ASX RELEASE

BOQ GROUP

Thursday, 20 April 2023

BOQ's 1H23 result reflects a strong financial position with good progress against strategic priorities.

Statutory net profit after tax	Cash earnings after tax	Net interest margin[1]	Housing loan growth[2]
$4m	$256m	1.79% ▲4bps from 2H22	$0.2bn ▲0.6% from 2H22
▼98% from 1H22	▼4% from 1H22	**Operating expenses** $495m ▲7% from 1H22	**Business loan growth[2,3]** $0.5bn ▲6% from 2H22

Interim dividend per ordinary share	Cash earnings per ordinary share	Cash return on average equity (ROE)	Common equity tier 1 (CET1) ratio[4]
20¢	39¢	8.4%	10.71%
▼9% from 1H22	▼5% from 1H22	▼70bps from 1H22	▲114bps from 2H22

1H23 RESULTS OVERVIEW

BOQ has today reported statutory net profit after tax for the first half of FY23 of $4 million, which included two one-off non-cash items: a $60 million provision for our Integrated Risk Program and a $200 million impairment of goodwill.

Cash earnings after tax was $256 million. This was supported by a margin tailwind, which has materially reduced over the last two months of the half, with heightened mortgage and deposit competition. The margin uplift was partially offset by a 7% growth in expenses, with the Bank's simplification program (refer Outlook below) intended to address the expense growth.

CET1 at 10.71% is an increase of 114bps from the prior half and includes the benefit received from the implementation of Basel III. Liquidity Coverage Ratio was 143%. BOQ intends to retain this higher capital buffer with a revised CET1 target range of 10.25-10.75%.

The Board has determined to pay an interim dividend of 20 cents per share. On the reported cash earnings result, the dividend payout ratio is 51%. The dividend represents a 61% payout after the one-off provision for the Integrated Risk Program is included.

BOQ advanced the digitisation of the Bank in 1H23 with $3.8bn of customer deposits now on the new digital banking platform. In the half, BOQ's investment was focused on retail digital transformation and the delivery of our data capabilities. BOQ will shortly launch the first phase of ME digital deposits on the same core platform as the myBOQ and VMA brands – a major milestone in digitising BOQ.

Managing Director and CEO, Patrick Allaway said "BOQ is in a strong financial position as we enter this more challenging economic cycle. We are well positioned to continue to invest in our transformation to deliver a stronger and simpler low-cost digitally enabled bank. We have made significant progress since announcing our strategy in 2020 across digitisation; improving our strategic position through the ME bank acquisition, achieving growth across our brands and strengthening our financial resilience."

BOQ Group
Level 6, 100 Skyring Terrace
Newstead QLD 4006

Media enquiries
Head of Media and Government Relations
david.bold@boq.com.au
0423 202 369

Analyst/ Investor enquiries
General Manager, Investor Relations
tanya.aaskov@boq.com.au
0429 524 095

1H23 KEY FINANCIAL RESULTS

Statutory NPAT for 1H23 was $4m, a 98% decrease on 1H22. The statutory NPAT was affected by two large one-off non-cash items being a $60m provision for the Integrated Risk Program provision and $200m impairment of goodwill.

Cash NPAT for 1H23 was $256m, a 4% decline on 1H22. The decline is attributable to a loan impairment credit of $15 million in the prior corresponding period.

Total income of $902m increased 9% from 1H22. The increase was driven by higher net interest income and higher asset balances.

Net interest income of $832m increased by $91m or 12% on 1H22, driven by a 5bps increase in NIM and 9% growth in AIEA.

Non-interest income of $70m decreased $20m or 22% from 1H22. The result reflects a more stable position, excluding historical one-off benefits. Banking income was higher due to housing fee income reclassification, while other income was impacted by lower third-party card services and lower insurance income.

Net interest margin in 1H23 was 1.79%, a 4bps increase on 2H22. An accounting adjustment which did not impact earnings was made in the half, this means the underlying in-period NIM increase was 6bps. The key driver was benefits received from the rising interest rate environment.

Operating expenses of $495m were up 7% on 1H22, reflecting higher inflation and other costs including higher technology expenses and costs for proactive customer contact, technology and cyber security.

Loan Impairment expense of $34m compared to a credit of $15m in 1H22. The LIE was driven by an increase in collective provisions reflecting continued uncertainty around future economic impacts of inflation and interest rate pressures as well as recently observed and forecast declines in house prices.

Cost to income ratio improved by 60bps to 54.9% in 1H23, delivering on the commitment to positive jaws, with 2% achieved in the period.

Interim Dividend for 1H23 was 20 cents, a 9% decrease on 1H22.

Cash earnings per share decreased 5% to 39cps driven by the lower earnings in the period due to a loan impairment credit in the prior corresponding period.

Cash return on average equity (ROE) decreased 70bps to 8.4% during 1H23.

Cash return on tangible equity (ROTE) of 10.6% was a decline of 90bps on 1H22.

CET1 increase of 114bps on 2H22 including 120bps of Basel III updates. The Group's solid capital buffers, which remain at the upper end of the target range, reflect shifting priorities to strengthen BOQ's financial and operational resilience.

Housing Loan Growth of $177m was moderated in the period, reflecting prudent capital deployment and prioritisation of economic return over volume growth in a highly competitive market.

Business Loan Growth momentum continued, with growth primarily achieved in the key focus areas of SME, healthcare, agriculture and equipment finance. Growth for the period totaled $509m, which included growing at 2.4x system for SME and 0.3x for Corporate lending.

Customer deposit growth continued with an additional $4.6bn of balances added during the half. The execution of the digital strategy delivered a strong growth with $2.3bn of deposit growth on the new digital banking platforms. The deposit to loan ratio was 80% for 1H23. BOQ's customer deposits totaled $65.5bn.

Net Promoter Score[5] Overall Retail NPS was ranked 5th for BOQ. Mortgage NPS ranked 9th and Business NPS was ranked 5th in the period.

BOQ Group
100 Skyring Terrace
Newstead QLD 4006

Media enquiries
Head of Media and Government Relations
david.bold@boq.com.au
0423 202 369

Analyst/ Investor enquiries
General Manager, Investor Relations
tanya.aaskov@boq.com.au
0429 524 095

OUTLOOK[6]

The Australian economy ended the half reasonably well placed, with low unemployment, stable growth in order books and strong terms of trade. However, economic growth is moderating due to elevated inflation and higher interest rates. Further slowing is expected in the second half of the financial year. Australia is well positioned through the economic cycle with a strong banking system.

We expect to see heightened mortgage competition continuing as well as escalated deposit competition due to Term Funding Facility refinancing, with interim margin compression anticipated.

BOQ remains focussed on our multi-brand approach, with the diversification across the retail and business banking portfolios providing opportunity for prudent capital allocation while we optimise revenue, portfolio quality and returns.

We have seen the benefits of improving processes, reducing the number of products and decommissioning redundant technologies. The next phase in this simplification is to align the structure of our organisation to our target customer segments and business model, reduce duplication through a horizontally integrated model and leverage the automation of processes. We will provide a more detailed update to the market in the second half outlining our productivity targets to underpin material cost benefit realisation from FY24.

BOQ has a strong capital position and expects CET1 to remain comfortably within the target range of 10.25 - 10.75%. Our dividend payout ratio target range is 60-75% of cash earnings[7].

1. Includes a reclassification of $9m ME housing fee income from net interest income to non-interest income to align to BOQ accounting treatment.
2. Growth rates are annualised.
3. Business lending comprises commercial lending and asset finance.
4. CET1 ratio under the revised Basel III framework which came into effect 1 January 2023.
5. RFi XPRT Report February 2023. Consumer NPS refers to Main Financial Institution (MFI). DBM Atlas Report February 2023. SME NPS refers to Any Financial Relationship and businesses under $40m turnover.
6. Subject to no material change in market conditions.
7. The amount of any dividend paid will be at the discretion of the Board and will depend on several factors, including a) the recognition of profits and availability of cash for distributions; b) the anticipated future earnings of the company; or c) when the forecast timeframe for capital demands of the business allows for a prudent distribution to shareholders.

INVESTOR BRIEFING

BOQ's results will be held today at 10:30am AEST. The webcast address is https://edge.media-server.com/mmc/p/fkjtehtu

Participants can register for the conference by navigating to https://s1.c-conf.com/diamondpass/10029592-yt5e6r.html. Please note that registered participants will receive their dial in number upon registration.

ENDS

Authorised for release by: The Board of Directors of Bank of Queensland Limited

BOQ Group
100 Skyring Terrace
Newstead QLD 4006

Media enquiries
Head of Media and Government Relations
david.bold@boq.com.au
0423 202 369

Analyst/ Investor enquiries
General Manager, Investor Relations
tanya.aaskov@boq.com.au
0429 524 095