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ASX RELEASE

BOQ FY18 Result

BOQ's FY18 financial highlights[1]

- Cash earnings after tax of $372 million, down 2%
- Statutory net profit after tax of $336 million, down 5%
- Net Interest Margin up 5 basis points to 1.98%
- Cost to Income ratio up 90 bps to 47.5%; Core operating expense growth of 1%[2]
- Loan Impairment Expense down 15% to $41 million or 9 bps of gross loans
- Common Equity Tier 1 (CET1) capital ratio of 9.31%
- Basic earnings per share down 3% to 94.7 cents
- Return on average ordinary equity down 50 bps to 9.9%
- Fully franked final dividend maintained at 38 cents per ordinary share

(1) FY18 vs FY17 comparisons unless otherwise stated. Figures are on a cash basis unless otherwise stated. FY17 includes the benefit of a $16m profit on disposal of a vendor finance entity
(2) Core expenses excludes amortisation and costs associated with the Virgin Money Australia mortgage offering

Thursday, 4 October 2018, Sydney: Bank of Queensland (**ASX: BOQ**) today announced FY18 cash earnings after tax of $372 million, down two per cent on FY17. Statutory net profit after tax decreased 5 per cent to $336 million. The BOQ Board has maintained a fully franked final dividend of 38 cents per ordinary share.

Evolution of the business continues

BOQ Managing Director and Chief Executive Officer Jon Sutton said evolution of BOQ has continued throughout this financial year.

"BOQ has transformed into a resilient, multi-channel business that is geographically diverse and serves a broader range of customers. This is a result of the clear and consistent strategy we have been implementing," he said.

"Loans originated by BOQ Specialist and Virgin Money Australia now account for 20 per cent of the loan portfolio and we have grown the BOQ Business division to a point where it now contributes almost 60 per cent of our cash earnings.

"We have continued to manage the business for the long term, investing in the digitisation of our operations and modernising our technology infrastructure," Mr Sutton said.

Good underlying result in a difficult environment

Despite the significant headwinds facing the sector, underlying revenue growth of two per cent[1] was achieved through lending growth and an improvement in net interest margin.

"We have managed for the environment we are faced with, prioritising margin over growth," Mr Sutton said.

"Our lending growth was funded by an improved mix of deposits through our branch network. Pleasingly, expenses were contained while continuing to invest in the business," he said.

Consistent growth in commercial niche segments

Total lending growth of $1.5 billion for the year was driven by above-system growth in BOQ's targeted niche commercial lending segments, as well as increasing the mortgage book for both Virgin Money Australia and BOQ Specialist.

BOQ Finance had a particularly strong year, contributing growth of $250 million.

"We are seeing consistently strong growth across commercial lending, which demonstrates our niche target segment strategy is working," Mr Sutton said.

"Our focus on relationship banking through industry specialists is resonating with and being welcomed by our customers," he said.

Asset quality remains a key strength

BOQ has not compromised on risk to achieve growth, with asset quality metrics showing further improvement. Impaired assets reduced 15 per cent to $164 million and loan impairment expense also reduced 15 per cent to $41 million or 9 basis points of gross loans. Arrears remain at benign levels.

"This ongoing improvement is a direct consequence of our clear risk appetite, robust lending practices and ongoing discipline," Mr Sutton said.

"There have been plenty of examples of banks cutting corners on risk to achieve growth, but all of our credit metrics demonstrate that we have been taking a prudent approach to risk," he said.

Utilising strong capital position to invest for the future

BOQ has maintained its strong capital position with a CET1 ratio of 9.31 per cent.

Mr Sutton said that this provided the flexibility to consider how best to deploy capital for long-term shareholder returns.

"We have chosen to utilise our strong capital position to invest for the future and set the business up for long term success," he said.

"We are increasing capital expenditure in FY19, with the focus of this investment on enhancements to our digital banking platforms and customer experience," Mr Sutton said.

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[1] Excluding the $16 million profit on disposal of a vendor finance entity in FY17

To create headroom for this additional investment, accelerated amortisation totalling $16m has been accounted for in the FY18 result, reducing the impact on future earnings.

Outlook

Mr Sutton said that although the industry continued to face a number of headwinds, BOQ is focused on delivering its strategy.

“The environment remains one of change but we firmly believe that our strategy is the right one,” Mr Sutton said.

“What is particularly pleasing is the acceleration of growth we have seen across our niche business segments and Virgin Money Australia.

“Our asset quality remains sound and signals the enhanced resilience that has been built into the Group’s balance sheet.

“We are confident that BOQ has a key role to play in servicing the needs of its customers, now and in the future,” Mr Sutton concluded.

ENDS

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	7470089

The webcast address is: https://edge.media-server.com/m6/p/r8njsvyd

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