BOQ FY22 Full Year Results Announcement

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Transcript:

Cherie Bell: Good morning everyone and welcome to BOQ's full year results presentation for 2022. My name is Cherie Bell and I am the General Manager of Investor Relations. Before we begin, I would like to acknowledge the Traditional Custodians of the lands upon which we are meeting today, the Gadigal people and recognise Elders past, present and emerging.

Thank you for taking the time to join us this morning. With me is George Frazis, our Managing Director and CEO and Racheal Kellaway, our Chief Financial Officer. We are also joined in the room by BOQ's executive team and senior management. This morning we will be providing you with an overview of our full year results. We're also taking the opportunity today to update the market on our refreshed strategic priorities and long-term targets. I will now hand over to George.

George Frazis: Thank you Cherie and good morning everyone and thank you for joining us. In today's briefing, in addition to our results, we'll be presenting our refreshed strategy and targets. I'd like to start this morning by acknowledging those communities who are experiencing the impacts of flooding, some for the third time this year. Our thoughts are with them. As Cherie mentioned, I'm joined this morning by Racheal and other members of my executive team and senior leaders.

Today we're reporting another solid performance for the full year, continuing the strong momentum achieved by the Group in FY21. Our underlying earnings increased 1% over the year, with cash earnings down 5% due to the absence of material provision writebacks in FY21. These results reflect the sharp focus on our strategic priorities, the execution and realisation of synergies from the ME integration and delivering to plan on our new digital bank transformation.

After returning ME Bank to growth in the first half, we have seen growth in housing across all our brands. Our focus on medium-sized family businesses has resulted in SME lending growth ahead of market for the year. The integration program is delivering ahead of plan with increased synergies. We are delivering against our transformation road map, with BOQ and VMA digital transaction deposits enabled on our new cloud digital bank.

The quality of our portfolio has remained high with good underlying security and serviceability buffers. Our CET1 ratio of 9.57% is above our target range. As a result of this solid financial performance, the Board has determined to pay a final dividend of $0.24 per share. This represents a 65% cash earning payout ratio for the half, which we believe is appropriate while we are transforming our business.

Turning now to the results in more detail on slide 9, total income increased 1% while operating expenses remained flat. This resulted in underlying profit growth of 1% to $745 million. We delivered cash earnings of $508 million for the year, down 5% as the result of provision writebacks in FY21. Cash earnings per share were $0.784. Statutory NPAT was up 15% to $426 million. Both ROTE and ROE improved in the year.

The drivers of the results are outlined on slide 10. Total income increased $9 million in the year, totalling $1.68 billion. While this was an increase of 1% for the year, the result was materially impacted in the first half by the decrease from lower ME balances which occurred prior to BOQ's ownership. We also saw NIM increase in the second half and finish the year strongly, with the last quarter NIM of 1.81% and an exit NIM well in excess of this. Net interest income increased in the second half by 6% to $788 million.

Turning now to lending and deposit growth on slide 11, lending growth momentum has remained strong with all brands contributing to $5.5 billion in GLA growth for the year. Pleasingly this growth has come through both housing and business lending. This demonstrates the benefits of our diversified portfolio, our multi-brand strategy and balance between retail and business banking.

Housing loans increased by $4.4 billion in the year, more than twice the level achieved in FY21. Central to this has been the turnaround in ME earlier than our initial acquisition projections, helping reverse the headwinds to net interest income we experienced in the first half.

In the business bank, our strategy is delivering results both in terms of market share and returns. Customer deposits increased by $4 billion for the year across the retail and business bank, supporting asset growth with a deposit-to-loan ratio of 74%. A highlight was transaction accounts growing at 19% over the course of FY22.

Looking more closely now at the business bank on slide 12, we have a differentiated approach focused on medium-sized family businesses. Bankers, owner managers and risk officers are specialised in our niche segments, providing relationship banking. Our lending is primarily underpinned by security and the investment in the business bank is starting to deliver, with revenue growth of 7%.

We have simplified our policies, streamlined processes and built capability in our bankers which is delivering returns. Our SME portfolio increased by $0.6 billion for the year, equivalent to 1.5 times system for the SME market. The focus of medium-sized family businesses delivers better margins, returns and a risk profile.

Corporate banking growth has been achieved with a focus on returns and our finance business also continued to grow, despite the global supply challenges. Importantly, this business lending growth is well diversified and secured, with 92% of business lending underpinned by security.

Next on slide 13, you can see that during FY22 we have focused on quality growth. This is especially important given the current uncertain economic environment. We also recognise the importance of optimising our margin through this period. You can see that in our higher quarter four margin of 1.81% and an exit margin well in excess of this.

Our fixed rate lending applications, which were high during the first half, have normalised, removing the NIM drag going forward. And the revenue decline from the ME balance sheet decrease prior to our ownership has reversed and now represents a tailwind. Our portfolio is high quality, with business and housing loans backed by strong collateral.

53% of our home loan customers are ahead on their repayments by one year or more. We have seen our high LVR lending decrease again during the period, with this being an explicit strategy over the last four halves. We have strong provisioning levels and are well positioned for the economic environment.

Now to slide 14. Operating expenses were flat in the year. We delivered $38 million in synergy benefits ahead of our estimates and a further $30 million in productivity benefits. These savings have enabled us to invest in growth such as SME and invest more in our digital transformation while delivering a solid cost outcome.

We are at a midpoint in this transformation, which means we continue to incur the costs associated with our legacy platforms while building our new digital platform. This leads to increased costs in the near term due to the lag between developing the new and decommissioning the old.

As has been the case across the banking industry, we are experiencing the impacts of regulation, rising inflation and skill shortages. We expect this to drive up costs in the near term. However in the longer term, unit costs will benefit from the ability to scale efficiently, as well as from the retirement of legacy systems.

Our impairments remain very low in FY22 in line with a high-quality asset portfolio that is well secured. We maintain a watching brief on key economic factors and as always, are working side by side with our customers to support their ambitions.

Turning to slide 15, BOQ is committed to building a sustainable business. I'm proud of our environmental commitments and our progress to date. We have continued with our carbon neutral accreditation and 54% of our energy needs are from renewable sources. We are committed to achieving 100% renewable energy by 2025 and have committed to reducing our emissions by 90% for Scope 1 and 2 by 2030.

Our owner managers are embedded in our communities through more than 100 branches, with long tenure and deep relationships. Through our community partners, we are supporting some of the most vulnerable Australians. Our people are core to our business and customer proposition and we are building a future-fit organisation that is agile with curious bankers. We are strengthening our risk culture, improving our risk controls and building an engaged, diverse workforce with inclusive leaders.

I'd like to turn now to an update on our strategy. Just after I joined BOQ in 2020, we set out a strategy which we have been delivering against. Now with the ME integration almost complete, we have refreshed our strategic priorities and have a clear plan for the ongoing transformation of BOQ.

FY22 has been a challenging year as we learnt to live with COVID, severe weather events, deal with inflation, labour shortages and for many of our customers, rising interest rates for the first time. Against this backdrop, we have refreshed our purpose and strategy as shown on slide 17.

Building social capital through banking is about how we support each other using the strength of relationships and working together for better outcomes for our customers, shareholders and our people.

The purpose is underpinned by four strategic pillars, aligned to delivering positive, long-term, sustainable outcomes for all our stakeholders. Our efforts and investments across the Bank are aligned to these pillars: exceptional customer experience; cloud digital bank; sustainable, profitable growth with improving strength, risk and return; and fourthly, enriching people.

Transformations are never easy, but I'm proud of what we have achieved, as summarised on slide 18. We are modernising our core and digitising processes end to end. This will give us the flexibility of a neo bank, but with the scale, strong capital position, proven brands of an established institution with 148 years in banking, providing us with a compelling advantage over both new and existing competitors.

We have delivered solid growth across our retail and business brands. We have delivered digital transaction deposits for VMA and BOQ brands on the new digital bank, providing us a vastly improved banking experience for our customers. We have an experienced executive team in place who are leading the transformation, executing on our strategy, lifting the capability of our teams and driving improved engagement.

Importantly, we have returned ME Bank to growth and we are completing the integration ahead of schedule and with increased synergies. I want to stay with ME Bank for a moment on slide 19. Given the record of failed banking integrations in Australia, executing on the ME Bank integration is something we are incredibly proud of. We purchased ME Bank because it provided scale in mortgages, with a distinctive brand, delivered geographic diversification and used the same core banking system as we are using to transform VMA and BOQ.

On the growth front, we have returned ME's books to growth, arresting a significant decline in the mortgage balance sheet that occurred before our ownership. Geographically, we have been able to participate in the mortgage system growth in Victoria, spreading our portfolio more evenly across Australia.

As well as upgrading the ME core banking system, we have integrated the balance sheet and treasury functions and are preparing to migrate ME customers onto the Group's digital bank. Our focus now is providing ME deposit customers with the benefits of the new digital bank experience.

Turning to slide 20, another key element of our strategy is our multi-brands which are focused on niche segments with minimal overlap and distinctive value propositions. We are about relationship banking. Our owner managers are embedded in the communities we serve, our specialist bankers are experts in their segments and we offer distinctive brands, rolling out state-of-the-art digital products and services.

Turning to slide 21. BOQ set out a multi-year transformation strategy in 2020 to digitise the Bank and move it into the cloud. The staged approach to our transformation reduces risk. Firstly, the transformation is digitally end-to-end and will span the full range of products and processes across the retail bank, business bank and support infrastructure. All customers will be migrated onto the new digital bank, which will allow for complete decommissioning and simplification of our future state.

Finally, BOQ is working with our partners, including Temenos and Microsoft, building on their global research and development, bringing leading-edge innovation into our future state, improving our customer outcomes and driving revenue growth.

On slide 22 you can see how our technology has been designed and it's been built with our target customer segments at the centre. It will deliver the simplest banking infrastructure for a bank our size. Using the cloud, it will enable us to respond quickly to changing customer needs and deliver efficient banking services at low unit costs on an ongoing basis. We have been disciplined to ensure no customisation is needed. Reducing complexity has been the focus of the design, through simpler product offerings and streamlined digital processes.

Underpinning the core banking platforms will be an intelligent customer data capability, built on Microsoft Azure Public Cloud. Our partnership with Microsoft also means we'll be the first bank in Australia to access Microsoft's cloud for financial services, delivering a superior customer experience.

Turning to slide 23, the transformation has been delivered over three phases. The first phase will complete digital deposits and payments. We have prioritised this because it benefits the majority of our customers who are mostly transaction deposit holders and it strategically improves our funding.

We have established the core functionality that supports the launch of digital deposit products for all three retail brands. We have delivered to market VMA and BOQ digital transaction deposits. As I mentioned earlier, we will deliver ME digital deposits onto the new platform in 2023 and towards the end of next year, we will have migrated 300,000 existing ME Bank deposit customers into the new digital bank.

Building a payments capability for retail and business banking customers is another key deliverable for this phase. During this phase, there has also been progress with supporting our transformation plan, which include migration of data centre infrastructure into the public cloud, upgrade of the business bank core to the latest version, technical foundations required to build the home origination functionality and further build out of our intelligent data platform.

The development of lending origination that will sit across retail and business banking will be a key outcome for the second phase, commencing with digital home loans, followed by personal loans and business loans. In terms of personal loans, this is a real revenue opportunity for BOQ and we are progressing plans to build this capability in our digital bank.

Referring to slide 24, I want to share some of the metrics we are seeing from our digital deposits, which proves execution capability and immediate benefits for our customers and for the Group.

It was 18 months ago that we launched VMA Digital Deposits, and only six and a half months ago we did the same for myBOQ customers. Yet we have seen $1.5 billion worth of deposits flow into the new digital bank, with an average deposit balance per customer of $24,000.

Customers can open an account through our digital app in less than five minutes, making everyday banking easy. This has resulted in improved customer acquisition, and we are now attracting nine times more deposit accounts on average per month. The digital transformation is delivering results.

Turning to our approach on customer migration on slide 25, migrations often limit the completion of transformation. Given this, we have phased the design to mitigate this risk. The payments functionality will allow migration without requiring a change to BSB and account numbers, which addresses a major pain point for customers.

I've already mentioned the pathway to migrate ME customers and move to decommissioning and complete the closure of the ME legacy systems providing additional simplification cost benefits. We deliberately designed the platform so that simple lending customers across ME, BOQ and VMA would be served from the retail platform, while complex retail lending customers would be migrated to be served from the business platform. Within the business bank, only 10,000 relationship managed customers need to be migrated to the BOQS private digital core.

Looking at our investment profile on slide 26, we remain committed to the digital transformation and investing for the future, while in the near term we recognise we're incurring the cost of running and maintaining our legacy and building and running the new digital bank.

We expect to see material decreases in our investment spend in FY23 as the costs related to integration reduce. Going forward, we expect to see unit cost benefits from customers on the new digital bank and in the longer term, benefits from decommissioning legacy systems. We have real conviction in our strategy and the outcomes to date give us confidence in the ability to achieve our targets. A cost to income ratio below 50% by FY26 with an ROE above 9.25%.

Now on slide 27 you can see we have a comprehensive approach to improving returns with our immediate focus on delivering integration productivity benefits and growing at an attractive ROTE. We are improving margins through well managed centralised pricing with benefits from rising rates and we are seeing growth in digital deposits.

Lending growth is focused on SME, and we are optimising our mortgages for Basel III. We are executing on the digital roadmap and have a phased approach to transformation to ensure we deliver ongoing benefits. Over the medium term, we expect this will deliver an improved customer experience through self service capabilities and a faster time to yes.

Our strategy and execution of the digital transformation is key to delivery of long-term outcomes of a simpler organisation, further improving productivity, ongoing scalable revenue growth and new revenue streams such as personal lending. Our refresh strategy builds on the momentum to date and provides us with the opportunity to create a differentiated bank with a compelling, competitive advantage.

With that, I'm really pleased to be passing over to Racheal, who will take you through our financial results in more detail. Over to you, Racheal.

Racheal Kellaway: Thank you, George, and good morning everyone. Looking at the Group financial performance, BOQ delivered 1% income growth on the prior year. This combined with flat operating expenses resulted in positive jaws and a 1% improvement in underlying operating profit for the year.

Whilst cash earnings of $508 million is a 5% decline, this was due to the prior year loan impairment credit. Current year loan impairment expense is $13 million. There were two key statutory to cash adjustments for the year, both of which were noted at the first half results. These were $57 million of post-tax integration costs and the $24 million loss on the sale of St Andrews. Within the second half, 2% income growth and 3% operating expense growth resulted in underlying profit growth of 1%.

Turning to net interest income in more detail on slide 30. In the first half, NII was impacted by lower housing balances in ME Bank, which had declined by $1.4 billion in the year prior to our ownership. NIM declined in the first half, driven by higher swap rates impacting fixed rate margins.

As we moved into the second half, we saw tailwinds from growth in customer loans, including a turnaround of the ME balance sheet. Pleasingly, NIM also increased 1 basis point in the second half as a result of the rising rate environment and a disciplined focus on lowering our funding costs. The result was a 6% increase in NII for the half.

NIM increased 1 basis point to 1.75% in the half. Starting with the full year, NIM of 1.74% was down 12 basis points. This was largely due to the impact of higher fixed rate lending against a backdrop of rising swap rates, ongoing competitive pressures and increased liquidity requirements. Benefits from lower funding costs and mix partially offset the decline.

Looking at the half in more detail, asset pricing and mix resulted in an adverse impact of 15 basis points. Within this, a 6 basis point reduction was driven by fixed rate lending. This includes settlements from loans written in January and February when swap curves were rising, and we also had the full half impact of loans written in the first half.

Ongoing competition resulted in a front to back book impact of 6 basis points on housing and 2 basis points in business lending. We saw a further 1 basis point impact from the relative shift in the asset portfolio mix towards home lending. This decline was largely offset by lower funding costs which had a favourable impact of 13 basis points. We continued to actively manage retail deposit pricing, improving NIM by 11 basis points and saw a further 2 basis point benefit from improved wholesale funding costs.

Capital and low-cost deposits contributed an 8 basis point increase to NIM, with the changes to the replicating portfolio slightly better than what we flagged at the first half and benefits from uninvested capital and low-cost deposits as interest rates started to rise. We a saw a 2 basis point impact to NIM from third party costs, including revenue sharing with owner managers and third-party broker commissions.

Heightened liquidity levels as a result of the hand back of the CLF reduced NIM by a further 2 basis points in the half. Overall, this resulted in a 1 basis point improvement in NIM in the half to 1.75% and we exited the year with a strong momentum and a Q4 NIM of 1.81%. Given recent volatility, we have provided more detail on future NIM considerations on slide 32.

Looking ahead, we expect to see ongoing benefits from rising interest rates. In the first half, we expect to see further funding cost benefits and continuing tailwinds from our replicating portfolio and unhedged capital and low-cost deposits. Additionally, fixed rate impacts have slowed and are settling to historic levels, with current fixed rate lending applications below 10%. Competition in variable housing and business lending remains.

Finally, with the CLF handback continuing through to January, the liquids portfolio will continue to grow. Over the medium-term, we expect margin conditions to follow similar trends. Within asset pricing, competition will continue to impact NIM. We are focused on optimising our portfolio mix to ensure sustainable, profitable growth. We expect to see headwinds from rising retail and wholesale funding costs, the refinancing of the TFF and basis hedging costs.

Finally, we expect to see further benefits from replicating portfolio and unhedged capital and deposits with our new digital apps providing further transaction deposit balance growth.

Turning now to non-interest income on slide 33. Non-interest income of $153 million was an increase of $19 million for the year and included a number of material one-offs as called out in the first half. During the second half, non-interest income was $63 million. This included lower banking fee income due to a reclassification of interchange fees to align accounting policies across ME and BOQ. This change has no impact on earnings.

Moving on to operating expenses on slide 34. Expenses have remained broadly flat at $937 million for the year. As laid out in the 2020 strategy, we have now delivered the third year of productivity with an additional $30 million of benefits, bringing the total to $90 million over the three years.

In addition, we have achieved $38 million of synergy benefits, which was above the top end of our forecast. This has enabled us to offset volume growth, regulatory costs, inflation and also accelerate our investment while maintaining a flat cost profile.

Looking ahead, we have good momentum on our synergy and productivity programs. Spot FTEs reduced by 8% in the year. However, in line with the market, we are experiencing the impacts of rising inflation on our cost base, and we also have the near-term impacts of building the new digital bank and running the old. Through this period we are focused on managing our costs to ensure we deliver on our transformation.

Looking now at slide 35, we have increased our investment materially in the year to $331 million. This has enabled us to progress our digital bank transformation, open banking and integration. These are all key foundational components as we deliver on our cloud-based digital bank strategy.

The velocity and cost of delivery is improving with each additional phase, and this provides us with increased confidence in the benefits for our customers, our people and our shareholders. Looking ahead, as George has outlined, we expect investments to step down next year as integration costs reduce materially.

Turning now to provisions and loan impairment expense on slide 36. Our 90-day arrears have trended down during the period as the economy recovers from COVID and unemployment remains low. As a result, our impaired assets have decreased again during the half to finish the year at $153 million.

This was primarily due to the low levels of specific provisioning across both the housing and commercial portfolios. Specific provisions have reduced due to lower arrears and higher underlying asset values. LIE was $13 million for the year. In the first half, we saw reductions in both collective and specific provisions as economic conditions improved. In the second half we increased the collective provision as improvements in quality were offset by growth in the portfolio and changing economic conditions. We continue to rebuild the ME Bank provision. At the end of the year our total provision balance is $295 million.

BOQ remains well provisioned with coverage above regional peers, excluding the impact of ME. We see an improvement in our balance sheet mix when the ME portfolio is included toward lower risk housing exposure, resulting in a Group provision ratio of 47 basis points. In addition to low arrears, our home loan customers are well positioned for the rising rate environment.

53% of home loans have a repayment buffer of one year or more. Of the remaining portfolio, these customers are predominantly new loans, investors or on fixed rate products. On our fixed rate portfolio, the main maturity tower is in the first half of FY24, in line with the high levels of fixed rate lending we saw across the industry through the first half of this year.

Importantly, we are supporting our customers as they roll from fixed rate into variable products, and we are seeing these customers continue to perform well. Our serviceability buffers ensure customers have the capacity to meet their repayments in a rising rate environment.

Moving onto funding and liquidity on slide 39. As our balance sheet has grown, we have continued to optimise our funding across wholesale and customer deposits. During the year we have grown customer deposits by $4 billion with a deposit to loan ratio remaining broadly stable at 74%. Our transaction accounts grew by 19% over the year as we saw early success from the launch of our digital apps. TD funding costs remain low, and customers are now seeking yield following the low cash rate cycle.

We have taken advantage of TD rates falling below swap rates and grew our term deposit balances by $3.1 billion. Of this, $1.7 billion was new money. We have increased our long-term funding as we replaced the CLF facility. The consolidation of the two long-term wholesale funding programs has enabled us to enhance the funding profile for the Group, with greater diversity, a lengthened tenor and increased access to securitisation and covered bond programs.

Turning to slide 40. We are in a strong capital position with a CET1 ratio of 9.57%. During the half we generated 53 basis points of capital through cash earnings. 27 basis points was utilised to support our ongoing loan growth, and 10 basis points of capital was invested in the transformation program.

Within the half, we experienced a headwind of 6 basis points from the mark-to-market on our liquid asset portfolio. We continue to maintain a CET1 ratio above the top end of the target range of 9% to 9.5% as we work towards the final impacts of Basel III.

In summary, BOQ has delivered a solid financial result for the year with positive jaws as we focused on balancing growth and margin. We have revenue tailwinds from balance sheet momentum across all our brands and we have exited the year with a rising NIM. We have continued to invest in our business and are delivering against the transformation roadmap and the integration program is delivering above forecast.

We are confident in the quality of our portfolio, and BOQ is well placed to optimise performance through the cycle. I will now pass back to George for some closing remarks and the outlook for the full year.

George Frazis: Thank you, Racheal. In summary, we are delivering quality, sustainable, profitable growth through the disciplined execution of our strategy. We've made good progress on our transformation to a truly end-to-end, multi-brand, cloud digital bank. The lessons learnt so far make it clear that we are on the right track.

Our digital transformation and simplification will bring greater benefits for our customers, and it means growth of our business into the future will be at a lower unit cost.

We'll have even greater flexibility to really go after the opportunities that will deliver for our customers and shareholders.

Finally, to our outlook on slide 43. Australia remains well placed given low unemployment, high levels of accumulated household savings and high terms of trade. Consumer spending is at levels above pre-COVID, and businesses are investing as the economy recovers.

However, uncertainty remains given elevated inflation, rising interest rates, global tensions and slowdown and ongoing impacts to supply and labour. We remain committed to delivering sustainable, profitable growth. We expect credit growth to slow in FY23 and while we'll continue to grow our market share, we see this period as a time for optimising margins, revenue and returns.

We will have tailwinds in revenue given the steady, quality growth being delivered across retail and business banking. We have positive NIM momentum leading into FY23 with further tailwinds expected from rising interest rates, partially offset by the headwinds of rising funding costs.

We are heading into a period of cost headwinds given inflation, regulation and the dual costs of the old and new banking platforms, and we are managing to positive jaws.

CET1 is expected to broadly remain above 9.5%. We absolutely understand the importance of dividends for our shareholders. Our payout target range remains at 60% to 75% of full year cash earnings.

Thank you very much for your time this morning. I'll now hand back to Cherie and open it up for questions.

Cherie Bell: Thanks George. So we'll now move to questions on the phone. If you could please limit your questions to two per person. Of course, management will be happy to take any further questions that you may have on the results later in the day. Thank you operator.

Operator: Thank you. If you wish to ask a question, please press star one on your telephone and wait for your name to be announced. Your first question comes from Richard Wiles from Morgan Stanley. Please go ahead.

Richard Wiles: (Morgan Stanley, Analyst) Good morning ,George. I just wanted to ask you about your comments on the exit margin. You said it's well in excess of the fourth quarter margin of 1.81%. Do you think the margin can keep rising, relative to that exit margin? So should we be thinking about something like 1.9% for the first half of '23?

George Frazis: Thank you Richard. The exit margin is well in excess of our Quarter 4 margin of 1.81%. Our view is that the tailwinds will continue into the first half and then moderate into the second half.

Now it's really hard to work out the different moving parts, so I'm not sure I would put a figure to it. My sense is the margin will be positive overall for the year and definitely for the half. We've provided the Quarter 4 exit margin for a reason. I don't know if you wanted to add anything Racheal?

Racheal Kellaway: Yes, I mean Richard if it's helpful I can just provide a couple of dot points as to the component parts. So we always are going to see the impact of competition on our margin. We've seen that switch recently from fixed to variable. As you've seen, we'll also continue to optimise our funding costs. So we've seen the benefit particularly through the retail term deposit impacts.

The tailwinds on cash rate will continue, both on the hedged and unhedged portfolio. We will start to see some headwinds though on higher wholesale funding costs. We've then got the liquidity build as I described. So as George said, look we think there's more positives than negatives with a strong first half and then potentially moderating into the second half.

George Frazis: I mean just to add to that Richard, yes there was some commentary about potentially BOQ being disadvantaged on a rising interest rate environment. Obviously, this proves that that's not the case. Thank you.

Richard Wiles: (Morgan Stanley, Analyst) George, if I could just follow that up; I'm not sure anyone suggests BOQ's disadvantaged by rising rates but there is certainly some discussion around whether you get as much benefit as some of the other participants in the market. That brings me to my second question on deposit pricing.

I wonder if you could just talk a little bit more about your strategy on deposit pricing? You've got some very high rates in the market, particularly I think on the bonus saver and some of the term deposits. I note Racheal's comment about very strong TD growth but could you perhaps give us some more colour on how you're thinking about deposit pricing and managing the margin as well as the volume of deposit growth in this environment?

George Frazis: Thanks Richard. I'll start off and then Racheal can add a bit more on the TDs. The strategy is definitely to increase our transaction banking accounts. That's why really, we've tilted the transformation to focus on deposits on all of our brands. It's going to be fairly exciting once we get the ME Bank onto the new platform, which means we'll be able to provide that great service on everyday banking for our ME Bank customers as well.

So that is the key part of that. Within that is also broadening out our main bank relationships. You saw that our transaction accounts grew by 19% but importantly, even with the TD growth which Racheal will talk to, our low-cost deposits continue to grow as well. So it's not just the transaction accounts. We're really pleased that actually the strategy is working.

On TDs, this is about a mixture between retail and wholesale funding but I'll let Racheal add to that.

Racheal Kellaway: Yes, we have actually outlined Richard on slide 72, if you've got the pack in front of you. We took a very deliberate and strategic decision to grow our term deposit balances through the half. We had some really favourable rates out in market, as you will have seen.

Those rates were still below what was a really elevated BBSW and so for us, the cost of that funding was really favourable compared to other options.

George Frazis: Just to add to that Racheal, a big part of that was actually new money, as opposed to the existing customers increasing our costs. So I think out of the $3 billion in TD growth, what $1.7 billion…

Racheal Kellaway: Yes.

George Frazis: …was new money.

Richard Wiles: (Morgan Stanley, Analyst) Okay, thank you.

Operator: Thank you. Your next question comes from Andrew Lyons from Goldman Sachs. Please go ahead.

Andrew Lyons: (Goldman Sachs, Analyst) Thanks and good morning. Just a follow up to Richard's first question just on the NIM. Your 1.75% second half NIM, and fourth quarter NIM of 1.81% does imply that NIMs rose sequentially by about 13 basis points in the fourth quarter versus the third quarter.

Given time, and the average cash rate is likely to increase more in the first quarter of '23, than it did in the fourth quarter of '22. So just given this, is there any reason why the very strong sequential NIM delta in the fourth quarter won't continue into the beginning of FY23, just around your exit NIM comments George. I've then got a second question.

George Frazis: Yes, so Andrew if you look at the second half, obviously it is a second half of two quarters, because you still had the headwinds from fixed settling into the first - the third quarter. Then obviously we started to get the rate rises and also those headwinds abating in the last quarter.

Now, our view is as interest rates continue to go up, there will be tailwinds as a result of that. Again, Racheal did go through a number of moving parts. So it does depend on what happens to competition and funding costs, particularly on the wholesale side but we're fairly positive about the first half.

As I said, we would be moderating the outcome in the second half, but then net overall a positive outcome.

Andrew Lyons: (Goldman Sachs, Analyst) George, just sorry to follow up, when you say moderating into the second half, are you meaning NIMs, you're expecting them to fall, or the increase is going to slow?

George Frazis: Yes, Andrew it kind of depends on how much they rise in the first half. I mean obviously we're not providing an outlook on actual NIM. Racheal did go through all those moving parts. So effectively you've got to make a judgement call on how those moving parts operate as we go through. We're feeling pretty positive about the first half.

It's hard to determine NIM in the second half. For the year overall, it would be a good outcome. The other thing to note is it - the positives from my perspective is that we are growing low-cost - continue to grow low-cost deposits. The apps are working. All of our channels are actually working in terms of delivering low-cost deposits, including our owner/managers and that is hitting our bottom line.

So we're really pleased with how structurally we continue to improve our deposit portfolio.

Andrew Lyons: (Goldman Sachs, Analyst) Appreciate that. Then just a second question on your fixed rate maturities in the disclosure provided on slide 38. I guess, given the market is pricing a terminal cash rate of between 3.5% and 4%, depending on the day of the week, what would that imply as to the average increase in monthly repayments that your fixed rate borrowers will see as their fixed rates mature?

Are they likely to revert to where variable rates would be, assuming that level of terminal cash rate?

George Frazis: Yes, Andrew what we've done - I mean I don't have that exact number but what we've done is we've had a really good look at our fixed rate portfolio. So, it's been one of the deep dives we've done and on a number of fronts.

So firstly there's real active communication to those customers advising them of the likely change in their rate and what they would need to do today to start preparing for that rate. So it's not about waiting until that last minute and that's been well received.

The other thing we're doing is we are ramping up our efforts in terms of how we support fixed rate rollovers and retention. Martine, who runs the Retail Bank, has put that in place. What we're finding is actually our retention of rollovers to date has improved and we've got strategy in terms of making sure that those customers are well communicated to well in advance in terms of what they're going to be leading into once they rollover.

Andrew Lyons: (Goldman Sachs, Analyst) Okay, so the RBA last week said with the 350 basis point increase in cash rates, you're probably going to see more than 60% of customers with a greater than

40% increase in their monthly payments. Would that be inconsistent with what you would expect for your own book?

George Frazis: Yes, the thing is so we have broken up, I can get back to you on that specific answer by the way, so leave that with us and Cherie will provide that. The thing we've done is when you look at our fixed rate portfolio, number (1) it's actually quite low LVR. So we've got very little exposure to high LVR fixed rates within that portfolio.

Then the second thing is that it's made up of an investment cohort which obviously has more options in terms of how they deal to that. So overall we're really comfortable with our fixed rate quality. The other thing to note Andrew, is that our strategy over the last four halves has been to reduce high LVR.

So our flow for above 90% is just over 1%. In fact, we've been very active to reduce the flow above 80% as well. So that's gone from around 20% to somewhere just above 10%. So we're pretty comfortable that we've got good serviceability buffers, the LVRs are low. We're communicating really well with our customers to make sure they're prepared for those rollovers.

Andrew Lyons: (Goldman Sachs, Analyst) Appreciate that, George. Thanks.

Operator: Thank you. Your next question comes from Ed Henning from CLSA. Please go ahead.

Ed Henning: (CLSA, Analyst) Hi, thanks for taking my questions. Just moving on beyond margin for a second. Can you just touch on costs? You talk about the reduction in FTEs and also reduction in investment spend, but then you've got increasing run the cost banks, increasing amortisation going forward and increasing discretionary spend.

Given all those moving parts, do you think you can run below inflation as you look forward into FY23 is the first question?

George Frazis: Ed, I might touch on that and then hand over to Racheal. There is definitely cost headwinds, particularly in the near term. So FY23 is where those headwinds will be impacted the most.

As you said, you've got inflation running quite high and then the other thing we've got is there is a catch up of regulation that's coming through. So things like open banking is costing the industry quite a bit. Then we've got the added issue in terms of not only building the new, but also running the new as well as running the old.

So they're kind of the key headwinds. Obviously, we'll continue to operate our business efficiently and critically we've got good tailwinds on revenue and we'll be maintaining a positive jaws. Racheal, I don't know if you wanted to add anything.

Racheal Kellaway: Look, that was a pretty comprehensive answer, but yes, I mean, as George said, the delivery of positive jaws is really important to us. We do have some really strong revenue tailwinds as George outlined particularly on margin and obviously, we're still growing our balance sheet in a really profitable way.

We're carrying the cost of the new technology and the old technology, increased reg, we're starting to see inflationary impacts in the back end of FY22. So we don't expect those to reduce in FY23.

Then the last thing I will just add is there are pockets of really difficult labour market challenges. In certain role types, for example. There's definitely headwinds on the cost line particularly into FY23.

As George said, we've got - we're disciplined in managing to positive jaws and we have a plan, a strategic plan to get to sub 50% cost to income by FY26.

Ed Henning: (CLSA, Analyst) Okay, thank you. Then just a second question in regard to your cost to income target but more so your ROE target. Can you just help us with the building blocks there?

Is it based on getting absolute cost down or is it all based on revenue growth there? Then part of that, are we talking about statutory profit or do you continue to see below the line items coming through and you're talking about a cash impact?

George Frazis: So Ed, just to clarify the second part, that was the ROE target and how we achieve that?

Ed Henning: (CLSA, Analyst) Yes.

George Frazis: I suppose the way to look at what happens to cost through this transformation is if you look at what we've just achieved to date, the Retail Bank did reduce its costs, but we had an increase in costs in the Business Bank because we invested in growth there.

That's starting to deliver with 7% revenue growth. Going forward, really what you've got to do is look at the transformation in three bits; what's happening to the Retail Bank, the Business Bank, and then your support and infrastructure.

So depending on how they're phased, that's how their costs get impacted. The other thing to note is that you get immediate benefits as you get new customers on the new digital platform for those services. So the unit costs for those new customers drop quite significantly but you don't get the full benefit of the cost until actually you decommission all your systems.

Now, our approach on that is; number (1) our objective is to grow from here as opposed to shrink. So yes, if you had a strategy that was a shrinking strategy, you may get absolute cost reduction, but that is not our strategy.

Then the other thing to note is if you look at the build and run of the new, that pretty much is equivalent to the cost of the old because the old is depreciated. Then your real benefits come into how you could scalably grow at low unit cost.

So that's really what underpins that. We have not made any heroic assumptions around the growth of the market or our multiples of that growth. Nothing that we've not achieved in the past in terms of multiples, but it is a growth strategy.

Then you don't get the full benefits until you've got the full migration completed and also all your customers, all your legacy retired. That's why we've set our targets into FY26 of under 50% CTI and an ROE above 9.25%.

Ed Henning: (CLSA, Analyst) Thanks for that. Is it just on - are we talking statutory profit or are we talking a cash profit and you still have below the line items?

Racheal Kellaway: It’s cash. The thing I would say is we've had significant below the line items in the last couple of years, notably the sale of St Andrews and then also recently the cost of integration, which are truly one-off costs.

So it's hard to say what will go below the line, but we have a very clean result excluding those two items in our statutory to cash movements and will continue to see something similar.

Ed Henning: (CLSA, Analyst) Okay. Thank you for your time.

Operator: Thank you. Your next question comes from Josh Freiman from Macquarie. Please go ahead.

Josh Freiman: (Macquarie, Analyst) Hey guys, congratulations on the result. Just a couple of questions from me. Just conscious of the expense growth in this half. I just had a quick question on amortisation and the capitalised software balance moving forward and investments then. How should we really consider your investment spend moving forward as a split between capitalised versus expense?

George Frazis: Racheal?

Racheal Kellaway: So we're building a digital bank and the way that we are thinking of the investment every year is actually in a combined manner. So CapEx and OpEx.

It's actually really hard, particularly under the new accounting standards to be very clear, well out as to whether something would be classified as being capitalised or expensed.

We're not changing our capitalisation policy or anything like that. So we're very clean and clear as to how we are viewing what we are capitalising. So I guess the answer is - and you can see it on slide 35 there, we've got a balance that is growing. So you can expect to see amortisation increase particularly into FY23.

Then we'll just have to work through year on year, what type of costs, the transformation is delivering.

Josh Freiman: (Macquarie, Analyst) Okay, thank you. Second question from me; one of the biggest positive drivers on your margin was from the savings deposits, which I think drove about 8 basis points in the half. Are you able to provide some more colour on the breakup of your savings portfolio?

I know you have a wide range of accounts, but they have pretty significant variances in interest rates and conditions.

George Frazis: Did we give a slide on the low-cost deposits or not?

Racheal Kellaway: No, we can share with you the product structures sitting within that savings portfolio. What I would say is that for those savings deposits, particularly the ones that we are growing. There are requirements for those customers to transact a certain number of times. We also have upper limits on those balances, so the rates are favourable from a customer's perspective. The last thing I'll say on savings is, we don't have a material back book and so this is – we are acquiring new customers through our digital apps, but what we're aiming to do is ensure that they actually bank with us more broadly.

George Frazis: That's a really good point, Racheal, in the sense that – the whole strategy is to encourage transaction banking and to encourage those customers to move into a main bank customer relationship with the bank. That is working and as I said, we continue our low-cost deposits overall and our transaction accounts.

Josh Freiman: (Macquarie, Analyst) Sorry, just a quick clarification on that. Racheal, you mentioned you don't have a back book or significant back book there. I would have assumed that 8 basis points was coming from that back book as rates accelerated? Is that incorrect?

Racheal Kellaway: No, that is completely correct. It's the proportion of our retail deposit that is lower compared to peers. So, whilst we do have a back book, just to clarify, the proportion of savings deposits for us is lower.

Josh Freiman: (Macquarie, Analyst) Understood. Thank you.

Operator: Thank you. Your next question comes from Brian Johnson from Jefferies. Please go ahead.

Brian Johnson: (Jefferies, Analyst) Good morning and thanks for the opportunity to ask some questions. The first one is, Racheal, if we go back to Slide 35, what we can see is that you've changed around the accounting policy about the services software, the $46 million. I just want to check, where did that $46 million go? Has that gone straight through to retained earnings because it doesn't seem to have gone up – gone through the cash earnings? Am I correct?

Racheal Kellaway: Yes, Brian, that is correct. That was the software as a service accounting policy change that the industry saw. We felt most of that impact in the first half, retained earnings was the other side.

Brian Johnson: (Jefferies, Analyst) With that, you've gone back and revised that away, but that means that gets expensed going forward. Could you give – I suppose going back to Josh's question, if we have a look on Slide 35, we can see $66 million of operating amortisation on an opening balance of $246 million, which is implying something greater than four years, but then we've got the $46 million.

Can you give us a feeling about what effective life we should be thinking, going forward, and how much does that one-off move of that accounting policy where it's gone into retained earnings, rather than cash earnings, presumably that creates a negative delta going forward? Can you walk us through basically how we should be thinking about those two dynamics?

Racheal Kellaway: Yes, so Brian, as you say, the accounting policy adjustment, it's balance sheet to balance sheet, so there aren't P&L impacts from that now or going forward. The first part of your question was around the actual balances and expectations around amortisation going forward. As I said to Josh, we will. We are investing and part of that is capitalised costs and so we will see an increase in amortisation going forward.

The way to think about that $439 million worth of intangibles, is that some of that will actually be rolling off, i.e., the amortisation period will be ending and then we'll have the introduction of new amortisation from the software and the intangibles that we're currently building. The real message here is that you can expect to see an increase in amortisation going forward.

Brian Johnson: (Jefferies, Analyst) Okay. One for George, perhaps, or Racheal, whomever, it's great to see the greater than 9.25% ROE target, but I just wondered with bond rates being so much higher, is that good enough? But in any case, just going back to Figure 31, one of the long-term issues for the Bank of Queensland has been the front book, back book housing conversion, which is far greater than your peers – it's 6 basis points a half, which is 12 basis points per annum, and it has been now for a long while, which is really quite a big number.

Can we get a feeling on what you're thinking structurally about that going forward, with regards to that 9.25% target by 2026?

George Frazis: Brian, if you look at that 9.25% target, we've assumed ongoing competition, so ongoing front to back book that we've experienced to date, that will continue. Now, our strong view is once we get to a digital end-to-end bank, what we've got then is the capability to have sustainable and leading-edge time to yes, as an example. You start being much more in control in terms of how you price in the market.

We've also then got a digital capability that enables you to really innovate and provide new products and improve your products a lot better as well. None of that is in our forecasts going forward, but the expectation is that our competitive advantage on that front improves. But up to FY26, we've assumed ongoing competition and the impact to our margins.

Brian Johnson: (Jefferies, Analyst) George, it is that continual – every six months – it’s 6 basis points every six months, as it has now been for quite a while?

George Frazis: It's hard to predict margins and we're not providing a margin outlook, Brian, but our view is that we're assuming that competition continues.

Brian Johnson: (Jefferies, Analyst) Okay, thank you.

Operator: Thank you. Your next question comes from Jonathan Mott from Barrenjoey. Please go ahead.

Jonathan Mott: (Barrenjoey, Analyst) Hello, I’ve got a question about the lending momentum and if we only get the APRA statistics which don't give us a huge amount of detail, but if you look at the housing stats, they’ve really slowed down over the last couple of months, especially into the month of August. Can you give us a bit of detail on why that is and why the owner-occupied book actually went backwards last month?

What was driving it? Is it across all brands? Is it across all channels? Was this almost a conscious decision, given the margin was hit so hard in the third quarter, to take your foot off the pricing lever a bit, and try and slow credit growth down and improve margin into that fourth quarter?

George Frazis: Jon, thanks for that. In terms of our growth in assets, you've seen in the past that we can actually dial that up and down, and that's the beauty of number one, having multi-brands and having effectively a 3% market share that's niche focused. So, growing between 1 and 2 times, system in mortgages is something that we can do, while still optimising revenue and margin.

Our objective going forward, as we're going through this transformation, is to grow around about above system. That's a comfortable place for us and our focus is going to be on optimising margin, as you said, margin, revenue and return within that. So, still gaining some share but optimising those three things. The way we see growth really is over the year, as opposed to any month on month.

The whole objective of that is we want to make sure that there's steady growth in the balance sheet that continues to provide a nice tailwind to revenue growth going forward. That's how we manage the business. There's nothing that means that we can't actually grow or there's issues around that, if that clarifies it?

Jonathan Mott: (Barrenjoey, Analyst) Okay, so just reading between the lines, you're suggesting now that you want to get back to above system. I don’t know if the system’s going to slow dramatically over the next couple of months. I'm not saying that, but to get back to a growth situation, you’re expecting margin to expand rapidly in that first half and part of that, in the second half, would have to be re-engaging in competition. So that would have to be one consideration, as BJ and – you’ve talked about before.

George Frazis: No, Jon, our objectives on growth is just above market, so we're not talking about 1.5, or 2 times system. Our priority is actually optimising margin and particularly revenue and returns, as opposed to the growth element, but we want to be growing just above system. Now, that's not something we have to achieve next month. This is what we aim for over the 12-month period and you’re right, we'll make that decision, in terms of growth, as we see the best time to optimise that revenue.

Jonathan Mott: (Barrenjoey, Analyst) Thank you.

Operator: Thank you. Your next question comes from Azib Khan from E&P. Please go ahead.

Azib Khan: (E&P, Analyst) Thank you very much. You've mentioned on Slide 39 that cash rate increases are driving growth in term deposits. If we think about FY23, do you think you can sustain low-cost deposit growth or transaction deposit growth above TD growth or come second half ’23, do you think it's possible that the shift in deposit mix starts to become a NIM headwind with increase in growth in TDs?

George Frazis: Yes Azib, I'll start it off and then maybe Racheal can add to it. We've got an explicit strategy to definitely continue growing transaction accounts and again, that's the whole logic around our first phase of our transformation. That will continue and as you saw with our stats there, our ability to get new accounts through that is accelerating, which we're really pleased about. Once we get the ME Bank onto that platform, that will then bolster our capability to continue growing transaction accounts.

We continue to be able to grow low-cost deposits. Now, how long that goes on for, that's something to be seen. There's no doubt there'll be increased competition in deposits in the second half, so we'll have to wait and see how that pans out. Obviously, there'll be some headwinds in terms of wholesale funding as well, particularly in the second half. But we're still fairly confident the way we're structurally changing our deposit book is favourable and we'll be able to optimise revenue and margin. Racheal, was there…?

Racheal Kellaway: Just the way that we think about funding is – we will optimise across both retail and wholesale. Then, within retail, we'll optimise against transaction savings and term deposits. As George has said, we've built some really attractive products in terms of the digital apps now to ensure we can continue to grow our transaction balances. Then, what's happened in this period, and what we expect to see continue, is that as cash rates have increased, we have seen customers prefer to seek security and seek yield, and so we saw growth in term deposits.

For us, that was a really good funding strategy because as I outlined, the cost of that was below BBSW at the time. We will continue to optimise within the retail deposit stack.

George Frazis: Just to add to that, if you look at the $1.7 billion in new TDs, these are new customers. Our whole objective is also to convert them into transaction account customers as well.

Azib Khan: (E&P, Analyst) Right, just another question on TDs. If I take a look at the chart you've kindly provided on Slide 72, you've shown the benefit that you've received from TD carded rates relative to the BBSW. That benefit has been closing. If I take a look at towards the latter part of second half '22, the gap there is closing. What are you thinking in terms of first half '23? Do you think those carded rates will remain favourable relative to BBSW?

Or will you be looking to manage the mix? For example, it looks like you'll benefit much more with new money coming into three-month TDs. Is that going to be the strategy, managing the mix in terms of duration? Or do you think you can manage some – you can have benefits across the board across all terms in first half '23?

George Frazis: You're right, in terms of those benefits are shrinking, so we will optimise depending on what the economics are, exactly as you stated, right? It's an explicit strategy in terms of how we look at optimising our funding costs.

Azib Khan: (E&P, Analyst) Thank you. Can I just slip in one more on the front to back book mortgage headwind? For the three preceding half years, it was running at about five bps per half, it's now increased to six. Do you think it can increase further and can you provide some indication of that headwind by owner-occ and investor? Where is it stronger?

George Frazis: We don't actually provide that – was the question investor and…?

Racheal Kellaway: Owner occupier.

George Frazis: Owner occupier. We don't actually provide the break up in terms of front to back book on that. As you can see, we've actually grown investor quite strongly. This is a segment that has low 90-day past dues, better margins, so we think it's a very attractive segment and we'll continue targeting that segment and ensuring we've got good returns. Look, our sense is that competition will continue, so we're not assuming that it's decreasing. I don't think it's going to accelerate overly from here but again, we'll just have to wait and see. It's hard to predict competition.

Azib Khan: (E&P, Analyst) Thank you.

Operator: Thank you. Your next question comes from Brendon Sproules from Citi. Please go ahead.

Brendan Sproules: (Citi, Analyst) Good morning team. I have a question on the growth in the business lending that we've seen in the last six months. Notably on the NIM slide, you do show a drag from front back, back book. Could you maybe talk about the competitiveness of new business lending particularly in that SME segment where you've obviously had the strongest growth and then I have a second question.

George Frazis: Thanks, Brendan. Now, the way we focused on SME – so this has been an explicit strategy to re-orientate the bank out of corporate banking into SME, and obviously SME provides a much more attractive margin and also is capital – more efficient. Within that SME, by the way, our focus is more on medium size family businesses, as opposed to the small end. On the medium sized businesses, they’re more diversified. It's more efficient to service those and you do get nice margins as well.

Now, if you look at the key players in this market, you've got NAB and CBA competing, we've had to maintain that competition. That was a point in time. That seems to have stabilised but the net result of our mix, even though we've had to – we're just above market, I would say in that medium size pricing, but the net result of shifting out of corporate banking and into that medium sized market is a real positive for us and we're seeing margins broadly stabilise.

Brendan Sproules: (Citi, Analyst) Okay, my second question relates to your FY26 target. Are you able to give an indication of what you're expecting underlying inflation, particularly wage inflation, out to there? Then secondly to that, with loan growth slowing and obviously risk wide asset growth expected to slow as well, are these assumptions, particularly around the ROE contingent, on a rise in the dividend payout ratio over the medium term?

George Frazis: The way we've looked at this is, number one, we have not taken any heroic assumptions around market growth. Particularly in the earlier years, our multiple of system is reasonable as well. You do get to a stage closer to FY26 and beyond then, you've got a scalable platform and then by definition, the benefit of a scalable platform is to be able to grow faster.

Because you're providing a better service, you're able to do that, whilst also maintaining your margins. So that's what we've assumed. Now in terms of our forecasts on inflation, we've got those in the pack. Racheal, I don't know what page…?

Racheal Kellaway: It's about 3%, yes.

George Frazis: If you look at FY23, our sense is the impact on our costs will be in the order of 4%. But we've used economist's forecasts in terms of going out from there.

Brendan Sproules: (Citi, Analyst) Thank you.

Operator: Thank you. Your next question comes from Andrew Triggs from JP Morgan. Please go ahead.

Andrew Triggs: (JP Morgan, Analyst) Thank you and good morning. A couple of questions. Firstly, just to follow up on the cost outlook. George said the synergy realisation that's actually likely to come through the P&L next year, could you help with that side of things? Then, just broadly on the flows, two things there. Firstly, broker I think was up to 55% of flows.

I think that was a yearly figure, so slightly higher than that in the second half. Talk to where that might get to over time, please? Just on Jon's question, I think around mortgage deceleration and mortgage growth, does the need to pre-fund TFF have any sort of – any – has that influenced at all the decisions around frontal pricing just in the short term?

George Frazis: Okay, thanks, Andrew. Just on the last one, obviously, the TFF impacted fixed rates in the first half, so that was the key driver of that. Obviously, the benefits of the TFF then abate and you would expect that people will take that into account when they're pricing and that's what we're seeing at the moment. In terms of the synergies, I'll let Racheal – what was the second question? I missed it. Sorry, what was your second question, Andrew, and I'll try to…?

Andrew Triggs: (JP Morgan, Analyst) The first one was around realised synergies in FY23 and then the broker network flows with the other…

George Frazis: Yes, sorry. That's right. What we've got is we had an increase in terms of our broker flows, primarily to do with the ME Bank coming back to growth. So, BOQ and Virgin Money, those flows have been steady, so we haven't seen an increase in broker flows in BOQ, as an example. Our owner managers are working really well in terms of being able to serve our home loan customers.

Now, there'll be some growth still to come from the ME Bank getting back up to market, but once we get to a stable position on that, then we don't see that increasing substantially more. Within the ME Bank, it's not fully broker, so it's about 70% of their flows is broker. There's about 30% that's proprietary through our mobile bankers. Then on synergies.

Racheal Kellaway: So we're exiting the year with about a $47 million run rate on synergies and we will – we did actually lay this out in the acquisition and have increased our synergy targets. But we expect to see about $36 million worth of synergy benefits into next year.

Andrew Triggs: (JP Morgan, Analyst) Is that the P&L impact? What's the year-on-year P&L benefit expected, just from a cost delta perspective?

Racheal Kellaway: We'll see a reduction in our cost base of $36 million, if you just look at the synergy component.

Andrew Triggs: (JP Morgan, Analyst) Okay. Thank you, Racheal.

Cherie Bell: Thank you, ladies and gentlemen. That concludes our Q&A section. I'll pass back to George for some closing comments.

George Frazis: Thank you all for joining us today. Obviously, you can see BOQ's had another big year. We're really pleased in terms of the momentum of our growth, particularly the quality of our growth. We're definitely on track in terms of integration. We're really pleased in terms of the progress we've made on our digital transformation. We're also really pleased on our refresh strategy and how we're going to be heading towards our FY26 targets. Next year is going to be another big year for us. We really want to thank all of our bankers, my leadership team, our customers, and particularly thank you all for your support and thank you for your time.

End of Transcript