

# 2015 STRATEGY UPDATE

BANK OF QUEENSLAND



18 NOVEMBER 2015



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## INTRODUCTION & CONTEXT

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JON SUTTON  
Managing Director & CEO

## STRATEGIC PRIORITIES

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BRENDAN WHITE, Group Executive Business Banking  
MATT BAXBY, Group Executive Retail Banking  
PETER DEANS, Chief Risk Officer  
DONNA VINCI, Group Executive Enterprise Solutions  
VIMPI JUNEJA, Group Executive Product & Strategy

## SUMMARY

JON SUTTON  
Managing Director & CEO

# KEY MESSAGES



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- 1 Business foundations substantially stronger
- 2 Track record in organic and inorganic execution
- 3 Credible 'Challenger Bank' strategy
- 4 Targeting long-term EPS outperformance





# EXPERIENCED, ENTREPRENEURIAL LEADERSHIP TEAM

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## Jon Sutton, Managing Director & CEO



- 3 years with BOQ
- 20+ years experience in banking and financial markets
- Previously: Bankwest, CBA, Rice Growers

## Anthony Rose, Chief Financial Officer



- 3 years with BOQ
- 20+ years experience in financial services
- BCom (UWA), CA, F Fin
- Previously: Suncorp, Citigroup, Merrill Lynch, Challenge Bank, Arthur Anderson

## Donna Vinci, Group Executive Enterprise Solutions



- 4 months with BOQ
- 30+ years experience in operations, technology and risk management
- GAICD
- Previously: IAG, Westpac, Citigroup, Potter Warburg, Country Natwest

## Peter Deans, Chief Risk Officer



- 3 years with BOQ
- 25+ years experience in banking and risk management
- Previously: CBA, Industrial Bank of Japan, ANZ, National Mutual Royal Bank

## Michelle Thomsen, General Counsel & Company Secretary



- 5 months with BOQ
- 15 years domestic and international corporate and commercial legal experience
- LLB, BCom (Griffith)
- Previously: Suncorp, Babcock & Brown, King Wood & Mallesons

## Matt Baxby, Group Executive Retail Banking



- 3 years with BOQ
- 12 years experience in financial services
- MAppFin, LLB, BBus (Acc) (QUT)
- Previously: Virgin Money, Virgin Group

## Brendan White, Group Executive Business Banking



- 3 years with BOQ
- 22 years experience in banking and financial markets
- Previously: CBA, Societe Generale, British Petroleum

## Belinda Jefferys, Group Executive People and Communications



- Commencing Jan 2016 with BOQ
- 20+ years experience in human resources, culture and corporate affairs
- BBus, GradDipEd
- Previously: Elders, Bankwest, Westpac

## Vimpi Juneja, Group Executive Product & Strategy



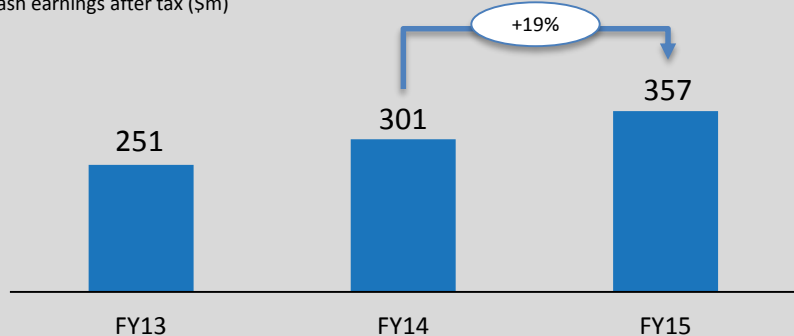
- 8 months with BOQ
- 12 years experience in financial services
- MBA (Harvard), M.A., BCom (Hons)
- Previously: NAB, AMP, IAG, Lion, Virgin Group, Archer PE, LEK Consulting

# RECORD RESULT IN FY15

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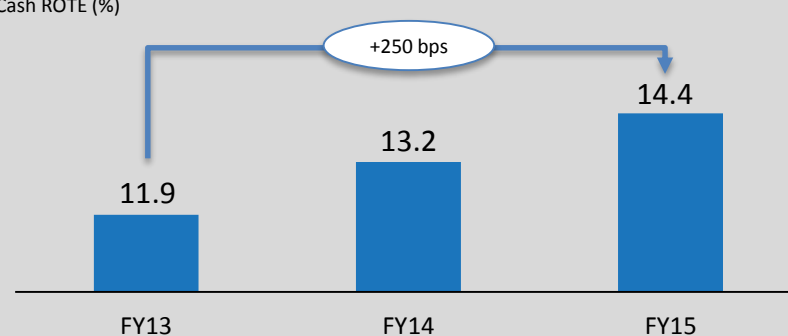
## Record cash earnings

Cash earnings after tax (\$m)



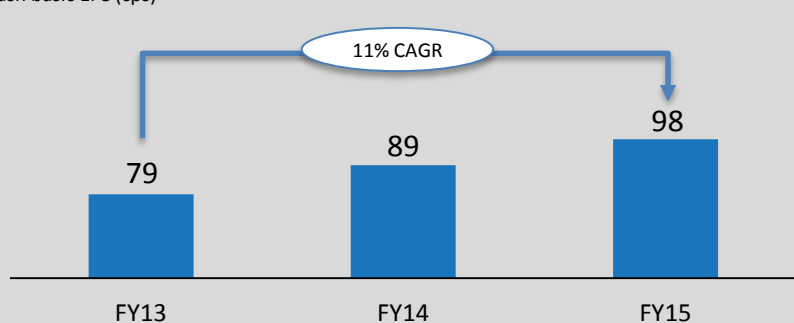
## Cash ROTE over 14%

Cash ROTE (%)



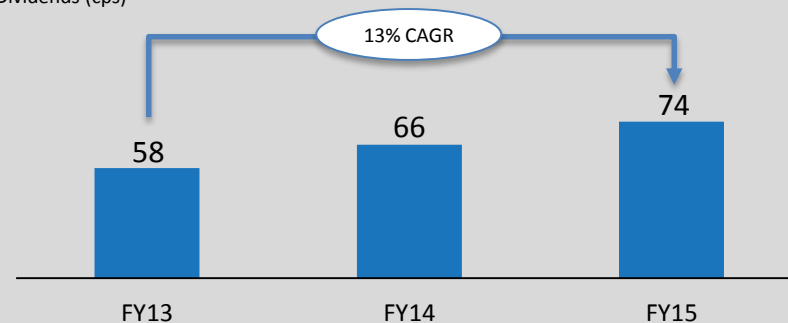
## Strong EPS growth

Cash basic EPS (cps)



## Record dividend

Dividends (cps)



# WE'VE COME A LONG WAY SINCE 2012 CAPITAL RAISING



## BOQ Performance Metrics: Pre-capital raising (Feb 2012) vs. FY15

	Metric	LTM before Capital Raising <sup>(1)(2)</sup>	FY15	Change
<b>Growth</b>	GLA growth (x system)	0.8x	0.8x	0.0x
	NIM	1.67%	1.97%	+0.30%
	Non-interest income <sup>(3)</sup>	52 bps	45 bps	(7) bps
	CTI	44.4%	46.0%	+1.6%
<b>Risk</b>	BDD	117 bps	18 bps	(99) bps
	% weak quality loans <sup>(4)</sup>	15%	11%	(4)%
	90day+ arrears	116 bps	63 bps	(53) bps
	% portfolio in QLD	60%	49%	(11)%
<b>Profitability</b>	Pre-provision profit	\$454m	\$587m	+\$133m
	ROTE	2.8%	14.4%	+11.6%
	ROE	2.1%	10.7%	+8.6%
<b>Funding</b>	Retail deposits : loans	63%	66%	+3%
	Wholesale borrowing	18%	20%	(2)%
	CET1	6.4%	8.9%	2.5%
	S&P credit rating	BBB Credit Watch	A- Stable	+2 notch

Refer notes at end of presentation

# STEADY PROGRESS AGAINST STRATEGIC PILLARS

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Strategic pillar	Strategic metrics	FY13	FY14	FY15	ΔFY13-15	
Customer in charge	% transactions in digital channels	55%	57%	60%	+5%	✓
	Broker share of settlements	0%	5%	15%	+15%	✓
	Non-interest income % total income	19%	18%	17%	(2)%	✗
Grow the right way	Lending growth (x system)	0.3x	0.3x	0.8x	+0.5x	✓
	QLD % GLA	58%	54%	49%	(9)%	✓
	BDD / GLA	32 bps	22 bps	18 bps	(14) bps	✓
	Arrears 90 days+	0.8%	0.6%	0.6%	(0.2)%	✓
	Impaired loans / GLA	109 bps	76 bps	58 bps	(51) bps	✓
	CET1	8.63%	8.63%	8.91%	+0.28%	✓
There's always a better way	CTI	44.3%	43.9%	46.0% <sup>(1)</sup>	+1.7%	✗
Loved like no other	NPS	10%	16%	27%	+17%	✓
	Staff Engagement	39%	43%	67%	+28%	✓

Refer notes at end of presentation



# OPERATING IN A DYNAMIC BANKING ENVIRONMENT

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***Shifting  
Economic  
Landscape***



***Changing  
Customer***



***Value Chain  
Disruption***



***Evolving  
Regulation***

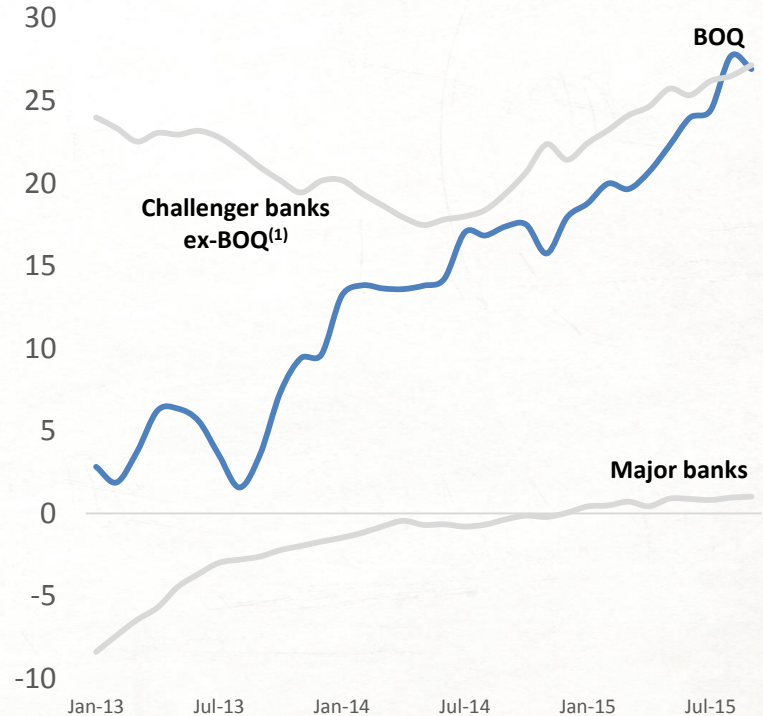
# ESSENTIAL ROLE OF TRUST

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## A trust deficit for banks?

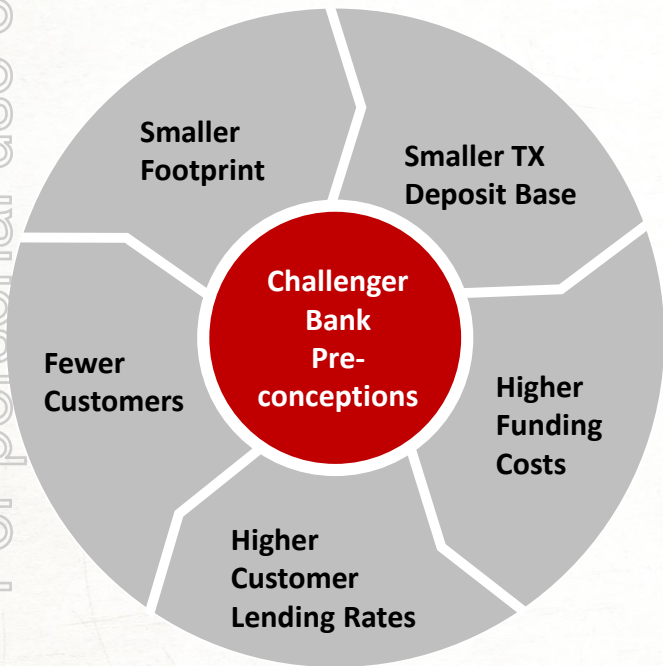
- Only 46% of Australians trust the financial services industry
- 57% refuse to buy products and services from institutions they do not trust
- 49% criticise distrusted institutions to friends and colleagues
- 47% believe government regulation of the financial services industry is “not enough”

Net Promoter Scores for Australian Banks



# CHALLENGER BANKS NEED TO MAKE CLEAR CHOICES TO OUTPERFORM

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## Challenger Bank Business Model Examples

**1** Direct, lower cost

- Virgin Money (Aus)
- ING Direct (Aus)
- OneSavings Bank (UK)
- Aldermore (UK)

**2** High touch, high margin

- Umpqua Bank (USA)
- Pinnacle Financial (USA)
- Shawbrook (UK)
- Handelsbanken (UK)

**3** Specialised, high return

- BOQ Specialist (Aus)
- BOQ Finance (Aus)
- Rabo (Neth)
- Canadian Western Bank (Can)

# OUR STRATEGIC BELIEFS ...

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## External environment

Shifting and uncertain economic landscape, domestically and globally

Changing nature of trust and rising customer expectations

Digital disruption of banking value chain

Evolving regulatory framework

## Our Strategic Beliefs

- 1. Trust is the currency of the future**
- 2. Culture is the ultimate competitive advantage**
- 3. Specialisation rather than scale will deliver higher growth, customer satisfaction and returns**
- 4. Major banks are vulnerable to reputation risks and diseconomies of scale and scope**
- 5. Digital is the new industrial revolution**

## Internal environment

Low asset growth in branch network

Cost and capital disadvantage relative to majors

Leading Customer NPS

Strengthened risk culture



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Vision ...

Our dream is to create AUSTRALIA'S MOST LOVED BANK

Strategy ...

Focus on niche segments that value a more intimate banking relationship

Target segments ...

Retail banking	Business banking
 <ul style="list-style-type: none"> <li>Aussie Achievers</li> <li>Today's Families</li> </ul>	 <ul style="list-style-type: none"> <li>Micro</li> <li>SME</li> <li>Mid-market</li> <li>Property</li> </ul>
 <ul style="list-style-type: none"> <li>Leading Lifestyles</li> <li>Metro-techs</li> </ul>	 <ul style="list-style-type: none"> <li>Healthcare</li> <li>Aged care</li> <li>Agri</li> <li>Franchises</li> </ul>

Strategic pillars ...

Customer in charge	Grow the right way	There's always a better way	Loved like no other
Making it easier for our customers to deal with us in the way they prefer	Getting the right balance between risk and return	Having efficient systems and processes	Improving our talent, capability and culture

# STRATEGIC PRIORITIES

BRENDAN WHITE, MATT BAXBY, PETER DEANS, DONNA VINCI, VIMPI JUNEJA



# BUSINESS BANKING TARGET NICHE SEGMENTS

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## Healthcare, Aged Care and Retirement

- ~\$450M addressable profit pool
- Value understanding of industry specific cash flows and asset lifecycles
- BOQS established market leader in healthcare
- BOQ GLA: \$2.5B, 243% CAGR



## Professional Services

- ~\$380M addressable profit pool
- Value access to practice finance as well as personal banking services
- Core market for BOQF; growth market for BOQS
- BOQ GLA: \$1.2B, 16% CAGR



## Agribusiness

- ~\$350M addressable profit pool
- Requires deep knowledge of industry and commodity cycles
- Core market for BOQF; key sector of QLD economy; existing product and channel capabilities
- BOQ GLA: \$0.6B, 24% CAGR



## Hospitality & Tourism

- ~\$200M addressable profit pool
- Requires deep industry knowledge;
- Good product offering; brand relevance; pubs and clubs value relationship model
- BOQ GLA: \$0.6B, 4% CAGR



## Franchising

- ~\$1,300M addressable profit pool
- Leverage in-house expertise managing franchise networks and established credit appetite to grow presence with mid-sized franchisors and franchisees



## Asset-Intensive

- ~\$1,100M addressable profit pool
- Value understanding of industry and asset life cycles; EF broker channel requires responsiveness
- Expertise in asset-based financing; established distribution channels
- BOQ GLA: \$2.2B, 9% CAGR

# TRACK RECORD IN GROWING NICHE BUSINESSES



- Leading player in mid-market asset financing
  - #1 in technology vendor finance
  - Five diversified product lines: Equipment Finance, Structured Sales, Technology Finance, Dealer Finance, Debtor Finance
  - High ROE business through the cycle
- 
- \$4.0B GLA, NIM ~400 bps
  - Est. 5.5% market share (~8.5% in SME)
  - Positive growth versus negative system
  - 68,000 customers



- Acquired in 2014
  - Market leader in servicing specialist personal and commercial banking needs of medical, dental, veterinary and accounting professionals
  - Vertically-integrated model delivering innovative products through strong relationships and channels to market
- 
- \$4.1B GLA, NIM ~380 bps, low arrears
  - Est. 18% market share
  - Growing significantly above system in housing and business lending
  - 25,000 customers



- Acquired in 2013
  - 40 year Virgin trademark license for financial services in Australia
  - Offer Virgin-branded credit card, superannuation and insurance with mortgage scheduled for 2016 launch
  - Key partnerships: Citigroup, Mercer, Allianz, TAL, Auto & General
- 
- \$488m Credit card receivables
  - ~17% share of system net receivables growth since 2010 launch
  - \$540m Super FUM; \$38m Insurance GWP
  - 215,000 customers

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# RETAIL BANKING TARGET SEGMENTS

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## Target Segments

## Customer Composition

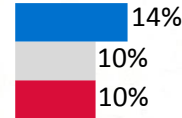
## Geographic Focus

## Channel Focus

### Aussie Achievers



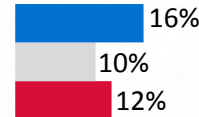
- \$2.8B profit pool
- Middle Australia families that would value coaching and a sense of community
- BOQ NPS: 26



### Today's Families



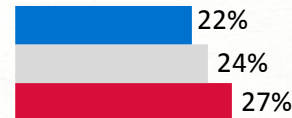
- \$2.7B profit pool
- Want banks to understand and value their family situation
- BOQ NPS: 12



### Leading Lifestyles



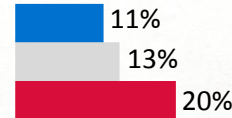
- \$8.9B profit pool
- Value being treated differently; feeling like their status and value is rewarded
- BOQ/VMA NPS: 24



### Metrotechs



- \$3.6B profit pool
- High income, tech-savvy attracted to independent brands
- BOQ/VMA NPS: 19



- Largely BOQ's Queensland heartland

- Nationwide

- Relationship-focused across all channels
- Improved omni-channel capabilities

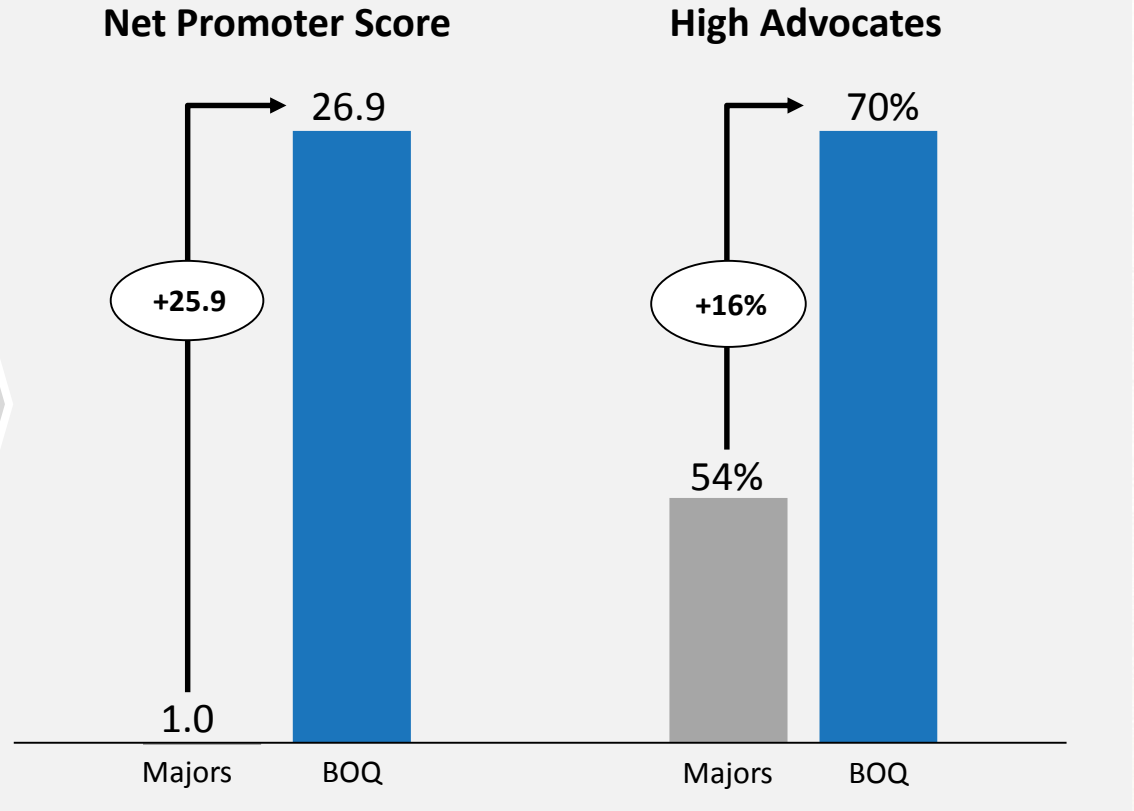
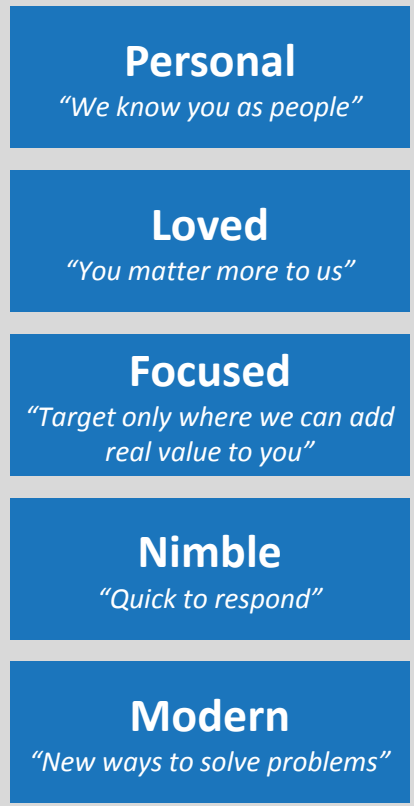
- Direct, brokers, digital only (branchless)



# CUSTOMER PROPOSITION THAT RESONATES

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## BOQ Value Proposition



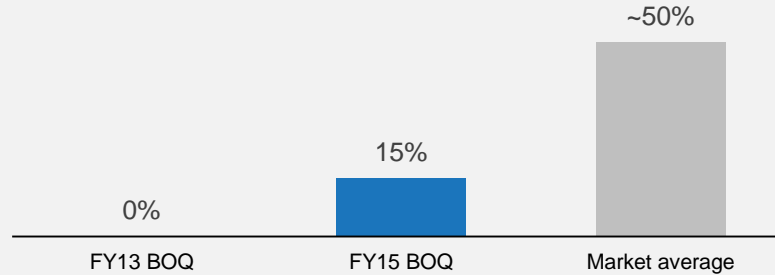
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## 2020 PRIORITIES

1. Accelerate broker flow
2. Reignite growth in network
3. Broaden Virgin product offerings

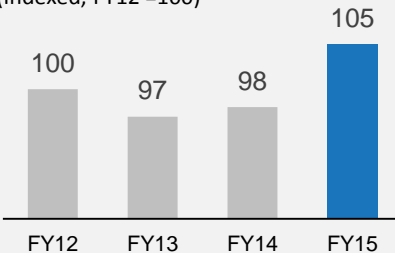
### Opportunity to expand in broker channel

Broker mortgage settlements as a % of total settlements

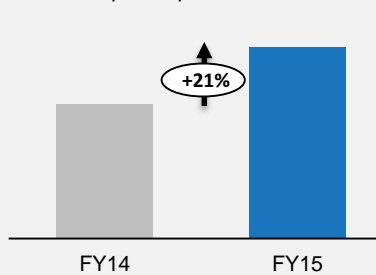


### Opportunity to enhance network productivity

Mortgage settlements per branch  
(Indexed, FY12 = 100)



Cross sell points per branch



## FY16 FOCUS

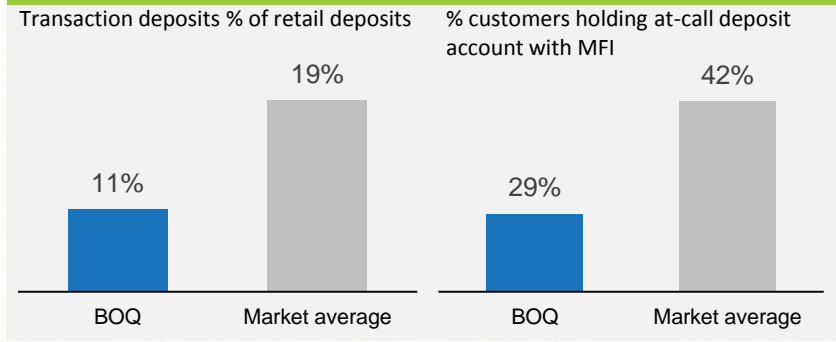
1. Expand accredited brokers to 4,000
2. Ongoing branch network optimisation
3. Break-in digital
4. Roll out Virgin Money mortgage product

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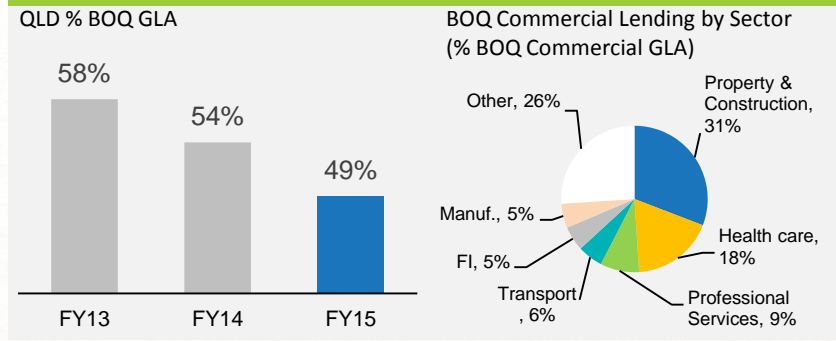
## 2020 PRIORITIES

1. Build sustainable deposit base
2. Continue to invest in risk foundations
3. Grow specialist niches

### Opportunity to improve funding mix



### Opportunity to diversify lending portfolio



## FY16 FOCUS

1. Continue to increase low cost customer deposits
2. Maintain discipline in pricing and credit quality
3. Continue to diversify portfolio by geography and sector



# RISK MANAGEMENT FUTURE STATE

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## TODAY

- Group & business unit appetite embedded
- Basel II compliant credit risk models
- Portfolio management & reporting
- Governance framework
- ALM system
- Operational risk management framework
- Credit risk grading system
- Collective provision/GRCL (in train)
- New data warehouse (in train)

## FUTURE

### Basel II: Advanced Accreditation

- Potential path to partial/staged accreditation
- Well placed to commence formal program of work when benefits are clearer

### Basel IV: Considerations

- Changes to IRB models
- RWA floors for residential mortgages
- Fundamental review of the trading book

## Priority Risk Capabilities

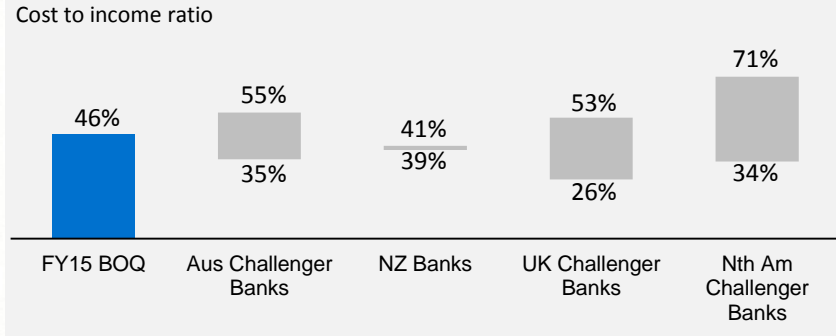
- 1 Risk-based pricing
- 2 Credit analysis and decisioning
- 3 Assessment innovation/technology
- 4 Frontline skilled in underwriting
- 5 Specialist credit personnel

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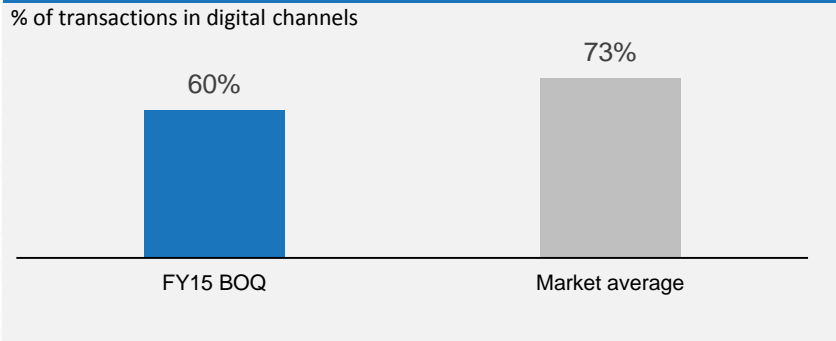
## 2020 PRIORITIES

1. Automate and digitise core processes
2. Simplify IT architecture
3. Raise productivity

### Opportunity to drive further efficiency



### Opportunity to increase digital self-service



## FY16 FOCUS

1. Roll out new Lending origination system
2. 'Smart' cost reduction
3. Embed data and analytics capability

# AUTOMATION AND DIGITALISATION



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Sourcing	Demographic	Security Details	Loan Details	Payment Details	Notepad	Document Collection	Application History	Change Stage
Personal		Address		Work Detail		Assets		Income/Liability

Personal
  Non-Personal

### Applicant Search

CAN\*  Customer Since

[Refresh](#)

### Personal

Applicant Type  Relationship\*  Staff

Group Name\*

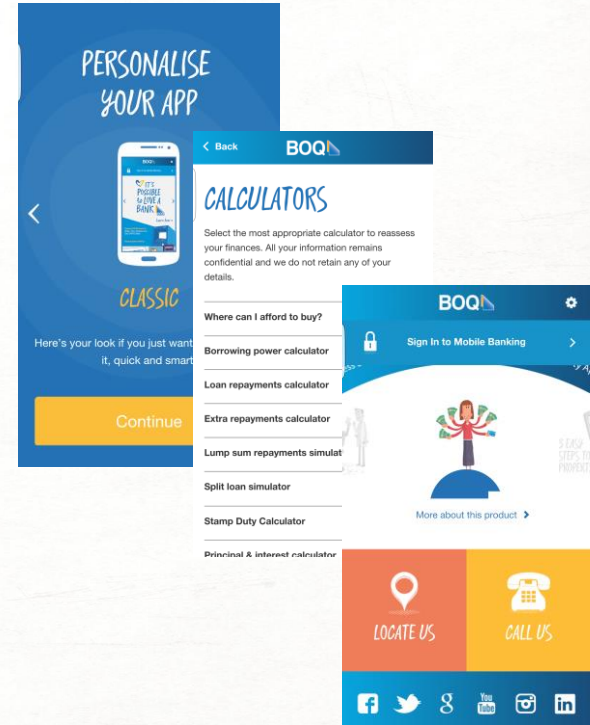
### Profile

Entity Type\*  Direct Benefit Flag\*

### Personal Details

Title*	<input type="text" value="MR"/>	First Name*	<input type="text" value="TST 0000000001"/>	Middle Name	<input type="text" value="C1 0000000001"/>
Last Name*	<input type="text" value="CUST 1 0000000001"/>	Full Name	<input type="text" value="TST 0000000001 C1 00"/>	Initials	<input type="text" value="TCC"/>
D.O.B.* (DD/MM/YYYY)	<input type="text" value="17/10/1931"/>	Age	<input type="text" value="83"/>		
Gender*	<input type="text" value="MALE"/>	Marital Status*	<input type="text" value="MARRIED"/>	Spouse is a Co-Applicant?	<input type="text" value="YES"/>
No. of Adult Dependents*	<input type="text" value="0"/>	No. of Child Dependents*	<input type="text" value="1 x"/>	No. of Couple*	<input type="text" value="1"/>
Eligible Pensioner*	<input type="text" value="NO"/>	First Time Buyer*	<input type="text" value="NO"/>	Carer*	<input type="text" value="NO"/>
Resident in Australia?*	<input type="text" value="YES"/>	Citizenship*	<input type="text" value="AUSTRALIA"/>	License Number	<input type="text" value="68745888"/>
Power of Attorney?	<input type="text" value="NO"/>	POA Number	<input type="text"/>	POA Name	<input type="text"/>
POA Address	<input type="text"/>				
Guarantee Type	<input type="text" value="Select"/>	Limited Value	<input type="text"/>		

[Save](#)
[Update](#)
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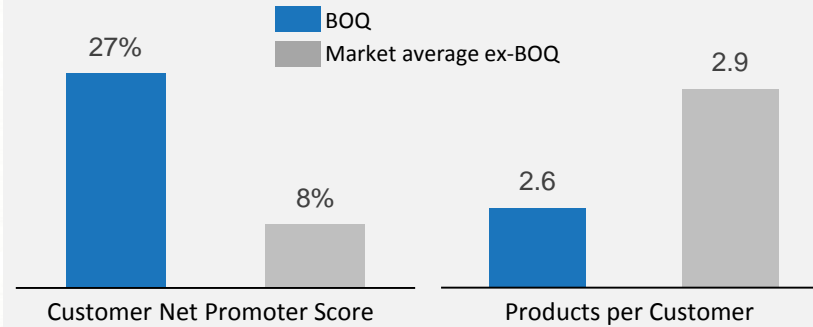


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## 2020 PRIORITIES

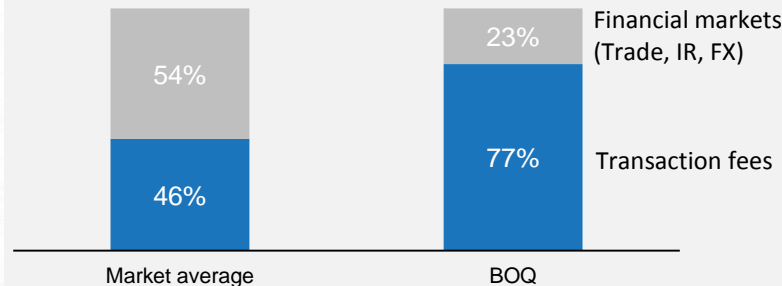
1. Instil sales and service discipline
2. Invest in leadership and talent
3. Cultivate diverse and inclusive work force

### Opportunity to monetise customer relationships



### Opportunity to broaden non-interest income

Business banking non-interest income composition (% total)



## FY16 FOCUS

1. Convert service advantage into sales
2. Invest in leadership and talent
3. Close gender gap



# SUMMARY

**JON SUTTON**

Managing Director & CEO

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# CREDIBLE CHALLENGER BANK STRATEGY ...



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## Major Banks



**Basis of advantage**

Scale, universal



Specialisation, focused

**Customer proposition**

Treated like a number



Treated like a person

**Digital focus**

Customer experience



Process automation

**Innovation philosophy**

“Not invented here”



“Can’t invent it here”

**Culture**

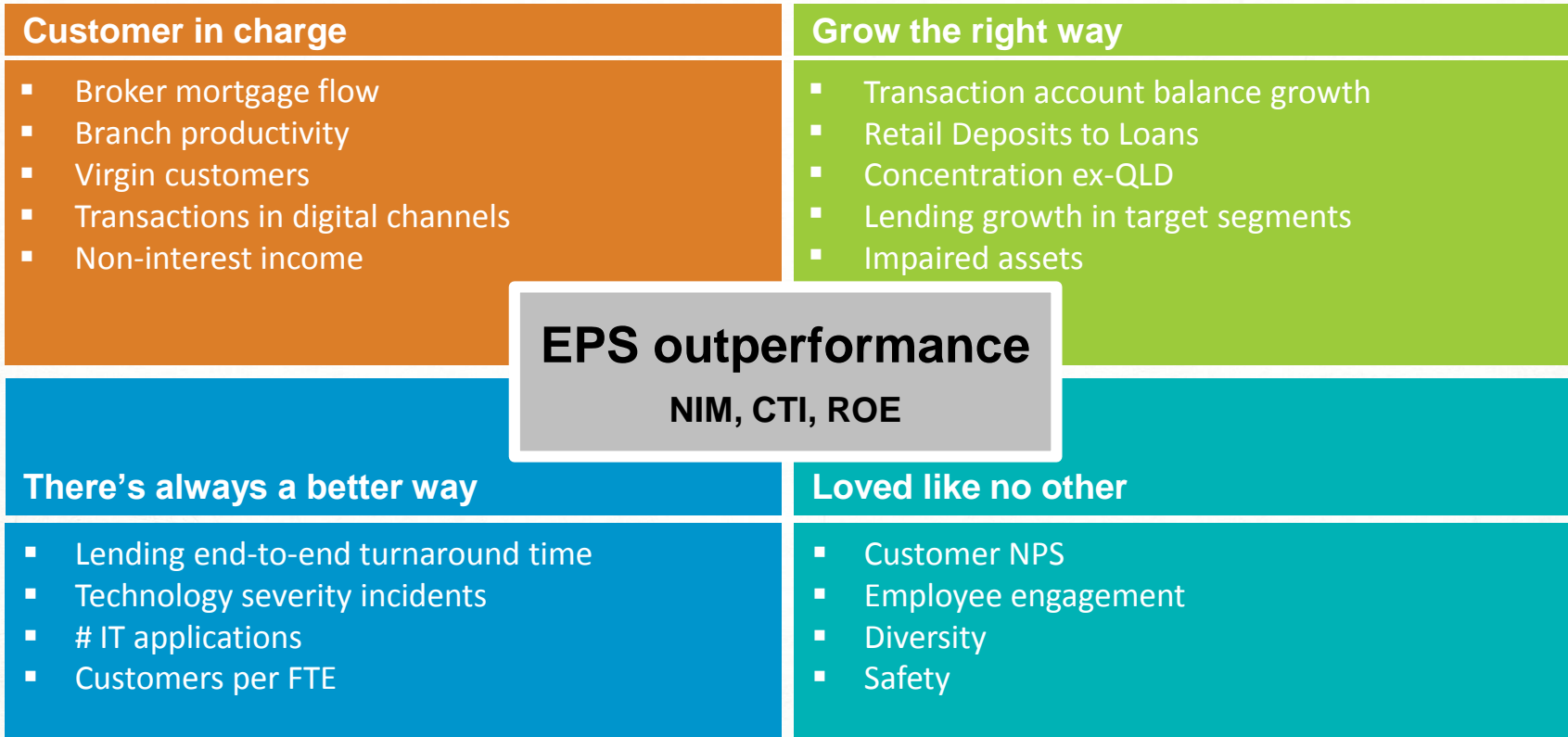
Bureaucratic



Nimble

# ... TO OUTPERFORM SECTOR EPS GROWTH OVER THE LONG-TERM

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# KEY MESSAGES



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- 1 Business foundations substantially stronger
- 2 Track record in organic and inorganic execution
- 3 Credible 'Challenger Bank' strategy
- 4 Targeting long-term EPS outperformance





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# GLOSSARY OF ABBREVIATIONS

EPS: Earnings per share

ROTE: Return on tangible equity

GLA: Gross Lending & Advances

NIM: Net Interest Margin

CTI: Cost-to-income ratio

BDD: Bad & Doubtful Debt Expense

ROE: Return on Equity

CET1: Common Equity Tier 1

NPS: Net Promoter Score

S&P: Standard & Poor's

QLD: Queensland

Y-o-Y: Year-on-Year

TX: Transaction

VMA: Virgin Money Australia

CAGR: Compound Annual Growth Rate

SME: Small and Medium Enterprises

FUM: Funds under Management

CRE: Commercial Real Estate

bps: basis points

MFI: Main Financial Institution

ALM: Asset & Liability Management

GRCL: General Reserve for Credit Losses

IRB: Internal Ratings-Based Approach

IT: Information Technology

IR: Interest Rate (Hedging)

FX: Foreign Exchange

# NOTES AND SOURCES



Page 7. (1) Last 12 months (LTM) before capital raising is for the period Mar 2011 to Feb 2012 (eg. H2FY11 + H1FY12); (2) Based on normalised cash earnings; (3) Computed as Non-interest income per Average GLA; (4) Commercial loans only. Source: Company reports

Page 8. (1) BOQ FY15 CTI 44.5% excluding \$16m one-off H1FY15 costs

Page 10. Challenger banks is weighted average of Bendigo, Suncorp and ING Direct; Major banks is weighted average of ANZ, CBA (including Bankwest), NAB, WBC (including STG). NPS is National 12-month rolling average: Jan 2013-Sep 2015. Source: Edelman Trust Barometer Annual Study – Australia (2014, 2015); Roy Morgan.

Page 15. BOQ GLA as at August 2015, includes BOQ, BOQS and BOQF GLA. BOQ CAGR is FY2013-2015.

Page 17. Source: Roy Morgan.

Page 18. Net Promoter Score is National 12-month rolling average, September 2015. Major banks is weighted average of ANZ, CBA (including Bankwest), NAB, WBC (including STG). High advocates is % of MFI customers rating their MFI 8 or 9 or 10 on Roy Morgan's 10-point advocacy scale. Source: Roy Morgan.

Page 19. Source Company Reports, Analyst Reports, Digital Finance Analytics, JP Morgan.

Page 20. Transaction deposits excludes offset and online accounts. Market average includes Suncorp, Westpac and CBA (ANZ and NAB do not disclose transaction account balances separately; eg. consolidated with savings accounts). BOQ Commercial Lending includes BOQ, BOQS and BOQF GLA. Source: Company Reports, RFi.

Page 22. BOQ FY15 CTI 44.5% excluding \$16m one-off H1FY15 costs. Australian Challenger Banks include Bendigo, Suncorp and ING Direct. NZ Banks include ASB, ANZ, Westpac NZ and BNZ. UK Challenger Banks include Aldermore, Shawbrook, OneSavings Bank. North American Challenge Banks include Canadian Western Bank, Laurentian Bank of Canada, Discover Bank, Signature Bank, BankUnited, Pinnacle Financial, First Republic, EverBank, EastWest Bancorp, Umpqua Bank. Digital channels include internet and mobile. Sources: Company reports, Bain & Company

Page 24. Sources: Roy Morgan, RFi, BCG, Company reports.