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ASX RELEASE

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BOQ turnaround on track with strong FY13 results

Highlights

- Strong after tax cash earnings result of \$250.9 million with full year dividend up 6 cents to 58 cents per share fully franked. Statutory profit after tax of \$185.8 million
- Underlying profit before tax up 8% to \$477.4 million
- Basic cash earnings per share up to 79.2 cents
- Taking a disciplined approach by focusing on credit quality and margin in a low credit growth environment
- Balance sheet strength and risk management progress recognised with two credit rating upgrades from Standard and Poor's (now 'A-') in 15 months
- Expenses tightly managed with savings reinvested in productivity initiatives, frontline capabilities
- Established a platform of lower risk, lower volatility and sustainable shareholder returns
- Further growth potential includes broker market expansion; Business Banking; and simpler processes and product suite

BOQ has posted strong cash earnings after tax of \$250.9 million, a solid achievement given the challenging economic environment and internal legacy issues. Statutory profit after tax rose from a loss in FY12 to \$185.8 million.

Underlying profit before tax was up 8% to \$477.4 million as a result of a disciplined approach to asset and margin growth in a low credit growth environment, as well as tight cost control.

A key driver of the Bank's improved cash earnings was the reduction in the loan impairment expense to \$114.6 million (from \$401.0 million in FY12), as a result of improved credit management practices and the focus on its risk appetite framework.

BOQ's strong financial performance, as well as confidence in its future prospects, has resulted in the Board declaring a final dividend of 30 cents per share fully franked, taking the full year dividend to 58 cents per share, an increase of 12% on FY12.

Delivery against strategy and key management targets

Managing Director and CEO Stuart Grimshaw said that over the course of the year, BOQ had continued to strengthen its business and deliver on its strategic priorities.

“While challenges remain, particularly around external market and economic volatility, the foundations are firmly in place for sustainable growth in shareholder returns,” he said.

“Our strategy is now all about execution and we are focused on our four strategic pillars: multi-channel optimisation; risk/return balance; operational excellence; and talent, capability and culture.”

He said all of the Bank’s FY13 key management targets were met with the exception of retail asset growth which was 0.6 times system, versus a target of 1.0 times.

“In a low credit growth environment where some players are aggressively chasing mortgage business, we chose to focus on credit quality and margins,” he said.

“We are focused on attracting great customers and, in particular, pursuing higher-margin, higher-return business lending.”

Retail asset growth was also impacted by the accelerated runoff of the Line of Credit portfolio, the lack of a substantive presence in the growing mortgage broker market and continued soft conditions in the Queensland residential property market.

“Our move from single to multi-channel distribution, including mortgage brokers and Virgin Money Australia, as well as initiatives to improve productivity in the retail network and provide simpler, more transparent products will help lift growth in the future,” Mr Grimshaw said.

Despite our risk-based approach to running off the higher-margin Line of Credit product, as well as a 2bps impact from the Convertible Preference Share issue late last year, net interest margin rose 2bps to 1.69%. The improvement reflected a range of initiatives including tighter deposit pricing and improved funding costs and mix.

In terms of costs, the cash cost to income ratio fell to 44.3% from 45.7% in FY12 with operating expenses up just 2%. Reinvestment in productivity and efficiency initiatives, particularly through projects such as the new customer relationship management system, is ongoing while there has also been an increase in the number of customer-facing roles.

Bad and doubtful debts to Gross Loans and Advances was 32bps, demonstrating the benefits of the investment made in improving BOQ’s risk management capabilities.

“Overall, we’re pleased to have generated higher profits and shareholder returns while at the same time dealing with a number of internal headwinds such as legacy product issues,” Mr Grimshaw said.

“Our efforts over the past 18 months to reshape the organisation and address underlying issues have been recognised by Standard and Poor’s decision to twice upgrade the Bank’s long-term credit rating, which now stands at ‘A-’.

“This is the highest credit rating the Bank has ever held and should not only increase the range of funding opportunities available to us but, over time, help lower our cost of funding.”

The Bank’s previously stated FY15 management targets remain in place.

Asset quality & risk management

Underlying improvement in the credit quality of the Bank's portfolio continued in 2H13, with improvement across all key metrics.

The reduction in impairment expense, down 71% to \$114.6 million (FY12: \$401.0 million), was a significant contributor to BOQ's strong bottom-line performance. Total impaired assets across retail, commercial and BOQ Finance fell 27% to \$381.6 million.

Arrears performance in the retail portfolio continued to improve in line with new collection and recovery procedures, coupled with the benefits of a low interest rate environment. Commercial arrears are improving as the Bank improves its ability to identify and address deteriorating loans earlier, although they still remain high.

Lending growth

In a low credit growth environment, retail lending increased 3% to \$26.1 billion (FY12: \$25.4 billion) while commercial lending increased 2% to \$5.3 billion (FY12: \$5.2 billion). Excluding the impact of impaired asset runoff, commercial lending grew at 7.5% or 3.6x system.

Lending growth figures will improve over time as the benefits of the multi-channel distribution strategy flow through, while any improvement in the Queensland property market will also assist.

BOQ also offers a compelling proposition to quality business banking customers, particularly SMEs disillusioned with the traditional offerings of other banks. BOQ was recently voted Australia's best SME business bank for the fifth consecutive year in customer research conducted by East & Partners.

Capital and funding

BOQ's balance sheet remains in extremely strong shape with the Common Equity Tier 1 ratio increasing by 5bps to 8.63%.

BOQ's Common Equity Tier 1 ratio remains one of the highest in its peer group despite a reduction of 30bps due to significant items including the product review provision announced in August 2013, and 6bps following the acquisition of Virgin Money Australia in May 2013.

The Bank's lending growth in the half was more than fully funded by retail deposit growth with a deposit to loan ratio of 68%, up from 64% in FY12, and a continued reduction in reliance on wholesale funding.

BOQ also took the opportunity to repurchase \$1.2 billion in Government Guaranteed debt in 2H13, reflecting improved wholesale funding markets.

Dividend

The Board has approved a final dividend of 30 cents per share fully franked, taking the full year dividend to 58 cents per share. The following dates apply:

- Ex-dividend date: 7 November 2013
- Record date: 13 November 2013
- Payment date: 4 December 2013

BOQ's annual general meeting will be held on 27 November 2013.

Outlook

Mr Grimshaw said the global business environment remained challenging, with the year ahead likely to be similar to the past 12 months.

“Domestically, small business and retail is still doing it tough and we don’t expect things to change significantly over the next 12 months,” he said.

“The relatively high exchange rate remains an issue - we have always said a lower rate would provide a real stimulus to the economy, particularly BOQ’s home state of Queensland given its dependence on tourism and flow-on benefits to the service sector.

“Despite these headwinds BOQ remains well placed to drive further revenue growth, given our under-representation in key distribution channels such as mortgage brokers, while there is also upside from further productivity and efficiency improvements.”

Mr Grimshaw said that BOQ would also benefit from improvement to the Queensland housing market, where there are early signs of recovery.

In terms of the broader competitive landscape, Mr Grimshaw said any proposed Federal Government Financial Services Inquiry should seek to improve competition for consumers by addressing regulatory system inequities that favour the Big Four banks.

He cited the example of residential mortgage risk-weighting imbalances that result in major banks achieving significantly higher returns than smaller banks for customers with identical risk profiles.

Results webcast details

BOQ’s results teleconference will be held today at 10:00am (11:00am in Sydney and Melbourne due to daylight savings).

Teleconference details are as follows:

Dial-in number (Australia):	1800 354 715
Dial-in number (International):	+61 (0)2 8823 6760
Conference ID:	72734775

The webcast address is: <http://www.media-server.com/m/p/fat4eov8>

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