



ASX RELEASE

17 April 2018

BOQ delivers improved first half profit

1H18 financial highlights*

- Cash earnings after tax of \$182 million, up 4%
- Statutory net profit after tax of \$174 million, up 8%
- Net Interest Margin up 1 bp on the prior half to 1.97%
- Cost to Income ratio up 20 bps to 47.6%
- Loan Impairment Expense down 19% to \$22 million or 10 bps of gross loans
- Common Equity Tier 1 (CET1) capital ratio up 3 bps on the prior half to 9.42%
- Basic earnings per share up 2% to 46.5 cents
- Return on average ordinary equity up 10 bps to 9.9%
- Fully franked interim dividend maintained at 38 cents per ordinary share

**1H18 vs 1H17 comparisons unless otherwise stated. Figures are on a cash basis unless otherwise stated.*

BOQ today announced cash earnings after tax of \$182 million for 1H18, up 4 per cent on 1H17. Statutory net profit after tax increased by 8 per cent to \$174 million.

The BOQ Board has maintained a fully franked interim dividend of 38 cents per ordinary share.

BOQ also today announced the sale of St Andrew's Insurance to Freedom Insurance Group. More detail on this transaction is provided in a separate announcement.

Improved lending growth

There has been a notable improvement in lending growth, continuing the positive business momentum that returned in the previous half. Total lending growth of \$671 million in 1H18 represents an uplift of more than \$800 million compared to the contraction of \$157 million in 1H17.

This has been delivered through 3 per cent annualised housing loan growth (+\$382 million) at 0.5x system, together with strong commercial loan growth of 6 per cent annualised (+\$292 million), which was 1.6x system.

Managing Director and Chief Executive Officer Jon Sutton said BOQ's strategy to grow the right way, together with its deliberate approach of building niche businesses, is delivering.

“I am pleased to report that lending growth has improved. This was supported by our commercial niche segments, as well as home loan growth through the Virgin Money, BOQ Specialist and BOQ Broker channels,” he said.

“The first half has traditionally been a lower asset growth period for BOQ, so we are pleased with the steady rates of growth this half compared with 1H17,” Mr Sutton said.

Retail Banking and BOQ Business delivering on Group four pillar strategy

The Retail Bank has further diversified its channels of distribution, with solid contributions to housing loan growth from BOQ Broker and Virgin Money Australia. BOQ Business has continued to grow in niche commercial lending segments while also diversifying by geography, industry and asset class.

Mr Sutton said both divisions were contributing strongly to delivering the Group’s strategy.

“The Retail Bank has been successful in expanding its channels of distribution, with Virgin Money now a key contributor,” he said.

“Meanwhile the Business Bank has continued to benefit from maturing its niche strategy across commercial customer segments and its specialist businesses, BOQ Specialist and BOQ Finance.”

Asset quality remains sound

A strong focus on quality is evident with further improvement across a range of asset quality metrics. This is the outcome of a targeted approach to improve risk management over the past five years.

“We moved to adopt enhanced servicing, validation and responsible lending practices much earlier than many of our peers, Mr Sutton said.

“Although this has hampered our growth in prior periods, we think it was the most prudent approach to take for the long term,” he said.

Impaired assets as a percentage of gross loans were down to 39 basis points, while loan impairment expense was just 10 basis points of gross loans during the half.

Mr Sutton said that arrears levels remained benign across all portfolios and there were signs of improvement in the Queensland and Western Australian economies.

Investing in transformation while maintaining expense discipline

Expense and investment discipline is also evident with cash operating expenses increasing by less than one per cent compared to 2H17. Investment in the business is ongoing with initiatives delivered during the half including the rollout of the Group’s new web experience platform across the BOQ and BOQ Finance brands.

“This is an important step in our journey to lift the standard of our digital assets to better meet our customers’ expectations,” Mr Sutton said.

Strong capital position provides flexibility for capital management

BOQ’s strong capital position has been maintained. The CET1 ratio was up 3 basis points over the half to 9.42 per cent.

Mr Sutton said that the recent Basel and APRA papers suggest BOQ's current CET1 ratio positions it well for the changes that are coming.

Mr Sutton said this leaves BOQ with the flexibility to explore options to best manage its capital base in future periods.

"Although not announcing any specific initiative today, we are actively considering a range of options to enhance shareholder returns," he said.

Outlook

Mr Sutton said that the industry was facing a number of headwinds, but BOQ remains well placed.

"The industry faces challenges of low credit growth, low interest rates, regulatory uncertainty, increasing consumer expectations and increased scrutiny of conduct and culture.

"In this environment, our long term strategy remains the right one; we are building out our business bank in higher growth sectors of the economy and opening up new retail channels.

"We also remain focused on our customers, investing in a number of initiatives across the group that will improve our digital offering, bring us closer to our customers and enable us to provide them with a differentiated service offering.

"Our very strong capital position provides us with flexibility to consider options that will deliver the best value to our shareholders," Mr Sutton concluded.

Results webcast details

BOQ's results teleconference will be held today at 10:30am AEST.

Teleconference details are as follows:

Dial-in number (Australia)	1800 175 864
Dial-in number (International)	+61 2 8373 3550
Conference ID	6582738

The webcast address is: <https://edge.media-server.com/m6/p/9gqt38pa>

Ends

<u>Media Contacts</u>	<u>Analyst Contacts</u>
Tracy Hicks, Head of Corporate Affairs M: 0439 540 960 tracy.hicks@boq.com.au	Daniel Ryan, Head of Investor Relations T: 07 3212 3990 M: 0421 757 926 daniel.ryan@boq.com.au