BOQ FY19 RESULTS ANNOUNCEMENT

FY19 financial summary (1)

- Cash earnings after tax of $320 million, down 14%
- Statutory net profit after tax of $298 million, down 11%
- Net interest margin down 5 basis points to 1.93%
- Cost to income ratio up 300 bps to 50.5%
- Loan impairment expense of $74 million or 16 basis points of gross loans, up 7 basis points
- Common Equity Tier 1 (CET1) capital ratio of 9.04%, down 27 basis points
- Basic earnings per share down 16% to 79.6 cents per share
- Return on average ordinary equity down 160 bps to 8.3%
- Fully franked final dividend of 31 cents per ordinary share

(1) FY19 vs FY18 comparisons unless otherwise stated. Figures are on a cash basis unless otherwise stated.

Thursday, 17 October 2019, Sydney: Bank of Queensland (ASX:**BOQ**) today announced FY19 cash earnings after tax of $320 million, down 14 per cent on FY18. Statutory net profit after tax decreased by 11 per cent to $298 million. Basic cash earnings per share was down 16 per cent to 79.6 cents per share. The Board has announced a final dividend of 31 cents per share, for a full year dividend of 65 cents per share. This is a reduction of 11 cents per share from FY18. The final dividend payout ratio of 82% was consistent with the interim dividend payout ratio.

Disappointing results reflect challenging operating environment

BOQ's FY19 results reflect a challenging operating environment characterised by slowing credit demand, lower interest rates, a rise in regulatory costs and changes impacting non-interest income.

Total income decreased by $21 million or two per cent from FY18. Net interest income decreased $4 million, driven primarily by a five basis point reduction in net interest margin to 1.93 per cent. This reduction is attributable to the declining interest rate environment and continued strong competition for loans and deposits. Non-interest income decreased 12 per cent or $17 million, driven by declines in Banking, Insurance and Other income but partially offset by improved Trading income. Banking income reduced $11 million due to lower fee income and a change in arrangements related to BOQ's merchant offering. Insurance income reduced $8 million or 42 per cent due to changes in the insurance sector which ultimately impacted distribution of St Andrew's consumer credit insurance through its corporate partners.

In line with the guidance provided at the 1H19 result, operating expenses increased by $23 million or four per cent from FY18. The increase in expenses was more pronounced in the second half, due to an increase in business deliverables addressing regulatory and compliance requirements. While loan impairment expense increased $33 million to $74 million, equivalent to 16 basis points of gross loans, underlying asset quality remains sound with impairments and arrears remaining at low levels.

Implementation of BOQ's new AASB 9 collective provision model drove an increase in collective provisions due to changes in BOQ's portfolio and a weaker economic outlook. The increase in collective provisions contributed $22 million of the loan impairment expense uplift.

BOQ remains appropriately capitalised with a Common Equity Tier 1 ratio of 9.04 per cent, which is a decrease of 27 basis points from FY18. The reduction was driven by a combination of asset growth being tilted to more capital intensive business lines, increased capitalised investment, reduced earnings and lower participation in the dividend reinvestment plan.

Continued momentum in niche segments and Virgin Money, further contraction in BOQ Retail

Overall lending growth of two per cent was achieved over the year. Continued growth momentum was evident in BOQ's niche business segments. The BOQ Finance portfolio achieved growth of $667 million or 15%, while BOQ Specialist grew lending balances by $756 million across its commercial and housing loan portfolios which are focused on the medical segment. Virgin Money also delivered a consistently strong level of housing loan growth, with the portfolio growing by $914 million to over $2.5 billion. A key imperative remains rebuilding the foundation for growth in BOQ's retail bank, which saw a further contraction of $1.4 billion in its residential housing loan book.

Good progress in foundational investments

Solid progress has also been made across a number of key foundational investments during the year. BOQ's core technology infrastructure modernisation program has continued to track to plan, with implementation continuing through FY20. This will deliver a more modern, cloud-based technology environment which will allow for improved change capability.

During the year, work began on development of a new mobile banking application for BOQ customers, with a launch expected in 2020. Lending process improvements have also been a key focus to improve customer experience, particularly for home loan applications. A number of regulatory projects have also progressed during the year to address various regulatory and industry changes. These are all critical investments that will support BOQ's transformation and future aspirations.

Investment in the implementation of a new Virgin Money digital bank has also progressed during the year, with a customer launch planned for 2020. This will require $30 million of capitalised investment during FY20 to complete the phase one build which will deliver a transaction and savings account offering to customers. This is an investment in long term value creation for this iconic brand which has demonstrated success in attracting customers across its existing product suite. It is also anticipated that this investment in a new digital banking platform will be leveraged across the Group in the years ahead.

Outlook

Commenting on the results and outlook for BOQ, new Managing Director & CEO George Frazis said that there are challenges ahead, however fundamentally, BOQ is a good business.

"Our capital is well positioned for 'unquestionably strong', we have a good funding position and our underlying asset quality is sound.

"There are numerous opportunities ahead for a revamped BOQ and I will be working closely with the executive leadership team to complete our strategic and productivity review, with a market update on our plans in February 2020,"

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"The review will provide a lot more granularity on the contribution of these initiatives on our FY20 performance and beyond," he said.

Mr Frazis also outlined his key priorities, which are:

1. Return to profitable and sustainable growth;
2. Embed our purpose-led, customer culture;
3. Simplify our business, improve productivity and address costs;
4. Close the digital and data gap, delivering our mobile and VMA investments; and
5. Continue to strengthen the Bank.

Mr Frazis said that BOQ's transformation would take time and therefore FY20 would be a difficult year.

"We expect lower year-on-year cash earnings in FY20 with revenue and impairment outcomes in line with FY19, higher post-Hayne regulatory and compliance costs, and increased operating expenses related to our investment in technology."

"I am very focused on delivering sustainable growth and improved shareholder returns." he said.

Ends

Results webcast details:

BOQ's results teleconference will be held today at 10:30am (Sydney time). Teleconference details are as follows:

Dial-in number (Australia)	1800 175 864
Dial-in number (International)	+61 2 8373 3550
Conference ID	3169074

The webcast address is: https://edge.media-server.com/mmc/p/r2h5m7zu

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