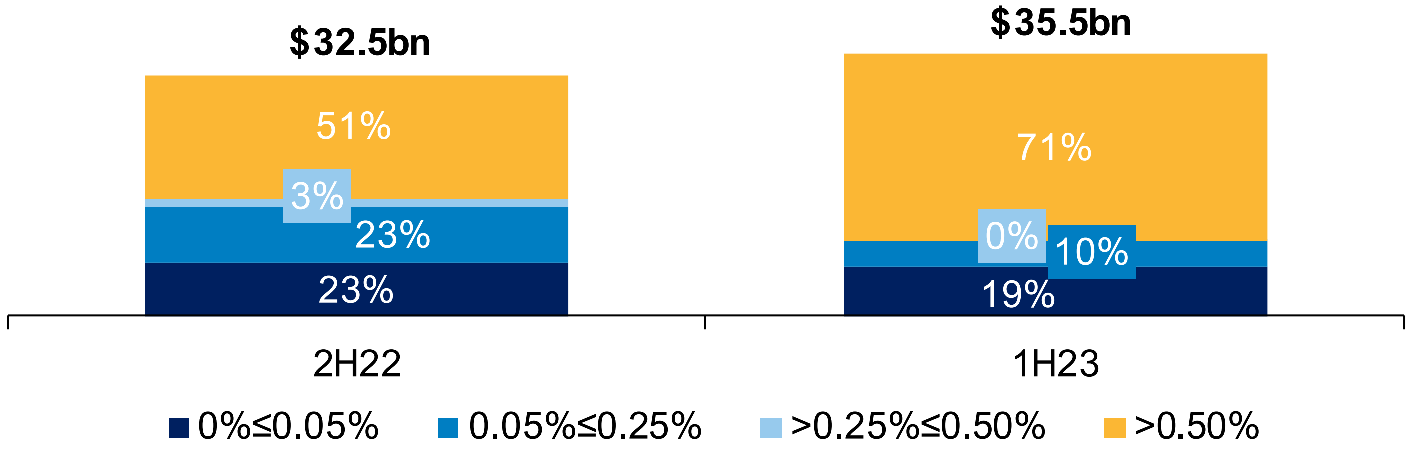
Uses & sources of funding - 2H22 to 1H23



Deposit to loan ratio (%)



Customer at call deposit funding costs[2]



(1) $414m of short term wholesale funding reclassified to customer deposits, this increased 2H22 deposit to loan ratio from 74% to 75%
(2) Funding mix is presented on a spot basis. In 2H22 $2.5bn of term deposits were reclassified into savings and investments accounts and $414m of short term wholesale funding reclassified to customer deposits to align underlying product characteristics

Credit rating

Current debt ratings[1]

Rating Agency	Short Term	Long Term	Outlook
S&P	A-2	BBB+	Positive
Fitch	F2	A-	Stable
Moody’s	P-2	A3	Stable

(1) The Bank monitors rating agency developments closely and is rated by Standard & Poor’s (S&P), Fitch Ratings and Moody’s Investor Service

ECONOMIC ASSUMPTIONS

Macro economic environment[1]

Economic growth slowing with declining, but still elevated inflation

Macro economic

- Economic growth is slowing with a forecast modest rise in the unemployment rate
- Inflation is likely to decline over calendar-year 2023. Uncertainty surrounds the pace of the slowdown
- Interest rates will likely peak in 2023. Rate cuts this year are not our central-case view
- RBA base case is for a soft landing
- Recent financial market developments highlighted that there is a higher than usual uncertainty about the outlook

(1) BOQ house view

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Housing, business lending and deposit outlook[1]

Economic growth slowing with declining, but still elevated inflation

Housing outlook

- Unemployment rate to stay low at c.3.5% for the remainder of this financial year
- Consumer confidence has taken a hit from the rise in the cost of living and higher interest rates
- Households continue to benefit from a strong labour market
- Many consumers have accumulated significant savings
- Rising interest rates and affordability concerns will see a peak-to-trough decline in house prices of around 15% in this cycle
- Housing credit is projected to grow by around 3% this financial year[2]

Business lending outlook

- Business order books and capex intentions are currently elevated
- The slowdown of consumer discretionary spending will impact some firms
- High input costs remain an issue for many firms
- Worker availability remains the biggest constraint although is slowly improving
- Business credit is expected to grow by around 6% in the 2023 financial year

Deposits outlook

- Household saving rate has fallen reflecting declining real disposable incomes and ‘revenge spending’ post lockdowns
- An important offset may be the uncertain economic and financial market environment
- Higher interest rates is leading to a shift in the composition of saving towards interest-bearing deposits
- Deposit growth is expected to grow by around 5% in the 2023 financial year

(1) BOQ house view
(2) BOQ financial year to August 2023

ABBREVIATIONS

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Abbreviations

1H: First half of financial year
2H: Second half of the financial year
30DPD: 30 days past due
90DPD: 90 days past due
AASB: Australian Accounting Standards Board
ADI: Authorised Deposit-taking Institution
APRA: Australian Prudential Regulation Authority
ASIC: Australian Securities & Investments Commission
AUC: Assets Under Construction
Avg: Average
BAU: Business As Usual
BBSW: Bank Bill Swap Rate
BDD: Bad & Doubtful Debt Expense
BOQF: Bank of Queensland Finance
BOQS: Bank of Queensland Specialist
Bps: basis points
CAGR: Compound annual growth rate
CET1: Common Equity Tier 1
CP: Collective Provision
cps: cents per share
CTI: Cost-to-income ratio
CLF: Committed Liquidity Facility
DPD: Days past due
EPS: Earnings per Share
ESA: Exchange Settlement Account
ERP: Enterprise Resource Planning
FTE: Full Time Equivalent
FY: Financial year
GDP: Gross Domestic Product
GLA: Gross Loans & Advances
GRLC: General Reserve for Credit Losses
HQLA: High Quality Liquid Assets
IRP: Integrated Risk Program
LCD: Low cost deposit
LCR: Liquid Coverage Ratio
LGD: Loss Given Default
LIE: Loan Impairment Expense
LOC: Line of Credit
LVR: Loan to Valuation Ratio
MFI: Main Financial Institution
NIM: Net Interest Margin
NII: Net Interest Income
NM: Not meaningful
NPAT: Net Profit After Tax
NPS: Net Promoter Score
NSFR: Net Stable Funding Ratio
OMB: Owner Managed Branch
OIS: Overnight Index Swap
PAYG: Pay As You Go
PCP: Prior Corresponding Period
PD: Probability of Default
QE: Quantitative Easing
RBA: Reserve Bank of Australia
ROE: Return on equity
ROTE: Return on tangible equity
RWA: Risk-weighted assets
SaaS: Software as a Service
SME: Small and Medium Enterprises
TD: Term deposit
TFF: Term Funding Facility
VMA: Virgin Money Australia