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ASX RELEASE

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BOQ delivers record FY15 result

Summary*

- Record result in a challenging market with statutory profit after tax up 22% to $318 million and cash earnings after tax up 19% to $357 million as a result of:
  - Strong margin management with cash net interest margin up 15 basis points to 1.97% against an industry backdrop of contracting margins;
  - Further improvement in asset quality with loan impairment expense reducing 14% to $74 million; and
- Returning to growth with total lending of 0.8x system, driven by BOQ Specialist and the broker channel with further upside expected from channel expansion.
- BOQ Specialist delivering above expectations with cash earnings of $43 million, $5 million ahead of guidance at the time of acquisition.
- With first half one-offs and the inclusion of the higher margin, higher cost BOQ Specialist business, the cash cost to income ratio for the full year was 46%, up from 43.9%.
- Strengthened capital position with CET1 ratio increasing 28 basis points to 8.91%.
- Sector-leading shareholder returns and a fully franked dividend up 12% to 74 cents per share.
- Good progress towards building a bank that can deliver consistent performance and solid returns to shareholders.

**FY15 vs FY14 comparisons*

BOQ has delivered record statutory and cash profit results for the financial year to 31 August 2015, with the Bank continuing to make good progress towards building an organisation that is well-positioned for sustainable growth.

Statutory profit after tax was up 22% on the prior year to $318 million. After tax cash earnings increased 19% on FY14 driven by higher net interest margin, a strong full year contribution from BOQ Specialist and further improvement in impairment expense. Basic cash earnings per share grew 9% to 97 cents per share.

The Bank's financial performance enabled the Board to determine to pay a final dividend of 38 cents per share, up two cents on the previous corresponding period, taking full year dividends to 74 cents per share fully franked.

Chief Executive Officer Jon Sutton said he was pleased the Bank had delivered another record result in challenging market conditions.

"BOQ has now delivered record results for five successive halves, a significant achievement in an environment of low growth and changing regulations," Mr Sutton said.

"Though we have more work to do, particularly around returning to higher levels of asset growth, most of our key financial metrics are moving in the right direction.

"Overall we remain a bank that has come a long way in recent years and we are confident that we are well positioned for sustainable growth into the future."

Continued strong margin management

Net interest margin for the full year was 1.97%, up 15 basis points on the prior year due largely to the higher margin BOQ Specialist business.

"There are many factors driving the outlook for margins in the year ahead given the changing regulatory environment, with banks positioning for global industry change under the Basel IV framework expected to be introduced in the coming years.

"The potential reduction in the significant capital advantage enjoyed by advanced accredited banks should be a positive to BOQ's competitive position and relative return performance."

Costs impacted by one-offs, BOQ Specialist

The Group's cost to income ratio increased to 46%, up from 43.9% in the prior year.

Mr Sutton said: "Costs in the first half were impacted by a number of one-offs but, over the year, we managed expenses tightly. With the inclusion of the higher margin, higher cost BOQ Specialist business, our cost to income ratio has rebased at 45%.

"In time, we expect our cost to income ratio to trend towards the low 40s."

Further improvement in asset quality

Credit quality across BOQ's retail and commercial portfolios continued to improve as a result of the Bank's enhanced risk management processes and risk appetite frameworks, as well as lower interest rates.

The FY15 impairment expense of $74 million was a $12 million (14%) improvement on the prior year. Impaired assets declined by $56 million (19%) to $237 million following a reduction in new impaired assets and continued momentum in realisations.

BOQ Finance's loan impairment expense increased $10 million which was primarily attributable to the impact of the mining industry downturn on associated sectors.

However, the BOQ Finance portfolio, which saw higher arrears earlier in the year, has seen these levels return to more normal levels.

Returning to growth

BOQ has moved closer to system growth, with total lending up 7% as the Bank successfully progressed its strategy of expanding distribution channels so customers can choose how they interact with the Bank.

New distribution channels, including brokers, also helped diversify BOQ's asset base, with the proportion of total lending in Queensland falling below 50% for the first time.

The housing portfolio grew $1.9 billion or 7% (0.9x System) supported by the contribution of BOQ Specialist, which generated growth of $1.3 billion. The mortgage broker channel, which accounted for 15% of the Retail Bank's housing settlements, was up from 5% in the prior year.

Mr Sutton said BOQ was pleased to achieve the majority of its housing growth in the owner occupied space, actively targeting this segment through BOQ Specialist and brokers.

The Business Bank saw a slowing of the strong growth in recent periods as a result of some aggressive competitor activity. BOQ remains focused on growing its commercial exposures in a profitable and sustainable way, targeting niche segments that value the Bank's relationship based service approach.

Commercial lending balances grew 8% to $8.3 billion while BOQ Specialist's commercial book increased 14% to $2.3 billion.

The BOQ Finance portfolio grew by 2% to $4 billion, a solid result in an operating environment that has seen sluggish investment in plant and equipment. BOQ Finance's strategy of expanding its third party origination sources while continuing to support the Business and Retail Bank network has positioned the business for future growth.

Mr Sutton said that while he was pleased to see the Group returning towards system growth levels, further upside remained.

"A key plank of our strategy is to improve productivity through our retail lending origination system which will start rolling out later this month. This will improve our time to yes for customers and free up employee time from administrative tasks," he said.

BOQ Specialist delivering above expectations

BOQ Specialist contributed $43 million to the Group's FY15 result in its first full year since acquisition, exceeding the maintainable earnings guidance of $38 million announced at the time of acquisition by 13%.

The business delivered loan growth of $1.6 billion while maintaining margins and credit quality. BOQ Specialist serves health, medical and accounting customers and continues to benefit from the higher growth rates of these segments compared to the broader economy.

Strengthened capital position

The Group further strengthened its capital ratios during the year with the CET1 ratio increasing 28 basis points to 8.91%. CET1 increased in the second half as underlying cash earnings supported 7% annualised loan growth and a two cent increase in the final dividend.

The Board has determined to pay a final dividend of 38 cents per share, taking full year dividends to 74 cents per share fully franked (up 12%).

The following dates apply:

- Ex-dividend date: 29 October 2015
- Record date: 2 November 2015
- Final date to elect for DRP participation: 4 November 2015
- Payment date: 24 November 2015

BOQ's annual general meeting will be held on 26 November 2015.

Outlook

Mr Sutton said the economy remained below trend with recent improvements in business and consumer confidence likely to take time to translate to a sustained and meaningful uptick in activity.

"State economic performance remains mixed with Queensland and Western Australia still feeling the impacts of the mining slow down. Queensland house prices are still affordable and, in time, this is likely to result in increasing net migration, further boosting the State economy," he said.

"While we are waiting for the Federal Government response to the Financial System Inquiry, we have already seen our regulator take steps to level the playing field on mortgage risk weighting requirements.

"As a standardised bank, we remain very comfortable with our strong capital position. We will continue to monitor the Basel process and assess the benefits of advanced accreditation under Basel IV. We are also encouraged about the prospects of a faster path to accreditation.

"All in all, I am pleased that we have made further progress in our strategic transformation and I remain confident about the future for BOQ and our ability to deliver consistent performance and solid returns for our shareholders."

Results webcast details

BOQ's results teleconference will be held today at 10:30am AEDT (9:30am in Brisbane due to daylight savings time difference).

Teleconference details are as follows:

Dial-in number (Australia):	1800 725 000
Dial-in number (International):	+61 2 8373 3610
Conference ID:	3688003

The webcast address is: http://edge.media-server.com/m/p/hf2g2tuh

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