

# 1H16 RESULTS PRESENTATION

FOR THE HALF YEAR ENDED 29 FEBRUARY 2016

7 APRIL 2016



## RESULT OVERVIEW

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JON SUTTON  
Managing Director & CEO

## FINANCIAL OVERVIEW

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ANTHONY ROSE  
Chief Financial Officer

## OUTLOOK & SUMMARY

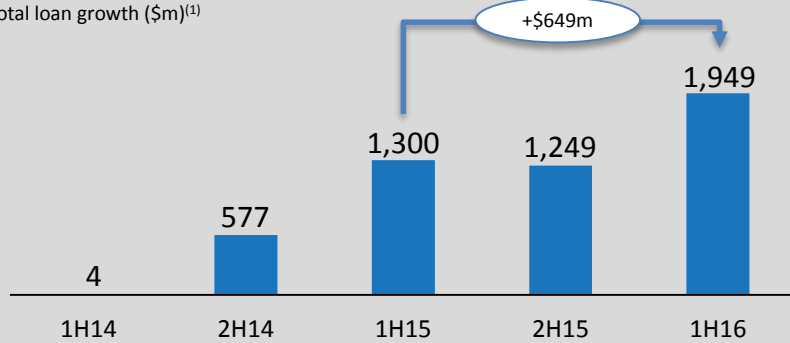
JON SUTTON  
Managing Director & CEO

- 1 Successful drive for growth whilst improving risk profile
- 2 Margin maintained in competitive markets
- 3 Expenses controlled, enabling reinvestment
- 4 Asset quality metrics resilient
- 5 Good progress against strategic priorities

# SOUND RESULTS DELIVERED IN 1H16

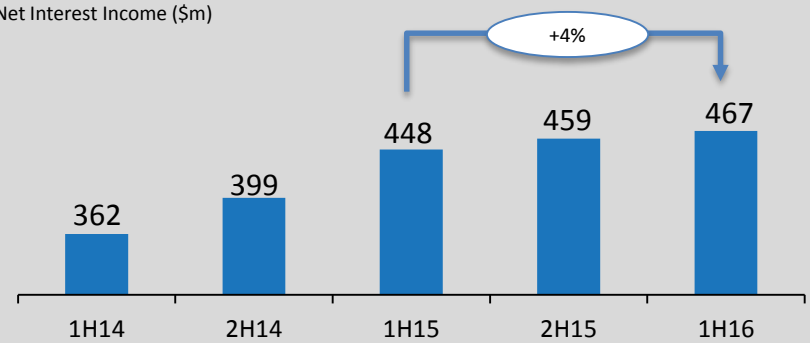
## Strong lending growth ...

Total loan growth (\$m)<sup>(1)</sup>



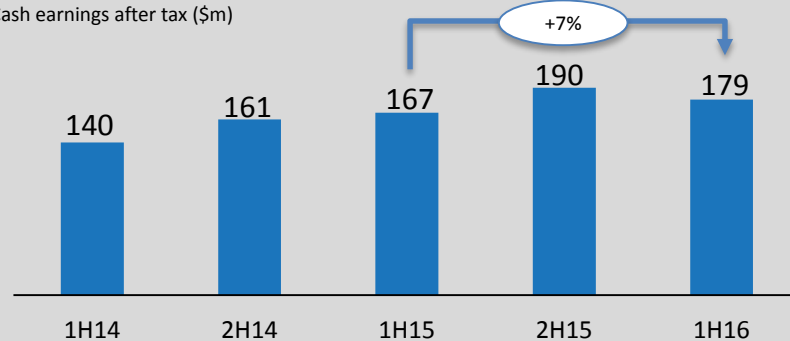
## ...contributing to Net Interest Income growth...

Net Interest Income (\$m)



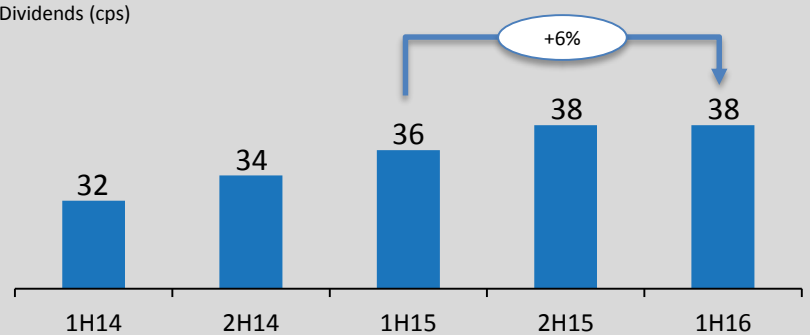
## Delivering cash earnings growth...

Cash earnings after tax (\$m)



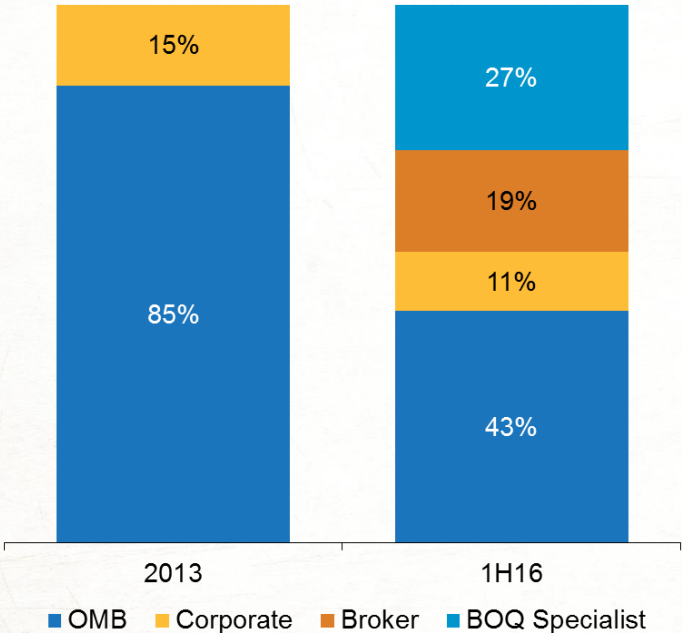
## ...and returns to shareholders

Dividends (cps)

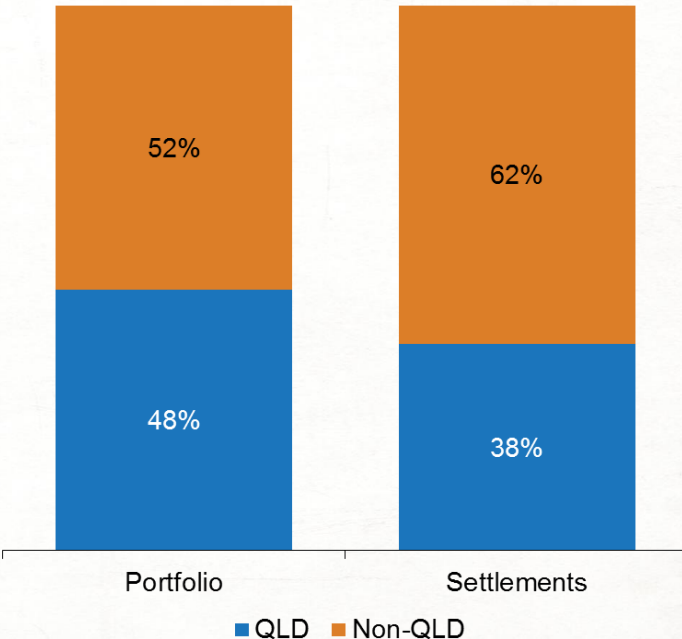


(1) 2H14 excludes the addition of the BOQ Specialist portfolio.

### Housing Settlements by channel



### 1H16 Total Lending by geography





## Strategic Pillar

**Customer in charge**

**Grow the right way**

**There's always a better way**

**Loved like no other**

## 1H16 Progress

- 3,200 brokers accredited
- Virgin Money mortgage product launch on track
- 8 Icon branches in total
- 10 branches closed or consolidated in the half

- Credit quality discipline maintained
- BOQ Specialist growth momentum maintained
- Customer deposit growth of 10% annualised for the half

- New lending origination system covering ~30% of applications
- Establishing data analytics capabilities
- 3 Lines of defence monitoring & supervision embedded

- Consistent sales and service training rolled out
- Enhanced leadership training being delivered
- Targets and KPIs embedded across group

# FINANCIAL OVERVIEW

**ANTHONY ROSE**  
Chief Financial Officer

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# FINANCIAL PERFORMANCE

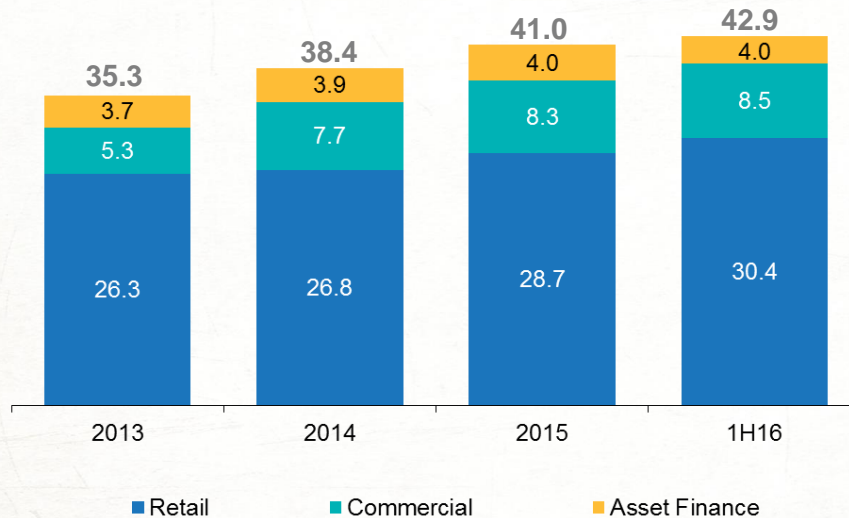
	1H16	1H16 v 2H15	1H16 v 1H15
Net interest income	\$467m	2% ▲	4% ▲
Non interest income	\$85m	(11%) ▼	1% ▲
Total income	\$552m	(1%) ▼	4% ▲
Operating expenses	(\$256m)	5% ▲	0% —
Underlying profit	\$296m	(5%) ▼	7% ▲
Loan impairment expense	(\$36m)	(5%) ▼	0% —
Profit before tax	\$260m	(5%) ▼	8% ▲
Income tax expense	(\$81m)	(2%) ▼	11% ▲
Cash earnings after tax	\$179m	(6%) ▼	7% ▲
Cash basic earnings per share	47.8c	(7%) ▼	5% ▲
Return on average tangible equity	14.0%	(100bps) ▼	20bps ▲



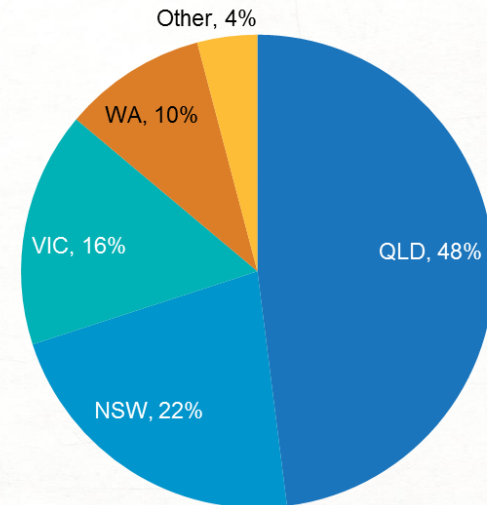
# LOAN PORTFOLIO RETURNED TO GROWTH

- Total lending up 10% (1.2x system), driven by new channels
- Diversification of lending portfolio continues – QLD down to 48% (from 60% FY12)

Gross Loans and Advances (\$b)<sup>(1)</sup>

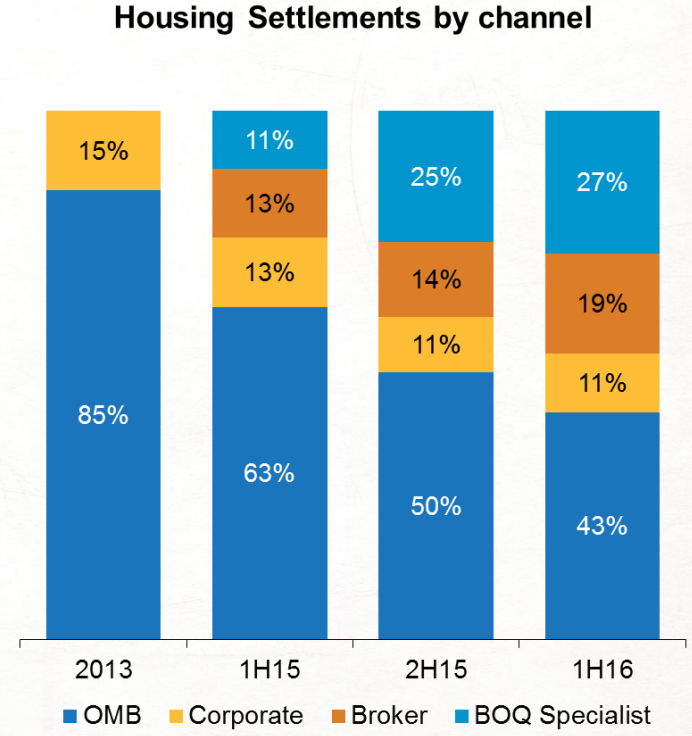
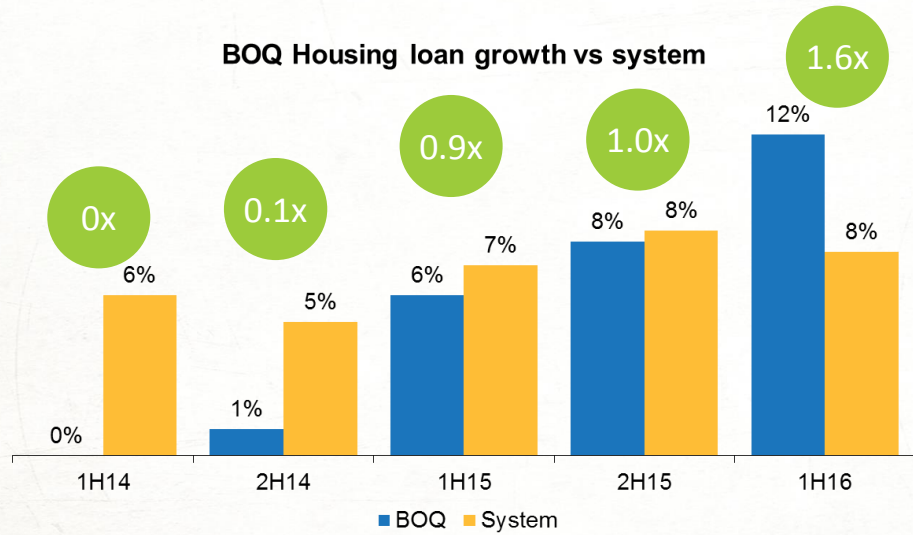


Total loans under management - 1H16



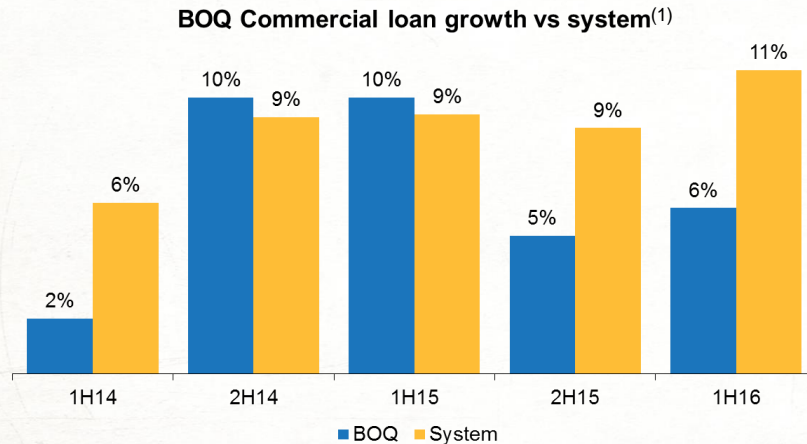
(1) Includes BOQ Specialist from acquisition in 2014

- Housing growth supported by broker expansion and BOQ Specialist



- Focus on targeted niche segments
- Not compromising credit quality for growth
- Subdued economic conditions & lack of business confidence

## Growth in target niche segments

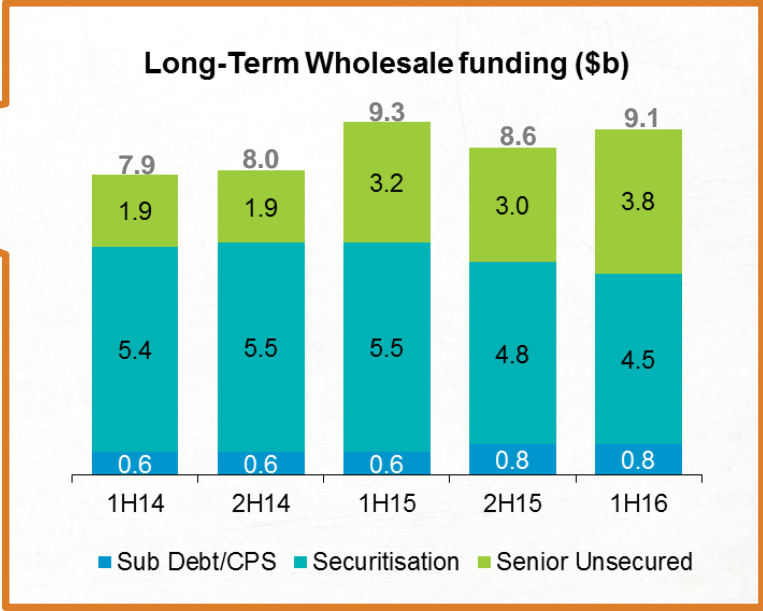
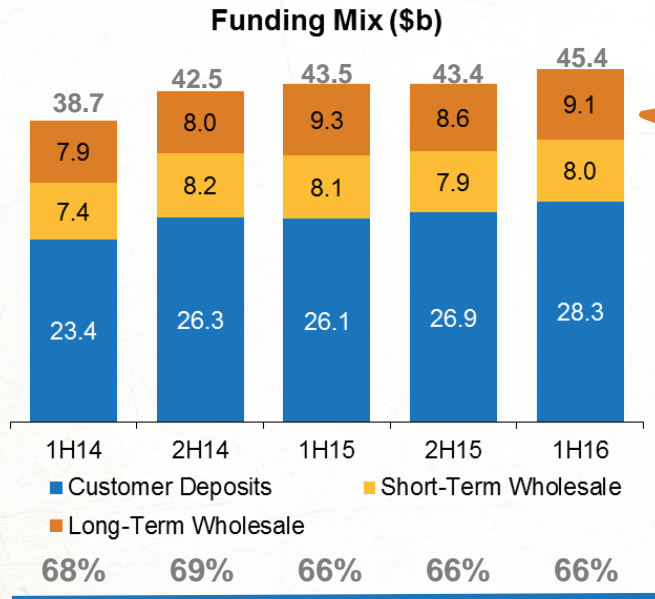


	1H16 growth <sup>(2)</sup>	1H16 Balance
Healthcare	14%	\$2.5bn
Retirement & Aged Care	100%	\$250m
Hospitality & Tourism	15%	\$200m
Agribusiness	21%	\$300m
Franchising	0%	\$45m
<b>Total</b>	<b>19%</b>	<b>\$3.3bn</b>

(1) 1H14 and 2H14 growth figures exclude BOQ Specialist. (2) Growth rates have been annualised.

# DEPOSIT TARGET RANGE MAINTAINED

- Growth in customer deposits (10% annualised on 2H15) to support lending growth
- Transaction account growth of 9%

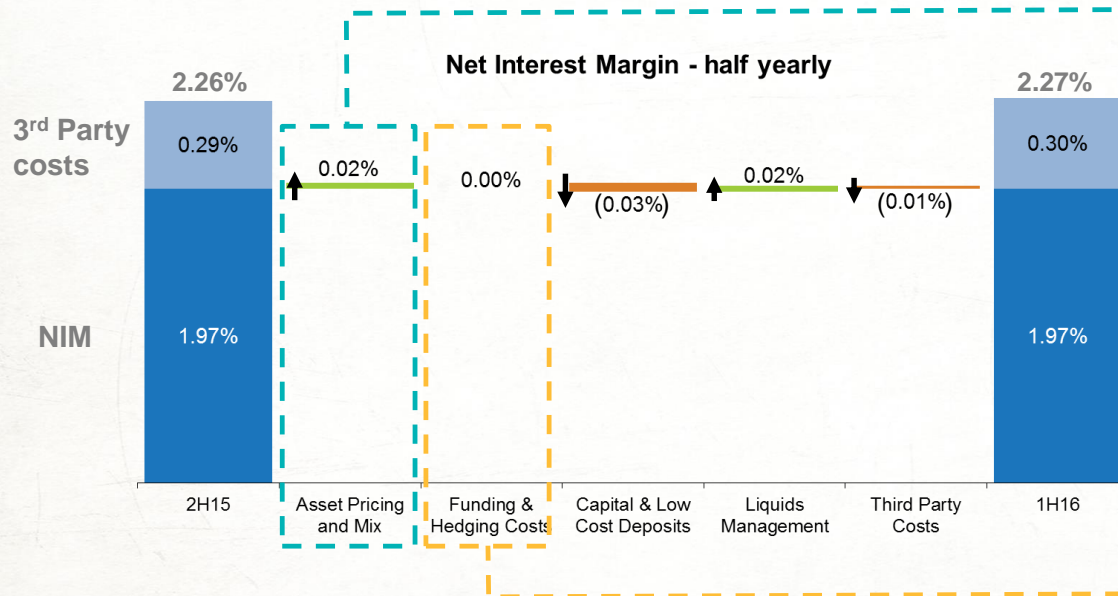


Deposits to Loans ratio



# NIM MAINTAINED BUT HEADWINDS EMERGING

- NIM maintained in a challenging environment
- Funding spreads and hedging costs increasing with heightened market volatility
- Prior period benefits of reduced funding costs no longer supporting margin



## Asset Pricing and Mix elements

- 6bps benefit from repricing initiatives
- 2bps contraction from front book pricing
- 1bp contraction from retention pricing
- 1bp contraction from higher mix of mortgages

## Funding & Hedging elements

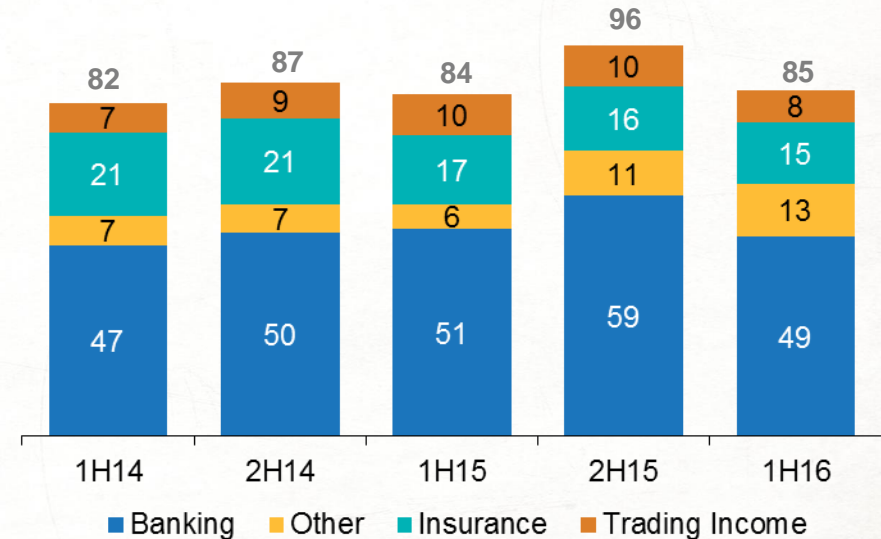
- 2bps benefit from funding mix & cost
- 2bps contraction from hedging costs



# OTHER INCOME IMPACTED BY ONE-OFFS

- Lower Non Interest Income than 2H15 with some seasonality impact
- Customer shift to lower fee products such as Clear Path mortgage product
- Changes to interchange fee arrangements reduced result by \$3m
- St Andrew's reduced contribution in line with expectations with claims experience returning to longer term levels

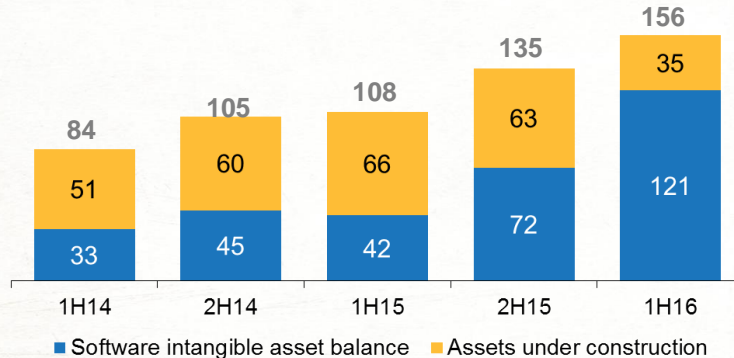
### Non Interest Income (\$m)



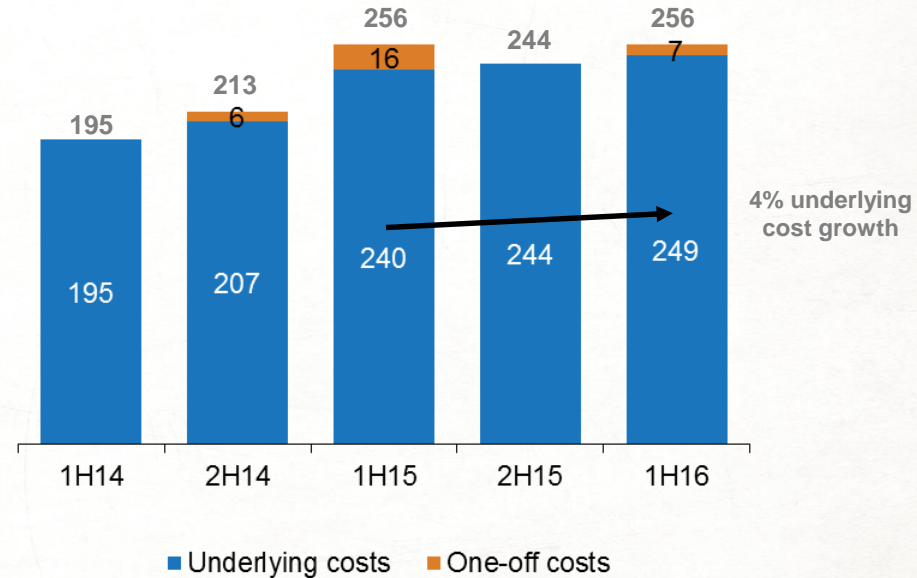
# EXPENSES MANAGED CLOSELY

- Cost to income ratio 45% excluding one-offs
- \$15m restructure investment: \$7m in 1H16
- Amortisation profile rising with investment in digitisation in line with expectations

Carrying value of intangible assets (\$m)

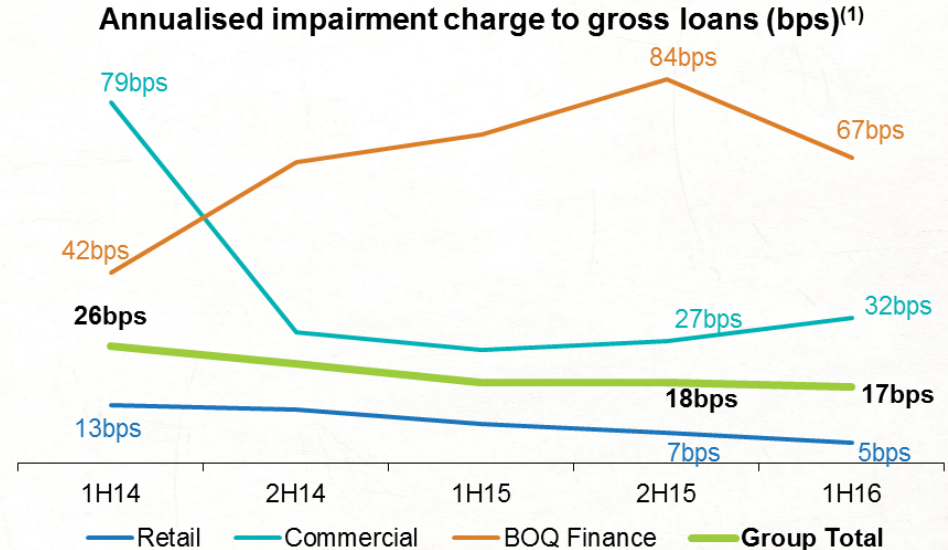


Operating expenses (\$m)



# IMPAIRMENT EXPENSE IMPROVED

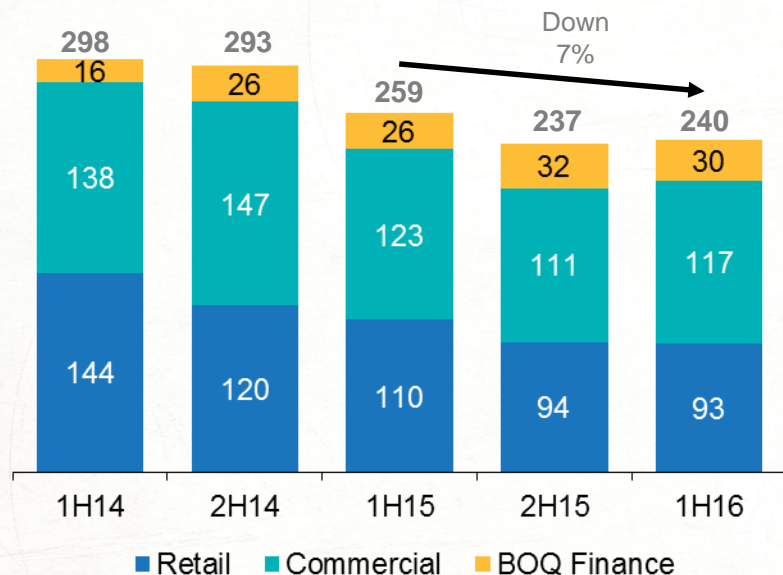
- Slight reduction in impairment expense to 17bps of GLAs
- Overall portfolio quality improved
- Commercial uptick driven by small number of uncorrelated larger exposures
- BOQ Finance portfolio performance back within expected range



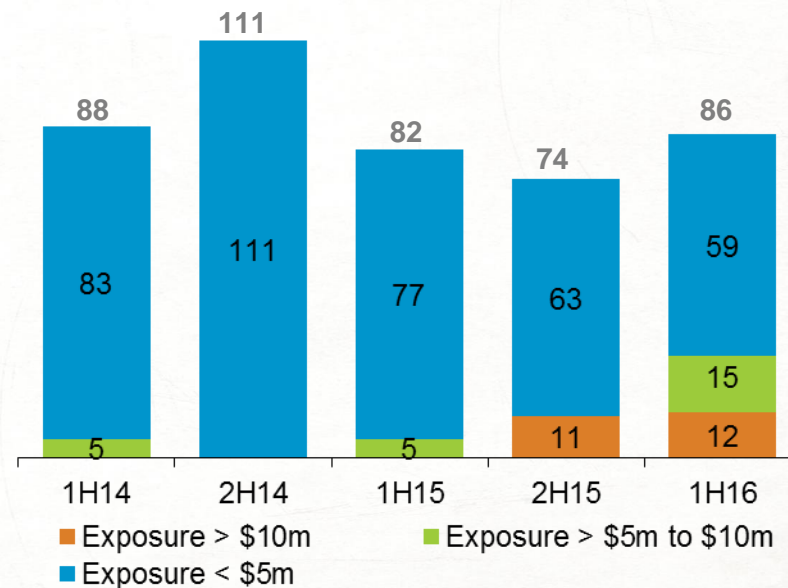
(1) Includes BOQ Specialist

# IMPAIRED ASSET TRENDS BENIGN

## Impaired Assets (\$m)



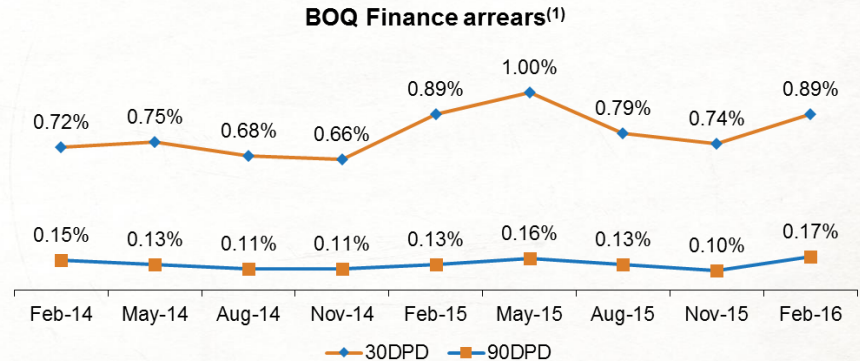
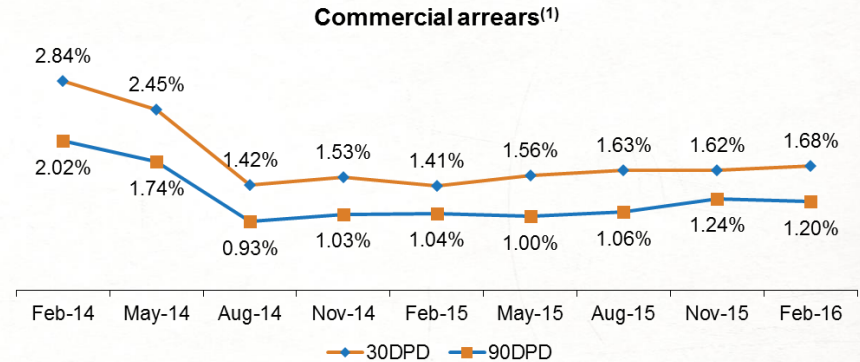
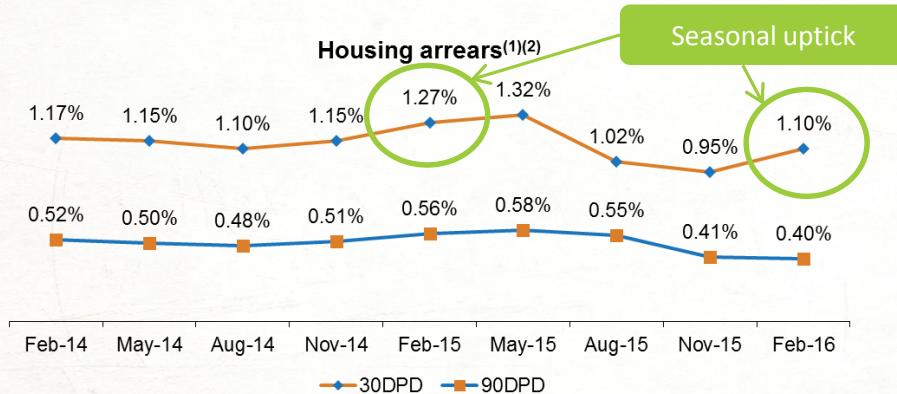
## New Impaired Assets (\$m)





# ARREARS LEVELS

- Housing arrears stable, with seasonal uptick post-holiday period
- Commercial arrears remains in acceptable range
- BOQ Finance arrears performing well



(1) Including BOQ Specialist (2) Housing excluding Lines of Credit



# MINIMAL EXPOSURE TO HIGHER RISK SECTORS

## Apartment construction exposures

- \$284m current exposure to residential construction<sup>(1)</sup>
- 41 developments across 4 states, completing 2016 through 2017
- Highest concentration in QLD and VIC, well diversified intra-state

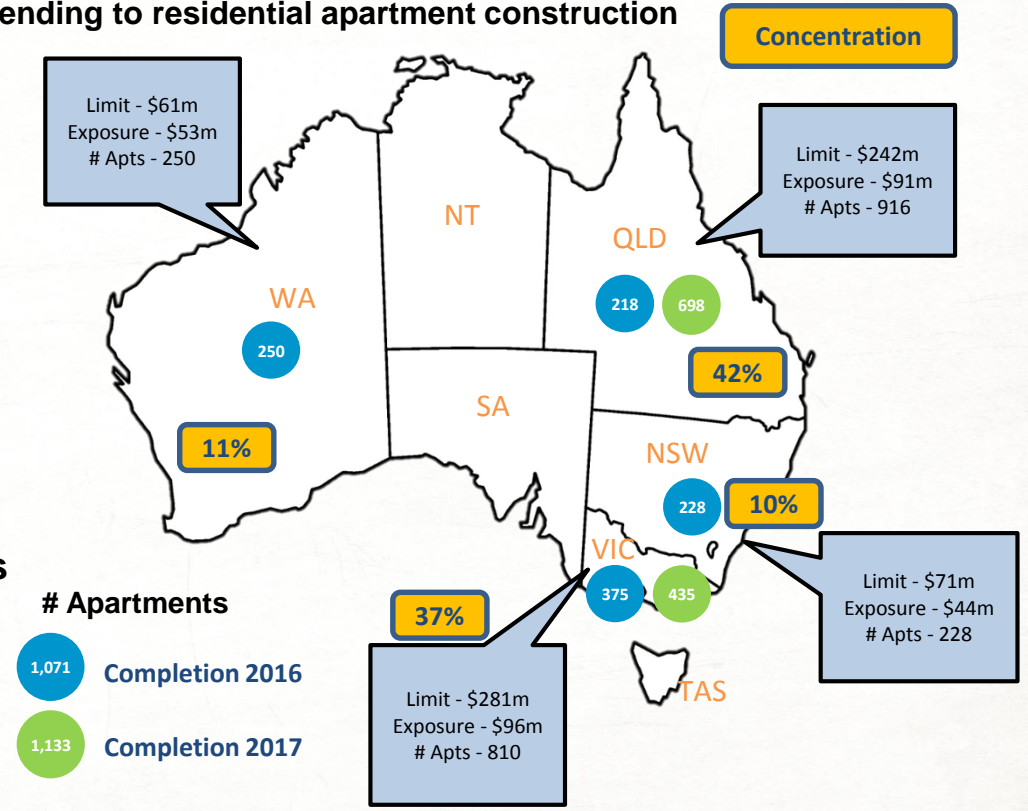
## Regional Housing exposures

- No material problem signs emerging in QLD & WA regional housing exposures

## Regional Commercial & Leasing exposures

- No systemic issues emerging
- Direct mining industry exposure <\$200m

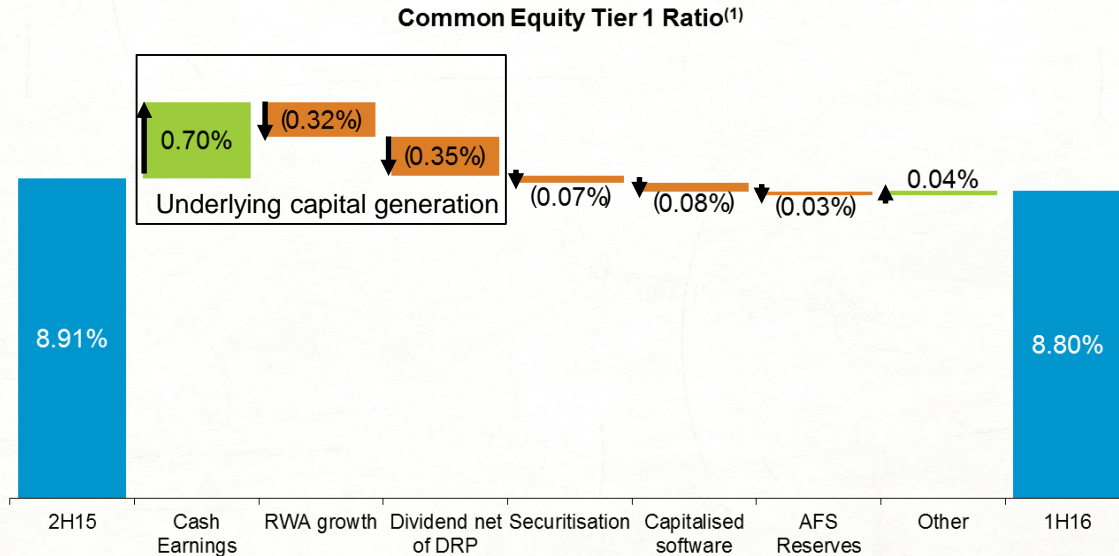
## Lending to residential apartment construction



(1) Projects over \$5m

# STRONG CAPITAL LEVEL MAINTAINED

- Higher growth in the half supported by underlying capital generation
- Seasonality and timing impacts reduced CET1 to 8.80%
- Back-ended RWA growth without full period earnings contribution
- Remain well capitalised relative to peers



(1) Cash earnings adjusted for one-off non-recurring items which in this half represents the impact of the restructuring costs of \$7 million before tax. Other items includes the positive impact of reduced deferred tax balances and dividends received from entities outside the capital group, net against non-recurring items.

# OUTLOOK & SUMMARY

**JON SUTTON**

Managing Director & CEO

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## Economic

- Positive factors supporting economic growth
- Uncertainty over near-term outlook
- State economic performance remains mixed
- Volatility hitting funding markets

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## Regulatory

- Revised standardised approach
- Capital floor for advanced banks
- Staged approach to advanced accreditation
- Net Stable Funding Ratio



- \$15m investment to remove duplication and manual processes
  - Organisational model
  - Centres of excellence
  - Digitisation of cheques, e-statements, etc
- Full return on investment within 12 months
- Savings to be redirected into further efficiency programs
- Continuous improvement culture
- Targeting cost to income ratio in the low 40s



Vision ...

Our dream is to create AUSTRALIA'S MOST LOVED BANK

Strategy ...

**Focus on niche segments that value a more intimate banking relationship**

FY16 priorities ...

Customer in charge	Grow the right way	There's always a better way	Loved like no other
<ol style="list-style-type: none"> <li>Expand accredited brokers to 4,000</li> <li>Roll out Virgin Money mortgage product</li> <li>Break-in digital</li> <li>Ongoing branch network optimisation</li> </ol>	<ol style="list-style-type: none"> <li>Continue to increase customer deposits</li> <li>Maintain discipline in pricing and credit quality</li> <li>Grow specialist niches</li> </ol>	<ol style="list-style-type: none"> <li>Roll out new Lending origination system</li> <li>Utilising data analytics</li> <li>Continue to invest in risk foundations</li> </ol>	<ol style="list-style-type: none"> <li>Instil sales and service culture</li> <li>Invest in leadership and talent</li> <li>Build diversity</li> </ol>

Outcomes ...

**Outperform sector EPS growth**

- 1 Good result achieved in 1H16
- 2 Balancing growth, margin and credit
- 3 Asset quality resilient
- 4 Continued investment in growth businesses
- 5 Delivering on strategy, with increased focus on cost efficiency

# ABBREVIATIONS

1H: First half of financial year  
2H: Second half of financial year  
30DPD: 30 days past due  
90DPD: 90 days past due  
AELA: Australian Equipment Lessors Association  
AFS: Available for sale  
ALM: Asset & Liability Management  
APRA: Australian Prudential Regulation Authority  
Apts: Apartments  
Avg: Average  
BDD: Bad & Doubtful Debt Expense  
bps: basis points  
CET1: Common Equity Tier 1  
cps: Cents per share  
CPS: Convertible Preference Shares  
CRM: Customer Relationship Management

CTI: Cost-to-income ratio  
DRP: Dividend Reinvestment Plan  
EPS: Earnings per share  
FY: Financial year  
GLA: Gross Loans & Advances  
GRCL: General Reserve for Credit Losses  
LOC: Line of Credit  
LVR: Loan to valuation ratio  
NIM: Net Interest Margin  
OMB: Owner Managed Branch  
Q2: Second quarter of financial year  
ROE: Return on equity  
ROTE: Return on tangible equity  
RWA: Risk weighted assets  
SME: Small and Medium Enterprises  
VMA: Virgin Money Australia

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