Jessica Smith: Good morning, everyone and welcome to Bank of Queensland's results presentation for the full year ended 31 August 2023. My name is Jessica Smith and I'm the General Manager of Investor Relations and ESG at BOQ. Before we begin, I would like to acknowledge the Traditional Custodians of the land upon which we are meeting today, the Gadigal people, and recognise elders past and present.

Thank you for taking the time to join us this morning. With me today is Patrick Allaway, our Managing Director and CEO and Racheal Kellaway, Chief Financial Officer. We are also joined in the room by BOQ's Executive Team and Senior Management.

Today, we will present an overview of our full year results. Patrick will outline the key features of the result and also provide an update on BOQ's strategy. Racheal will then speak to our financial results before Patrick closes with a summary and outlook. Following the briefing, there will be an opportunity for questions. I will now hand over to Patrick.

Patrick Allaway: Thank you, Jess, and good morning, everyone. Thank you for taking the time for joining us this morning. I'd also like to welcome our Chairman and our Executive Team who are in the room with Racheal and me today. I'll be starting on slide 8 of the investor pack with some key messages to leave you with.

BOQ has a strong platform to build on underpinned by our 149-year heritage of supporting customers and local communities. We have distinctive brands operating in niche segments and a quality, well-secured $81 billion lending portfolio with diversified revenue streams across retail and business banking. This year, we delivered $450 million in after tax cash earnings and $124 million statutory profit after tax.

Our cash earnings result reflects the industry margin and cost inflation headwinds we called out at the half. Our statutory result reflects the cost of a business in transformation, addressing decade-long legacy issues from under investment in technology and inadequate integration from multiple acquisitions over our history. We also have changes in the way we work, reducing our property footprint.

We recognise this has been a difficult year for our shareholders with changes in leadership, identified weaknesses in our operational resilience and risk maturity and the subsequent two voluntary and court-enforceable undertakings with our regulators. As I will talk to later on in the presentation, we have taken accountability and consequence management for these outcomes.

We continue to invest in our business through the cycle and have traded interim performance in FY23 for medium- and long-term benefits. We've accelerated the investment in our digital transformation to improve our customer experience, diversify our funding on the new digital banking platform and reduce our cost to serve.

We've invested in risk and restructuring to strengthen our operational resilience, reduce operational complexity and deliver productivity gains. We've moderated growth in mortgages and prioritised customer attention and economic return. We've strengthened our financial resilience, holding higher capital and liquidity buffers through the economic downturn and the term funding facility repayment.

We're making the difficult decisions to address our challenges head on. Our transformation is progressing at pace with key milestones achieved on-plan and budget in FY23. Our simplification program is targeting over $200 million in productivity benefits from FY24 through FY26, aiming to offset cost inflation.

Our digital transformation is delivering a scalable, simpler, digitally enabled bank, future-fit for growth and returns. We will continue to focus on diversifying our revenue mix and improving our margin over this period through the growth of our Business Bank and capital light revenues.

We have high conviction in our transformation plan with a clear roadmap to deliver a stronger and simpler bank, better for our customers, better for our people, with improved returns for our shareholders. We are managing what we can control in the current market conditions, positioning BOQ for recovery and growth when the cycle turns.

Moving to slide 9 for our financial overview. Our statutory net profit for the full year was $124 million. This includes four below the line items, including the goodwill impairment and the risk remediation provision taken at the first half. At the half, we said we would be progressing a simplification program to deliver future productivity benefits for which we have taken a $35 million after-tax restructuring charge in the second half. We've also announced $44 million after-tax additional ME integration costs resulting from recent decisions to further consolidate our property footprint in Melbourne and accelerate the digital transformation of ME.

Cash earnings of $450 million this year included income growth of 5% which was offset by higher costs and an increase in loan impairment expense to more normalised levels. At the half, we called out an initial margin tailwind which we noted had turned in October 2022. Our outlook included expectations of heightened mortgage and deposit competition in the second half. This has played out as anticipated and we stood back from mortgage pricing below our cost of capital, prioritising economic return, customer retention and prudent risk settings.

Ongoing high inflation through the second half and increased investment impacted our cost base with growth of 8% for the year. At the half, we noted that this was unsustainable and we would be addressed through our simplification program with benefits coming through from FY24. I will talk to this shortly.

We've maintained strong capital liquidity buffers through FY23. Our CET1 ratio of 10.91% is above our target range and this has supported the Board's decision to pay a final dividend of $0.21 per share. This represents a full year 59.7% payout range on cash earnings and a 7.1% dividend yield on the year end share price. Racheal will provide further context on the financial results shortly.

Moving to slide 10 for a view of the retail bank. Total income for the retail bank was flat on the prior year as benefits from increasing cash rate was more than offset by the impact of competitive pressures in housing and the normalisation of non-interest income. As noted in my introduction, we maintained our prioritisation of economic return over growth, resulting in a decline in our mortgage book over the period. We will continue to monitor this and are well positioned to return to growth when we deliver our lower cost to serve in 2024 or rational pricing returns to the market.

We continue to see strong execution of our digital strategy with more customers choosing to bank with us. All three retail banks – all three retail brands are now on the new digital banking platform, delivering an improved customer experience. We've experienced 267% growth on the platform which has supported the Group's funding profile with $5.5 billion in digital retail deposits.

Turning to slide 11 for a review of the business bank. We have a diversified portfolio of assets across retail and business banking. The business bank has performed strongly this year, delivering 55% of the Group's cash profit. Our strategic approach to prudent and targeted lending and our highly specialised bankers serving niche industry sectors where we can differentiate, and win, has achieved income growth of 14% for the business bank in the year.

We delivered improvements to our risk adjusted returns and an improvement to cost-to-income ratio of 4.5%. Our differentiated approach focused on target, small to medium size enterprise lending across healthcare, agriculture, owner-occupied commercial property and equipment finance. The book is well collateralised with 87% secured lending and diversified across geography, channel and asset class.

Turning to slide 12 for a view of our customer experience. We recognise that our customers have a choice of who they bank with, delivering a consistent, exceptional and differentiated customer experience will drive our success. We have amended our vision to be the Bank that customers choose. To this end, we have elevated the customer voice across the organisation and amended our operating model to create a Chief People and Customer Officer.

We are building a differentiated approach, focused on niche customer segments across both relationship and digital banking. We are structuring the organisation to serve customers the way they wish to be served, simplifying the banking experience. Those customers requiring a fast and simple self-help digital experience will be served through our ME and VMA national digital brands leveraging our target state, low cost to serve, end-to-end digital banking platform.

Those customers with more complex needs requiring a human touch will be served through our BOQ brand, leveraging our deep community relationships, specialist bankers and unique owner-manager network. Our network of owner-managers are deeply embedded in their communities and are all well positioned to support our customers' relationship banking needs across both retail and SME.

As we navigate a period of sustained high inflation and sharp increases to interest rates, we have been proactively engaging with our customers, including supporting more than 3,500 customers who experienced hardship during the year. We have increased focus on protecting our customers from escalating industry fraud and scams through education, working with industry partners and monitoring of suspicious activities.

The landscape for scams is rapidly changing and criminals are becoming more sophisticated and more targeted. While regrettably we are unable to prevent all instances of customer loss, our teams have helped to prevent our customers from losing more than $6 million in FY23. The launch of our new digital banking platform across all three retail brands has resulted in an improved NPS and app store ratings and driven 10% customer growth in FY23, providing a more diversified funding base for BOQ.

Moving to slide 13 for an overview of the transformation. Our four strategic pillars of strengthen, simplify, digitise and optimise are driving bold decisions to uplift performance and drive shareholder value. As noted in my opening comments, we're confident that we have the right strategy to deliver against our legacy issues and build a future fit bank for the long-term benefit of our customers, people and shareholders.

These strategic pillars are addressing our disadvantages, including our higher cost of funding, our higher cost to serve, historical technology deficit and our complex and duplicative operating structure. I will now talk to each of these strategic pillars in more detail.

Slides 14 and 15 cover our strengthen strategic pillar. Throughout the year, we've reinforced our financial resilience with increases to CET1 and our liquidity coverage ratio due to prudent capital and liquidity settings. We've announced early in the second half that we've entered into two enforceable undertakings with APRA and AUSTRAC.

We acknowledge and embrace the need to build stronger foundations for BOQ by addressing deficiencies in our operational resilience, risk culture and governance and our AML CTF compliance. We've taken accountability and consequence management over the past 18 months for these weaknesses with leadership changes and associated remuneration consequences.

Moving to slide 15, the scope of the two remediation programs have been finalised and submitted to the respective regulators. These multi-year programs are said to effect meaningful and sustainable change, addressing all requirements under the two EUs. Program rQ is designed to strengthen our risk culture, governance and operational resilience while AML First is focused on addressing weaknesses and gaps across BOQ's AML CTF compliance.

Clear workstreams, deliverables and actions are in place to monitor sustainable embedment and reporting against these two programs. We've appointed an independent assurance provider to report to the Board and regulators. As we execute against the programs, we will deliver a stronger Bank with improved operational resilience, risk maturity and culture.

Slide 16 covers our simplify strategic pillar. Over the course of our 149-year history, we have acquired complementary businesses to build our successful multi-brand approach. What we haven't done as well is fully integrate those businesses into our Group structure. We realised that we can't wait for our digitisation to deliver future state productivity gains and that there is a lot that we ca do now to simplify and streamline our business.

We called out at the half that we were commencing a program of work to simplify BOQ, designed to provide productivity benefits while the investment in the digital transformation and strengthened target future operating state continues. This work will also help to reduce operational risk and prepare us to take full advantage of our digitisation.

As already touched on, we've recognised the $35 million after tax restructuring charge in FY23 being implemented across four key workstreams. Throughout FY23, we've begun work implementing our new operating model including reducing our senior executive leadership team by four and FTE by approximately 100. We will further reduce our FTE by 150 in the first quarter of FY24.

Our technology transformation and decommissioning of legacy platforms has continued, with a further reduction of 12% of tech assets since FY21 and the reduction in the core number of banking platforms from eight to six.

We have undertaken a concentrated series of actions to reduce supply spend and our property footprint. We've identified key processes to be automated and are reducing the number of manual handoff points during home loan origination. Heading towards FY26 we have targets in place across each of our four work streams to further simplify and finalise the future operating model and pathway to delivering a materially lower cost to serve.

We'd move to a shared service operating structure in FY24. We will decommission a further 35 technology assets in FY24, and are targeting a reduction of six to three core banking platforms by FY26. With our new ways of working we're reducing 16,000 square metres in corporate property space and we're targeting automating 80% of our processes, including 95% of home lending controls, reducing home loan origination costs by 50% in FY25.

These activities contribute to our productivity program, targeting over $200 million in savings over three years, aiming to offset cost inflation with benefits commencing in FY24. Slide 17 covers our digitalised strategic pillar. Since we announced our 2020 strategy, we've made considerable progress and remain on track in the build of our end-to-end cloud-based digital banking platform.

Some of the highlights achieved in FY23 include delivery of our roadmap on time and on budget, upgrading our business banking technology, migrating all of our people onto one platform, enabling improved collaboration and operation as an enterprise-wide team. Launching ME transaction and saving accounts on the new cloud-based digital banking platform.

Over the next 12 to 24 months, BOQ will continue to advance work against the digital roadmap. Significant milestones will be the delivery of the digital mortgages in 2024 and decommissioning of the ME legacy banking platform by FY25. This will provide further proof points on the delivery of our end-to-end scalable digital bank, enabling BOQ to compete at a lower cost, a faster time to yes, and improved customer experience in a highly commoditised mortgage market.

Moving to slide 18. With the launch of ME Go, we have now delivered all three retail brands onto the digital banking platform. Over the year, we've seen digital deposits increase 267% to $5.5 billion. Customer growth of 103% includes a mix of new to bank acquisitions and those that have self-migrated from legacy platforms. On myBOQ we're seeing the average age of our customers reduced to 34, compared to 49 on BOQ legacy platforms. Pleasingly, these customers are transactionally active and supporting the diversification of our lower cost funding base.

Slide 19 covers our optimised strategic pillar. Increasing competition requires a simple, low cost, scalable operating model with prudent allocation of capital focused on return on equity. We have more work to do in our optimisation strategic initiative, which will focus on improving risk adjusted returns and the diversification of our business to optimise margin and capital life revenues.

We remain committed to achieving our cost to income and return on equity targets by FY26. Our updated financial model reflects both the current revenue headwinds and our productivity initiatives announced today.

Moving to slide 20. Our purpose and values drive everything we do at BOQ. Our purpose of building social capital is about what we stand for as an organisation. This includes doing the right thing, supporting our customers and communities, enriching our people and committing to our environmental targets. We're on track to source 100% of our energy needs through renewables by 2025.

We've supported nine community partners in FY23 in delivering key services to vulnerable Australians, with an investment of $2.2 million. This year, BOQ launched its new financial literacy activity, with an introduction to budgeting and the basics of money management. In 2023 we were proud to partner with Head Start Housing, supporting single parents, First Nations peoples and families living in community housing, to buy their own home.

In the Australian market first, we gave ME Go customers the option to select from five charity linked debit cards, each of which will provide a one cent donation per digital wallet transaction. These are all examples of how we're building social capital through banking.

On that note, I'll now hand over to Racheal, who will talk through the financial results in more detail. Over to you, Racheal.

Racheal Kellaway: Thank you, Patrick, and good morning, everyone. In financial year 2023, BOQ Group has delivered $450 million in cash earnings. Total income was up 5% against the prior year. Within this, net interest income was up 6% with 3% growth in average loans, targeted towards higher returning segments and a 2 basis point reduction in margin.

Non-interest income reduced 7%, driven by one-off items outlined last year. Income growth was partly offset by an 8% increase in expenses, resulting in underlying profit up by 2%. We saw an increase of loan impairment expense to more normalised levels off a very low base, resulting in overall 8% reduction in cash earnings on the prior financial year.

Slide 23 shows our statutory net profit of $124 million, a reduction of 70%. There have been a number of key decisions made to set BOQ up for the future. We acknowledge this year has again seen significant adjustments to cash earnings. By making these adjustments we are able to provide a clearer view of our underlying performance. Adjustments included ME integration costs of $44 million after tax. The integration program is now complete and I'll discuss this further shortly.

As Patrick has outlined, our simplification program is well progressed and we saw $35 million after tax in the restructuring costs, to deliver the benefits outlined. Lastly, we have seen small gains on the amortisation of acquisition fair value adjustments and hedging ineffectiveness.

Turning now to the key elements of the result on slide 24. Total income of $1.7 billion increased by 5% against last year and reduced 7% half-on-half. NIM was down 2 basis points in the year, however peaked in October 2022 and decreased to 1.58% over the second half. I will talk to this in more detail later in the presentation and I am sure this will be a focus today.

As we called out at the half, we have made a deliberate decision on the allocation of our capital, this saw a 1% contraction in our mortgage portfolio. We saw 2% growth in business lending over the year in targeted segments, and 6% growth in asset finance, resulting in flat overall lending growth compared to FY22, and a decline in the second half.

Total customer deposits have grown $6.1 billion in the year, reflecting the strong execution of our strategy in continuing to see more customers choose to bank with us, and providing a stable source of funding for BOQ. As Patrick noted, we have strengthened our financial resilience through the period and held conservative settings on LCR at 154% and in our capital ratio CET1 at 10.91%.

This has provided BOQ with flexibility and resilience during uncertain economic times and as the RBA's term funding facility starts to be repaid across the industry. BOQ was one of the first banks to draw down the TFF with $3 billion of funding. We have taken strategic steps to replace this when conditions in wholesale markets have been favourable and via customer deposits which saw an improvement in our deposit to loan ratio up to 83%.

We are well progressed with replacing the TFF, having repaid 60%. With this context in mind, I will now walk you through the key elements of NIM. NIM contracted to 1.58% over the half. Looking at the detail, lending saw an adverse impact to NIM of 10 basis points. Retention discounting was a 6 basis point impact, improving slightly against the first half.

Low acquisition margins in housing, driven by competition resulting in a front to back book impact of 4 basis points. We saw a slight benefit as customers rolled from fixed to variable rates. While competition for business lending is also strong, we are seeing more rational pricing decisions in the market with a 1 basis point impact to margin.

As anticipated, funding costs became a headwind, with a 10 basis point impact in the half. We continued to see a tail wind from savings and at call deposits, benefiting NIM by 1 basis point, however this has been more than offset by competition for term deposits. Our lower relative share of transaction accounts has impacted us through the cycle, making our digitisation strategy even more critical.

Term deposits are a competitive source of funding for the industry as it replaces the TFF. They are also a strong choice for customers in an environment where higher cost of living and high interest rates means yields are even more important. As flagged at the half, we also saw higher wholesale funding costs.

Our 5 basis point liquidity impact includes the full period effect of the committed liquidity facility handback. We also ran a higher LCR through the period as we refinanced the TFF. This was partially offset by a 4 basis point benefit from cash rate rises on capital and low-cost deposits. We saw a 2 basis point improvement in margin from lower third-party costs.

Finally, we have had a one-off weighted average life adjustment as customers are refinancing faster across the industry than they have historically. This has resulted in a shortening of the portfolio duration. This was a one-off impact to NIM of 3 basis points.

This has been a unique period, as we called out at the first half results, we saw NIM peak in October 2022. A point in time that featured tailwinds from the rising rate environment and favourable funding conditions.

What we have since experienced is an intensely competitive mortgage and deposit market. The impact on NIM has been further exacerbated as customers rightfully sought favourable returns from their savings in a market which is refinancing a material TFF funding pool.

On our outlook for NIM, we expect the mortgage market to remain competitive and will continue to see a margin tailwind from the shift from fixed to variable lending. Competition for deposits will remain high as the industry replaces the TFF. Our replicating portfolio will continue to provide benefits to NIM and will peak on the uninvested portion as we reach the top of the cash rate tightening cycle. Finally, we will seek to optimise our liquids portfolio following the repayment of the TFF.

Turning to expenses on slide 27, which are up 8% against FY22. We saw the impacts of high inflation. Technology spend increased by $22 million in the year, broadly speaking half of this relates to running and maintaining of our legacy systems while the other half comprises cloud licensing and costs relating to our future state.

Employee costs increased as we finalised the enterprise agreement negotiation and we also saw a normalisation of leave post the pandemic. We engaged with our customers more this year as they adjusted to increasing interest rates. Our ongoing spend on risk, regulation and assurance, including cyber, increased as we strengthen the bank.

On outlook for expenses, inflation will continue to impact our cost base. We will continue to see the cost of running and maintaining our legacy systems while building the new digital bank. The benefits of the simplification program as outlined by Patrick, partly offset these increases. Our underlying cost base is expected to increase in the low single digits.

In addition, we will see a step up in investment spend through the operating expense line as we continue strengthening the bank, we move the banking core to the cloud and we commence migration of customer deposits to the digital bank. This is the final year of the standalone ME integration program. We hit our target of an annual run rate synergy benefit of $72 million in the time we said we would.

Total costs were $176 million, $133 million of this were the program integration costs. At the point of closing down the program, we assessed the observed ways of working in our Melbourne offices and the clearer technology roadmap accelerating us onto one core banking platform for retail.

In doing so, two further assets were written down, resulting in an additional impact of $43 million. Integrations are complex and challenging, however the program is now complete.

Turning now to our investments on slide 29. We are at a pivotal point in our transformation with the $167 million invested in the second half. In addition to integration and costs associated with the remedial action plans, we have invested in strengthening the Bank and progressed on our digitisation strategy where we invested $103 million.

We have accelerated components of our digital roadmap, with this investment delivering ME digital transaction and saving accounts in the period. We have now built and are testing digital mortgages for all of our brands. The first phase of which will see ME Bank and Virgin Money being launched to the market this financial year.

Our software intangible balance is continuing to grow as we invest, and we expect amortisation to increase into FY24, largely dependent on the timing of when assets under construction complete. More notably, the mix of our investments are increasingly becoming OpEx in nature as outlined when I described FY24 operating expense considerations.

Impairment expense for the year was $71 million or 9 basis points to GLA as shown on slide 30. The second half saw a $19 million increase in total provisions to $332 million. This reflects forward looking assumptions in the collective provision which increased 25%. We have maintained a 45% weighting in our forward-looking models to a downside or severe downside economic outcome.

The provision also includes overlays for fixed rate mortgage roll offs, construction and commercial property and the effects of El Nino. Specific provisions and impaired assets remain subdued in FY23, with strong risk settings over recent years, such as reduced LVR and DTR in housing and a high proportion of well secured lending in the business portfolio. This has also been supported by strong underlying property values.

As anticipated, we have seen an increase in arrears, returning to pre-COVID levels in housing. Looking at commercial arrears, post balance date a material commercial exposure has been refinanced, which has resulted in a reduction in commercial arrears. Within housing, we have proactively engaged and supported our customers impacted by sustained high inflation and a rapid tightening in monetary policy.

As a result of the environment, there has been an increase in the number of hardship arrangements taken up. BOQ takes a conservative approach to hardship reporting, holding these customers in arrears for a longer observation period. This is reflected in our arrears numbers. Pleasingly, we can see significant cure rates which tells us that most of our customers are meeting their obligations after hardship.

Moving now to funding and liquidity on slide 31. Much of this has already been touched on. We are in a strong liquidity position with a conservative funding approach, resulting in an end of period LCR of 154%. Through the second half of this year we commenced repayment of the TFF. We saw a strong competition in deposits and were able to utilise our strong liquidity position to manage this period in an orderly and safe way.

We are proud of the 10% growth in customer deposits in the year and particularly pleased these customers are engaging and transacting with us more on our digital platform. This provides us with a stable and more diverse funding mix and demonstrates early success of our digital strategy, the need for which is evident for BOQ in this part of the cycle.

Turning to capital on slide 32 and we have ended the year with a strong CET1 of 10.91%, including a 16 basis point impact from holding a capital overlay as part of our EU with APRA. This half we saw a 47 basis point improvement to capital through cash earnings and a 20 basis point increase through the reduction of credit risk rated assets.

The first half dividend net of the dividend reinvestment plan returned 25 basis points of capital back to shareholders. We recognise in a period characterised by lower earnings and high investment, that providing a solid dividend to our shareholders is important. Our strong capital position has allowed us to do this with a second half dividend of $0.21. We also removed the discount on the DRP.

As we look to FY24 we expect to continue operating at or above the top end of our target range of 10.25% to 10.75% and maintaining our targeted dividend payout ratio of 60% to 75% of cash earnings.

In summary, this year saw margin pressures with elevated competition on both sides of the balance sheet across the industry. We improved our capital position and held conservative liquidity settings as we paid back a significant portion of the TFF. We are confident in the quality of our portfolio and hold conservative provisioning levels.

We completed the ME integration program, however, continue to have material investment in delivering the strategy and we remain committed to our FY26 targets.

I will now pass to Patrick for his closing remarks and outlook for FY24.

Patrick Allaway: Thank you for that, Racheal. Moving to slide 34 for an overview of the FY24 outlook. The Australian economy has remained resilient, supported by low unemployment and strong cash savings. We anticipate increasing risks into FY24 due to the elevated cost of living and the lagged impact of higher interest rates and sustained higher rates for a longer period. We'll continue to support our customers through this challenging economic cycle. We anticipate continued revenue and margin pressure in FY24 from slower credit growth and competition.

We anticipate that the mortgage pricing across the market will need to adjust at some point to provide returns above banks' cost of capital. Heightened deposit competition is expected to remain through the refinancing of the Term Funding Facility. We will continue to invest in strengthening and digitising BOQ. Inflationary pressure will partially be offset by our simplification program. We anticipate low single-digit cost growth to our underlying cost base plus investment spend and amortisation. With improved customer experiences and stronger, simplified operations, we're positioning BOQ for recovery and growth when the cycle turns.

Moving to the summary slide on slide 35, BOQ is in a strong financial position to continue to support our customers and people and deliver on our strategic transformation priorities. We are committed to our risk remediation programs with both APRA and AUSTRAC. Our simplification program is driving productivity improvements, complementing our shift to our future state digital and relationship operating model. Our digital transformation is on track with delivery of all of our key milestones, digital mortgages in 2024 and decommissioning of the legacy ME core banking platform by FY25. Our future state, lower cost to serve and broader and lower cost funding base will support our ability to compete in the highly commoditised mortgage market.

We recognise this has been a disappointing year for our shareholders. Our historical operating model is challenged, particularly in the current market cycle. We're managing what we can control today and are addressing our challenges head on. We have a clear strategy to address our legacy issues and deliver a competitive, sustainable and attractive bank with improved customer experiences, profitable growth and shareholder returns. This is a work in progress which we will expect to deliver improved outcomes over the next three years.

I'd like to take this opportunity to thank our customers for choosing BOQ, our shareholders for your support and our people for their commitment and hard work in building a stronger, future fit bank. Thank you. I'll now pass to Jess for questions. Thank you.

Jessica Smith: Thank you, Patrick. We will now take some questions. We ask that you please limit to two questions each.

Andrew Lyons: (Goldman Sachs, Analyst) Thanks and good morning. Just two questions if I may.

Just firstly on margin and volumes, you're a price taker in mortgages and continue to speak to further mortgage repricing as necessary for returns to move above cost of capital. However, some recent commentary from the major banks suggests there has been some recent improvement in returns back to levels at or slightly above their cost of capital at least. Now, you're clearly in the midst of a large transformation and productivity program that, if successful, will clearly close that returns gap. But until that's complete, can you just talk to how willing you'll be to continue to see the balance sheet go backwards if there isn't any further repricing of the mortgage book?

Patrick Allaway: Thanks for that question, Andrew. It's a difficult balance. We continue to monitor that on an ongoing basis. We have taken a firm view that it doesn't make sense for our shareholders for us to write business below our cost of capital. We do have high conviction in our future state operating model that we will have a much lower cost to serve, so that obviously will support us participating in a highly competitive market. But in addition to that, we do see our cost of funds being more competitive as well with our peers as we deliver the digital banking platform with a low cost of funds as well.

We'll continue to monitor. As you said, there have been some early signs of some rise in rates, but we'll monitor that through FY24. Racheal, I don't know if you wanted to add to that. Yes.

Andrew Lyons: (Goldman Sachs, Analyst) No, then I'll just ask the second question. It's around your medium-term costs, so you've said two things to that. Firstly, you've reiterated your less than 50% CTI target by FY26. You've also said that you'll target $200 million of productivity benefits by FY26.

Now just looking at where consensus currently expects FY26 revenues to be, which is about $1.75 billion, your less than 50% CTI target would appear to imply that all of the $200 million of productivity benefits flow through to the bottom line offset by about 2%

per annum of underlying inflation versus the FY23 levels. Now is that broadly how we should be thinking about that trajectory towards the less than 50% CTI ratio or are there other moving parts? I'd be particularly keen to understand your views around revenues which, given today's results, probably some downside risk to that FY24 forecast.

Patrick Allaway: Yes, so I'm not going to forecast long-term revenues or cost base. We've reconsidered our financial model. We think it's conservative and prudent. We have taken into account the $200 million in productivity benefits. That will be delivered over the period. We've also revisited the current headwinds and where margins are today and reset our revenue expectations based on that. But we have high conviction in the investment that we're making in the bank and that the cycle will turn. We continue to hold firm on both of those targets.

Andrew Lyons: (Goldman Sachs, Analyst) Patrick, that's fair, but can I just then confirm – the $200 million of productivity benefits, can I just confirm that that would imply that your FY26 expense base is $200 million less than the FY23 related to those productivity benefits? Is that the right way to think about it or is it more of a cumulative number?

Patrick Allaway: Andrew, what we've said is that we expect the $200 million productivity benefit to offset inflation. We continue to invest in the business as well. Many of those investment expenses go to OpEx, so there will be growth in expenses coming from investment. But I'll leave that with you to work through.

Andrew Lyons: (Goldman Sachs, Analyst) Okay. Great. Thank you.

Andrew Triggs: (J.P. Morgan, Analyst) Thanks. Good morning, Patrick and Racheal. Maybe a follow-up on the margin versus growth and capital settings. The 10.9%, while above the top end of the range, it doesn't leave a lot of room to move versus the top of the target range. I'm just interested in ongoing organic capital generation. With a falling ROE and that starting point modestly above the top end of the target range, does that also inform your decisions around growth setting into the near-term, please?

Patrick Allaway: We're holding capital above the target range, because we're making a considerable investment in the business. We're balancing that investment against where our growth settings are for asset growth and, in addition to that, paying dividends to our shareholders. We have a very clear five-year model that gives us comfort around the balance that we've got and the return to growth, generating organic capital through the cycle, so we're comfortable with the settings where they are. One would expect that we will not hold capital at that high level. We've got a target range of 10.25% to 10.75%. In time you would expect it to come within the middle of that range.

Andrew Triggs: (J.P. Morgan, Analyst) Thank you. The second question on margin, if I look at the settings that relate to margin around net stable funding ratio and liquidity coverage ratio, both metrics are very high and have been rising, which is somewhat understandable in the midst of the TFF repayment. But 60% of that has been repaid. 128% would indicate an approach to funding which is extremely conservative. I'm just interested when do you think that will normalise over time to more normal levels? What impact do you think that has on not so much NIM but net interest income for the bank and its revenue?

Patrick Allaway: I might get Racheal to answer the second part of that question, but maybe, Andrew, I'll focus on the first part. We've been very prudent through the cycle. As we said at the first half, wholesale markets were challenged for a big part of the FY23 year. In some parts of the period, we were not able and the industry was not able to access wholesale markets. We felt it was important to hold high liquidity levels through the volatility that we've had in markets.

In addition to that, as you called out, the industry has had to deal with the CLF and the TFF repayment. We're well ahead of our peers on TFF, because we drew down earlier. We've repaid about 60%, as Racheal said, of our Term Funding Facility. We felt it was very prudent to hold high liquidity levels through that period. The deposit market has been extremely competitive, so you are seeing quite extreme competition as banks are refunding that $180 billion over the period. We will see that continue.

For an organisation like ourselves, we wanted to make sure that we had prudent buffers and we managed our liquidity appropriately. I think you can expect that that liquidity coverage ratio will come down in the future. We are feeling very comfortable about where our financing is today and the options that we have with respect to our financing plan, so you would expect us not to be as prudent going forward. But I might get Racheal to comment on the second part of your question.

Racheal Kellaway: Yes. Look, there's a couple – and you called this when you asked the question. There's two comments of the way that holding high liquidity impacts us. One is on NIM and one is on NII. The five basis points of liquidity drag that we saw through NIM this period, about four basis points actually was the denominator effect so no impact or very little impact on NII. Then the additional one relates to the yield so the cost which goes through your revenue line.

The only other thing I would say is there is a little bit of timing in terms of the numbers around LCR and the net stable funding ratio as you called out and so we actually had a significant TFF maturity come into our funding plan in September. The spot LCR at the end of the period was higher, because the liquidity has come into the 30-day window. There's a little bit of timing in those numbers as well.

Andrew Triggs: (J.P. Morgan, Analyst) Okay. But Racheal, just to clarify, on the NSFR specifically, running such a high NSFR suggests that you could over time move the mix of wholesale funding more out of long-term expensive wholesale funding into shorter-term cheaper wholesale funding. Is there any capacity for that optimisation over time?

Racheal Kellaway: Yes, absolutely. We look at all of the forms of funding. We have taken a view this period to lock in some good long-term wholesale funding transactions and so we've got that stability. The mix between long-term and short-term we constantly look at. Ultimately, as Patrick has outlined, what we want is more customer deposits, because they are stable. We're banking more customers and it's a benefit from an LCR and an NSFR point of view as well.

Patrick Allaway: Yes. Andrew, just to add to Racheal's point, there's a very favourable spread in the market today between wholesale funding and deposits. You have seen that Racheal called out that we've had significant growth in our deposit base through the year of about $6 billion. The digital banking platform is enabling us to access that lower cost of funding. Yes, we will continue to get that mix appropriate.

Andrew Triggs: (J.P. Morgan, Analyst) Okay. Thank you.

Jeff Cai: (Jarden, Analyst) Hi. Good morning. Thank you. Hello?

Patrick Allaway: Yes, I think we can hear you, so please go ahead.

Jeff Cai: (Jarden, Analyst) Sorry. Sorry. First question on your medium-term targets, on FY26's ROE target, just interested in – to what extent have you factored in margin expansion and the cycle turning in your thinking? Can you just talk through some of the key building blocks in how you improve your ROE from 6% to circa 9% going forward?

Patrick Allaway: So, I think I answered that question earlier. We're not going to give detailed forecasts, but I think what's really, really important for achieving those targets is the roadmap that we've got across our strategic pillars to deliver the transformation of BOQ. So that will drive significant benefits both from a cost perspective but also improve returns perspective.

On your question, on margin, we are saying that FY24 will still be a difficult year. We factored that into our financial model. We do anticipate the cycle will turn. We think it's a matter of time between whether banks decide to price above their cost of capital, but we also think the economic cycle will turn and we do see interest rates at the backend of this year and into FY25 starting to come off and we will get some benefits from that as well.

Jeff Cai: (Jarden, Analyst) Got it. Then a question on SME lending. I mean volume growth has been pretty soft this half. How should we think about the growth outlook going forward? Are there some existing initiatives in place working through that could materially boost growth in '24 and '25?

Patrick Allaway: So, system growth in SME is very flat. It's actually flat at the moment, so you wouldn't anticipate that there's going to be material growth across our lending in SME. We're very targeted in particular sectors and we are focused on growing that book but I would not expect, given the cycle that we are in, that you will see material growth.

We're being prudent in relation to the quality of the business that we do, and we do not want to go up the risk curve to grow the book. We're happy to hold our capital in this cycle and look for opportunities to grow when that opportunity comes. We've got fabulous bankers that specialist in particular sectors and we will see continued growth, but we're very focused on targeted lending to quality borrowers.

Jeff Cai: (Jarden, Analyst) Okay. Thank you.

Jonathan Mott: (Barrenjoey, Analyst) Hi, two questions if I could, I just wanted to go back on the first one all the way back to Andrew Lyon's first question, because I think this is probably the most important bit on what you can control, which is your costs in FY26.

So, you're saying you expect $200 million of productivity, but that's going to be offset by inflation. Then you've said that you're going to have growth in costs from investment. So, I just want to be really clear, your cost base is just over $1 billion today. Does that mean going forward from here, you're going to see netting off productivity inflation basically netting off over three years depending on your cost inflation over that time, but the cost base will still be higher in FY26?

We can all have our own assumptions about volumes and margins, but what you can control is costs. I just want to make very clear what you expect that cost price to be in '26.

Patrick Allaway: So, Jonathan, we're not going to give you a forecast for costs in 2026. I think what's really important, and we called this out at the half year, that our cost growth is not sustainable. We've started the simplification program in the second half, which is a material program of work. There is more work to do in that program but we're calling out with confidence that we can achieve productivity benefits of $200 million.

We're operating in a very high inflation environment. That's service cost, that's wages, that's across all areas of the Bank. I'm not going to give you a commitment that the cost program is going to fully offset that over the period. We would anticipate that our productivity gains in time will more than offset inflation, but we're not making that commitment to the market.

Jonathan Mott: (Barrenjoey, Analyst) Okay, so what you're saying is you don't know what inflation's going to be, so you can't – I can understand that, that's fair, but do you think the $200 million productivity should roughly offset inflation, give or take where that lands and we're not going to hold you to that.

On top of that, you would then expect costs to be growing as a result of investment spend continuing to grow. Am I interpreting that correctly?

Patrick Allaway: Yes, so look, investment spend will peak. We're at the really high end of our investment spend at the moment and we're seeing the backend of the retail bank transformation coming through over the next couple of years. So, you would anticipate that investment spend will come down.

You should also anticipate that we will continue to identify opportunities to simplify our Bank and deliver cost benefits. The financial models that we have today give us confidence that we can continue to hold the FY26 CTI under 50% and the ROE tailgate above 9.25%.

Jonathan Mott: (Barrenjoey, Analyst) Okay. Can I ask a second question? It goes back to a question asked six months ago, and it goes to the owner-managed branches and the franchisees. The issue that we were talking about six months ago was with the book contracting, it's going to be very difficult to motivate the franchisees when they can't – their pricing is out of the market.

You're saying, well, what we're doing is we're refocusing the owner-managers onto business banking. They're very intertwined with the communities and they're going to be able to grow, but it now looks like the business book is also contracting. Can you let us know within the business bank how the growth is coming via the owner-managed branch network? Is that contracting as well?

In this environment, I think you were also saying that within the margins, the payouts, the owner-managers of third parties, and part of that would be owner-managers are falling as well. So how do you keep and motivate the owner-managers when their personal outlook is so challenging?

Patrick Allaway: Yes, that's a great question, Jonathan, and it's an important consideration for us going forward. The owner-managers are a very important part of our differentiated strategy. I think what you've got to reflect on is that most owner-managers have been with BOQ for over 10 years on average. We do go through cycles.

Banking is going through a cycle at the moment. So, there are good years for owner-managers and sometimes it's more challenging, but they've got an annuity book. So, whilst the origination is lower for mortgages for the owner-managers, they do have an annuity book that provides a share for them. We have had a huge focus on deposits this year, and the owner-managers have got benefits from the growth in our deposits.

We are looking to shift the role of the owner-manager to play a much bigger role going forward in our focus on SME. Now there's some owner-managers that do that exceptionally well and that are benefitting from that at the moment, but that's certainly part of our future state. Racheal, I don't know if you wanted to add to that?

Racheal Kellaway: Probably just reinforcing the point that the owner-managers, because of their deep roots into community are very focused on the SME lending. Some of the movement in the balance sheet from a business banking perspective has been at the top end, so lower corporate lending. So, the actual volume of lending we're doing in a SME level is actually still pretty strong and that's coming through owner-manager channels as well.

Patrick Allaway: Then just to the second part of your question, Jonathan, as I said earlier, Business Bank system growth lending in SME across the industry is flat at the moment. We've seen really strong growth in our SME book over the last two years, which has been a concerted focus and a strategy for BOQ.

I anticipate that will be a little bit slower until that cycle turns again and that's really because we just don't want to go up the risk curve. That business is also well supported by our asset finance business and you've seen strong growth in a very diversified asset finance book, which also is supporting growth of the business bank.

Jonathan Mott: (Barrenjoey, Analyst) Thank you.

John Storey: (UBS, Analyst) Thanks very much. Good morning Patrick. I just wanted say great detail in the presentation, particularly around the remediation plan, so thanks very much for that. I think obviously market's very focused today just trying to backfill that 9.25% ROE target around and I guess a lot of it comes down to NIM and costs. I'm not going to ask anything on that. I think you guys have addressed that now or a lot of it on the call.

I was actually just hoping to get your views on some of the stuff that you're targeting around some of the capital light parts of revenue. I mean obviously NII was down today, so maybe just get more detail on what initiatives you have to target non-interest revenue. That's the first one.

Then just quickly in terms of how you're thinking over the next two, three years out to FY26, what are the views or what are the Bank's views this trifecta effectively of lower rates, how that plays through into margins? Your stuff that you called out today around more normalised competition.

Clearly the impact that that has on volume and margin and then the assumption I would imagine, lower cash rates and lower credit impairments. Just I guess back to some of the targets in FY26. So just those two for me. Thank you.

Patrick Allaway: Thanks for that John, and I'll get Racheal to probably add to some of my comments. I think let's just start with your first question on non-interest income. As I said in the presentation, this is a work in progress, but we are very keen to diversify our revenues.

We have the benefit of having a very strong business bank, which is helping us through this period where we've seen growth in the business bank offsetting obviously our position that we're taking in the mortgage market. We do recognise that we also want to actually improve our return on equity and diversify away from highly commoditised market while still very focused on that commoditised market.

So, we've got a number of initiatives to potentially grow non-interest income. You will see that through our VMA offering we have strong growth in our insurance commissions, but also in our Super commissions that we're growing a good book across those areas. That income has no capital weighting to it. It goes straight into the revenue line and helps ROE. Now it's relatively small at the moment, but we're seeing very, very strong growth coming out of that.

We've also seen a really strong improvement in our financial markets area. We've refocused our financial markets away from trading and risk to really focus on servicing customers and leveraging the BOQ network. That is also producing quality returns that don't have capital weightings to growth.

Now, these are very early days, but we are very focused on looking to grow those earnings and for them to become a more material part of our revenue base. That's a core part of the strategy, but a work in progress.

I think in terms of the trifecta that you spoke about, BOQ is more disadvantaged than our competitors in a rising interest rate environment and that really is reflective of our low base of low-cost funding transaction accounts. So, we're paying a much larger spread as you see interest rates rise than many of our peers.

That benefit will benefit us when rates come down. So that's counter-cyclical for most banks, but the spread we pay on our funding will reduce as rates come down. So, I think that's one. We also do anticipate that when the cycle turns, we will get system growth coming back and with better system growth, our sense is that competition bullies, the market is fighting over a much smaller share of the market and that does increase competition.

So, we would expect pricing to improve from that perspective. I don't know what that turning point is, but our forecasts are that rates will probably stay high towards the end of FY24 and come off end of '24 into '25. So, we see that cycle turning. We're well positioned to return the growth through the recovery of the cycle, but I might get Racheal to respond to any other comments she has.

Racheal Kellaway: So, I think that was pretty thorough. The only add I would have is the comment, John, on long-term loan impairment expense. So, as we sit here today, we're at 9 basis points of LIE over GLA. We have – there's a high degree of uncertainty I would say, and certainly pockets of stress within our portfolio, but if you look at our absolute provisioning levels, we're really strongly provisioned.

So, if you look at the three-year term, we would expect no material surprises through the loan impairment expense line in that period either.

John Storey: (UBS, Analyst) Racheal, just to clarify that, that also takes into consideration where the Bank is growing, so growing more in business relative to retail and mortgages?

Racheal Kellaway: Sure, yes. I mean the mix of the business is included in the way that we look at LIE going forward. We've said before, we've disclosed this before, we think the long run average is around 12 basis points for a bank like us in terms of the mix. If we grow more in business lending, that might go up a little bit, but the reality is as we stand here today, we've got 41 basis points of coverage from a provisioning perspective, and so we are starting the next three years in a really strong position.

Patrick Allaway: John, I might just add to that. We have increased our collective overlays as Racheal called out earlier, and that's really covering off on the fixed rate maturities that we've got running off over the next period.

We've also had a look at the construction and the agricultural sector and our commercial property sector with a forward outlook as to where the economic cycle is. We think we've got really prudent coverage for those events, but I think the main point is our book is very well secured with relatively low loan to value ratios.

We do feel that customers will find it tougher over the FY24 period and we will have more customers experiencing hardship, but the coverage ratios of security in the book are making us feel comfortable that we're not going to experience any material losses through this cycle.

John Storey: (UBS, Analyst) Great. Thanks Patrick.

Joshua Freiman: (Macquarie Group, Analyst) Hey guys, can you hear me?

Patrick Allaway: Yes, we can hear you well. Thanks, Josh.

Joshua Freiman: (Macquarie Group, Analyst) Perfect. Just two questions from me. The first question, the margin impact was fairly disappointing, I would say relative to consensus assessment but it's clear that the exit margin could be considerably below that. Are you able to provide any colour on the exit margin and trajectory of margins across the half, given the significant moves? I'll come back to the second question after.

Patrick Allaway: Thanks for that, Josh. Look, I might see if Racheal wants to comment. We don't – and we spoke about this at the half year as well – we think providing an exit margin really could be misleading because it's quite volatile and we don't think that's appropriate.

What we have given you a good feel for is where margins have moved since October 2022 when they peaked. Obviously, they've declined materially through the second half and the outlook statement into FY24 is consistent with what Racheal and I have said before. So, I'm not sure we can add much more to that, but thanks for the question.

Joshua Freiman: (Macquarie Group, Analyst) Okay, understood. I guess then if I turn around and shift to expenses, you haven't really been willing to provide much clarity on FY26 endpoint, but if I look at that $200 million of productivity benefits, are you able to provide any clarity on phasing and what make up the key drivers in terms of quantum?

Patrick Allaway: Yes, so when I spoke through the presentation the key drivers were operating model. So, we have already adjusted our operating model and that's simplifying the way we do things, reducing duplication in the organisation, and that unfortunately is impacting people. So, we have let a number of people go and will be into the first quarter doing that as I called out.

The second part of that program is around our digitisation, which will deliver material productivity benefits when we deliver on the digital mortgage in 2024. As we said, we anticipate that we will reduce our cost to serve by about 50% as we deliver the end-to-end digital banking platform and decommission the legacy ME platform in FY25.

So, they are material productivity savings that will come through, but if you look at the spread of the $200 million, we are very focused on offsetting inflation in FY24. What we have said in the outlook is that we expect low single digit cost growth before investment and amortisation. That's in FY24.

Joshua Freiman: (Macquarie Group, Analyst) Thank you.

Richard Wiles: (Morgan Stanley, Analyst) Good morning. I have a question on the costs Patrick, specifically for FY24. You mentioned earlier, and I think just repeated that you expect low single digit cost growth plus extra investment spend, plus higher amortisation.

Could you give us an idea of what that means for overall cost growth? Is it mid-single digit or could you give us an indication of what you think the dollar impact of higher investment spend and amortisation expense will be?

Patrick Allaway: Yes, so thanks for that question, Richard. I might get Racheal just to talk to investment spend. We are obviously at the peak point of our investment cycle. We do expect the investment spend to come off in FY24 compared to what we spent this year, but I'll get Rachel to provide more detail on that.

Look, we're very focused on costs. I mean, we recognise, and we said this at the half, that cost growth is not sustainable, and particularly in an environment where there are revenue pressures. We've announced a program of work. That's a continuous improvement program of work.

We will continue to focus on what we can do to reduce our cost base, but we don't want to over promise, and we want to give the market clarity that inflation is a big issue for all companies and all industry, and it's a very difficult environment to give clear forecasts. I might get Racheal just to talk to the investment spend.

Racheal Kellaway: Sure. Just in terms of absolute dollars, the total investment spend in the next year will reduce. I mean, we saw in this period the impacts of the remedial action plan provision that we took in the first half and then the final year of integration.

So, they will come out of the investment funding envelope effectively, so the absolute dollars will reduce. The point that I'm trying to make here is actually the mix of investment spend is changing quite significantly into next year which is why it comes back to the operating expense guidance that we're providing in terms of higher PrOpEx into next year. So, amortisation less of a feature through FY25, peaking in FY25, but a step up in PrOpEx into FY24.

Richard Wiles: (Morgan Stanley, Analyst) Racheal, can you give us an idea how much impact that will be?

Racheal Kellaway: I'm calling it material. There is a lot to still be done in terms of the timing of delivery of things. We've got a really clear plan, but the reality is we will look to adjust that number through the year and so providing guidance is probably not a sensible thing to do as we sit here today. The summary, as Patrick outlined, is really the low single digits growth from what we call a BAU operating expense position and then we will have a step up in OpEx relating to investments.

Patrick Allaway: I might just add to Racheal's comment, just something for you to reflect on as well. These decisions around investment are really, really difficult. We are making the decisions to invest today to deliver a lower cost scalable Bank in the future. Through the cycle at the moment where obviously revenues are highly competitive, they are really, really difficult decisions.

But we believe these are the right decisions and we're taking bold action because we've got really high conviction that what we're doing and our strategy will deliver a far more competitive sustainable Bank in the future. So, it is impact FY24, but we think these are the right decisions that we need to make to deliver a better Bank and provide better outcomes for our customers.

Richard Wiles: (Morgan Stanley, Analyst) Thank you.

Azib Khan: (E&P Financial Group, Analyst) Thank you very much. Just following on from Richard's question there on costs in FY24, so it's the single digit growth, a lot of single growth on underlying plus the investment plus the amortisation. You've articulated your plans for the digital transformation program quite well today and you've clearly got a very visible roadmap that you have in mind for your remedial action in dealing with the enforceable undertaking, can you tell us what the overall cost growth will be in FY24? Not to FY26, just FY24. So, all in, on that $1.01 billion that you've done in FY23, how much does that grow in FY24?

Patrick Allaway: Yes, so look that's not something that we traditionally give an outlook on. We've given you the basis of the information for you to work on and all I'd be doing is reaffirming the outlook statement that we gave. So, I'm sorry, I can't give you more information than that, other than to say we are balancing many trade-offs and we'll be actively managing our cost base through this cycle.

Azib Khan: (E&P Financial Group, Analyst) Can I just confirm then, Patrick, that obviously you've alluded to your five-year financial model, which tells me you've got some visibility on a three- to five-year timeframe and so surely you've got a lot of visibility going into next year. Are you internally confident about a cost figure that you can do next year or is there a lot of uncertainty about that?

Patrick Allaway: No, we're confident about our cost figure for next year. We've got a very clear plan. We've got a clear roadmap as to what we're investing. We also have a very detailed roadmap for the simplification program that's delivering the $200 million and when that drops, so we are very clear about what we're doing.

Now what we can't forecast is what inflation is going to do, but we do anticipate in our economic forecasts that inflation will start to come off because rates are having a lagged effect and will start to bite. So, we're confident about our budget for next year and our internal forecasts for next year and the financial model that we have put together to give us the high conviction in our FY26 targets.

Azib Khan: (E&P Financial Group, Analyst) Can I confirm, Patrick, that you're confident of achieving that $200 million of productivity savings without any further restructuring charges?

Patrick Allaway: So, we've taken the restructuring charge for that. What I can't say is we're never going to have any future restructuring charges. We will assess the business as we go through. Our intention is not to come back to the market with restructuring charges, but that's something that the Board and management will continue to assess and if we see there are material benefits that we can get from investment in those that will benefit our customers and our shareholders in the long-term, that's a possibility but we don't have anything planned today.

Azib Khan: (E&P Financial Group, Analyst) Can I take that to mean, Patrick, say if there are further restructuring charges, then that $200 million productivity savings target will expand or is it possible you need further restructuring charges just to hit the $200 million?

Patrick Allaway: No, the plan for the $200 million we're comfortable with. If there are other opportunities, we will come back to the market with those.

Racheal Kellaway: I think I might just add there, the outline that Patrick gave provides the categories of cost benefits that we're seeing come through the simplification program. So, the restructuring charge that we've just taken largely deals to the operating model changes that we need to take now, when we have taken action on now, that provides a benefit through FY24.

The simplification program then changes shape. So, if you think about some of the benefits that we're going to be getting towards the back end of this period, they will be benefits associated with things like decommissioning technology platforms. So, there isn't actually a cost – a restructuring cost that we need to take in relation to those, so there is a shape, where there's a lot of work being done in terms of the shape of this benefit profile, but also the costs associated with it.

The costs associated with decommissioning are already included in our investment portfolio and we've got a plan for that over the next few years as well. So, from that perspective, no surprises.

Azib Khan: (E&P Financial Group, Analyst) Sorry, Racheal, so the $200 million includes the savings from decommissioning and retiring not just the ME platform, but also the BOQ legacy platforms?

Racheal Kellaway: Correct. So, the slide that Patrick talked to that had the cost categories, it talks to the simplification in terms of how many core banking platforms we're going from and to.

Azib Khan: (E&P Financial Group, Analyst) So there's a slide that says that you will retire BOQ legacy systems beyond FY25. Can I then take that to mean that it'll all be done by FY26?

Patrick Allaway: No, we're not giving that commitment. So, we have a clear plan through to FY26, which includes ME Bank and the decommissioning of ME Bank. We are very focused on reducing the number of core banking platforms, but we're not giving that commitment to the market at this stage. What we're saying is it will happen after FY25.

Racheal Kellaway: Yes, I think the other clarifying point there is BOQ is both a business bank and a retail bank and the plans for the business bank aren't currently in that simplification program from a decommissioning perspective.

Azib Khan: (E&P Financial Group, Analyst) In terms of decommissioning, the $200 million just includes ME core banking decommissioning or is there any BOQ legacy system retirement in there as well?

Patrick Allaway: So, we have said we are retiring some of our legacy systems. We called out retirement of systems in FY24, so there are BOQ systems that are also being retired. But what we are not committing to in that $200 million is transferring and decommissioning the BOQ legacy banking platform onto the new digital platform.

Azib Khan: (E&P Financial Group, Analyst) Thank you, that's great responses.

Patrick Allaway: Just to reinforce as well, as we said through the presentation, we are really focusing the BOQ brand on relationship banking and human touch banking. We have accelerated the digital banking platform for ME and VMA, where we're going to service customers who want self-help and fast responses through digital banking. So, the decommissioning myBOQ, will sit behind the acceleration of digital banking platform for the other two brands.

Ed Henning: (CLSA, Analyst) Hi, thanks for taking my questions. Just a bit of a follow up on the 2024 costs. If you look at slide 29, you just touched on before, you said there's going to be a material increase in basically the expensed item from the investment spend. You've got $24 million there in the second half 2023, so that number we should expect to go up from $24 million and go through both the first half and the second half in 2024.

Then just on the amortisation charge, if you go to slide 27, it was $11 million in this year. You're talking about it going up in 2024 and 2025, can you just give us a little bit of guidance on how much that will go up as well please?

Patrick Allaway: Thanks for the question, Ed. I might pass that to Racheal, thank you.

Racheal Kellaway: Yes, so amortisation really is not a big feature of the operating expense numbers going forward. So, it is $11 million this period. It will go up but it's not a material step up. The first point, yes, so as I said, we're stepping down our absolute investment spend, but there will be a mix shift towards in-year operating expense and so the $24 million that we've got in the second half will increase next year.

Ed Henning: (CLSA, Analyst) Okay and can I – when you talk material, is it greater than five, greater than 10, just to give us some ballpark figure?

Racheal Kellaway: Million or percent?

Ed Henning: (CLSA, Analyst) Dollars would be helpful, but you can give us percent, whatever works for you.

Patrick Allaway: You're really asking your questions in many different ways there, Ed. I don't think you're going to get it out of us, unfortunately.

Ed Henning: (CLSA, Analyst) Okay, all right, thank you.

Brendan Sproules: (Citi, Analyst) Good morning team. I just have a question on the impact of the simplification program, particularly around the mortgage original process. Seen a number of banks undertake this and obviously their ability to process mortgages competitively was a challenge for some time. What should we expect as you go through this process in automation piece, this simplification process and your ability to approve home loans in line with other peers in the market?

Patrick Allaway: Yes, so our processes, as we said before, are very manual with many, multiple hand-offs. I spoke to, through the presentation, that we'll be delivering digital mortgages in 2024. That program is on track. It's going through testing at the moment. We are confident that we will deliver that on time and on budget and that will give us material productivity benefits, a significantly improved customers experience with time DS, but also significantly reduced hand-off periods on mortgages.

Racheal, I don't know if you want to add to that, but we can certainly give you more detail offline and I could get Craig and Rod to provide you with some of the benefits that we're driving on there. But we are very confident that we will materially improve our customer experience and lower our cost to serve, which will enable us to be more competitive in the mortgage market.

Brendan Sproules: (Citi, Analyst) Yes, thank you. I might take you up on that. Then the second question I had was just again on your FY26 targets. There's quite a material difference between say both the ROE and the cost to income that you're providing versus, I guess, the consensus analyst view of the market, which I think has ROE somewhere between 5% and 7%. What would you say to investors is the consensus is missing here that you're trying to communicate to us today?

Patrick Allaway: That's a great question and thank you for giving us the opportunity to ask that question. We recognise there's a material difference. Our cost to income ratio and our return on equity today reflects the market cycle we're operating in. We do not think that current margin headwinds are sustainable in the marketplace and we do believe the cycle will turn. Now it might be prolonged into FY24.

The TFF has been a material distortion on funding markets, so that has caused an interim distortion in relation to cost of funds. We are very confident that our new digital banking platform will lower our cost of funding and give us a much more diversified cost of funds and we've seen proof points of that already through FY23 where we saw significant growth in deposits on the platform to $5.5 billion. So that certainly will help.

The program of decommissioning, in particular our core banking platform for ME, will drive significant productivity benefits and as we said earlier, digital mortgages will also drive significant productivity benefits. So, we do believe we will have a very low cost to serve national brand that is scalable, that will be able to compete in the market and deliver higher returns through the cycle.

So whilst you're measuring the business today on today's cycle, where margins are under pressure and we're making significant investment in the business, we have very high conviction that we're building a Bank that will provide much higher returns on a much lower cost base to benefit when the cycle turns.

Brendan Sproules: (Citi, Analyst) So if I could just summarise that, if I look at my numbers, I should be looking, given what you've just said, at my total expenses because your cost to service is going to be materially lower in 2026 and I also should be looking at my cost to fund because this competition in funding markets is not going to be sustained, but also the structural changes you're making to the mix of your funding. Would that be the two things I should take away from that?

Patrick Allaway: Yes, look the cycle is exacerbated for us at the moment. We called out our disadvantages and the two big disadvantages for us is our higher cost of funds because of our relative low base of low-cost transaction accounts. But also, our cost to serve is very manual and high.

I think the other thing you should think about is our business bank. The business bank generates 55% of our profits and when we talk about margins, the business bank has held its margin through this cycle. It's had significant growth, I think it's approximately $3 billion in asset growth, I'll check with Chris, over the last couple of years. As we've shifted our strategy to grow our SME sector, we do see ourselves really well positioned to growth the business bank as well, so that margin mix across retail and business is also a very important factor for you to think about.

Brendan Sproules: (Citi, Analyst) Thank you.

Nathan Zaia: (Morningstar, Analyst) Morning. Has there been a material difference in the margin impact from retention discounting and front split back book repricing across different brands? Just thinking into the FY26 plan, does that depend on higher loan growth from one brand or channel over the others?

Patrick Allaway: I might get Racheal to comment to that.

Racheal Kellaway: Yes, so on the question around brand difference, not particularly. I mean the big difference really is where we are growing. So, we've seen growth through ME Bank still, we've got CCR in ME Bank, it's strong, low LVR lending, relatively simple and so we've continued to see strong settlements through that brand.

The point around retention discounting that I did want to make is that we are seeing that reduce and become less of a feature of the margin walk and going forward, particularly by FY24, we're expecting that to not be called out in the walk at all. That's driven by a couple of things. A lot of the portfolio has now been discounted but then secondly, the difference between your front to back book margins has reduced. So, retention discounting has been a big impact on the industry up to this point, but we're seeing it reduce going forward.

Nathan Zaia: (Morningstar, Analyst) Looking forward, achieving those sorts of targets that you've spoken about, does that need more growth in the direct versus broker channels or not necessarily?

Racheal Kellaway: We think all of our channels are really important. I mean broker, customers like brokers and so we have got a really nice mix of channels in which customers can come to us. The digital mortgages are more direct and are more streamlined and so we are expecting to see more of our customers come directly as well.

Nathan Zaia: (Morningstar, Analyst) Okay, thanks.

Matthew Wilson: (Jefferies, Analyst) Yes, good morning team, thank you for taking my question. I presume you can hear me.

Patrick Allaway: We can hear you well, thanks Matthew.

Matthew Wilson: (Jefferies, Analyst) That's good. The last time interest rates were at more normal levels where we are today, TDs constituted 70% of your deposit book. Today they're 50%. I presume customers are rational and will move to bank-high yields as interest rates remain higher for longer. Can you talk us through the NIM dynamics of your deposit mix moving to a much higher level of TDs? I've got a second question.

Patrick Allaway: Yes, thanks Matthew. I'll get Racheal to respond to that, thank you.

Racheal Kellaway: Yes, it's a great question. I mean customers like to lock in yield when interest rates are peaking and so we have seen a mix shift of customers into term deposits. We've seen the negative drag of that. I mean I called out at the first half where we were pricing term deposits under swaps, it was a really big, material benefit to margin. That's now gone back to what I would call a more normalised pricing level. The issues is the TFF, as we stare into FY24 and there's going to be a lot of deposit competition across the industry and so we're expecting the margin degradation from term deposits to continue based primarily on competition. So that's term deposits.

I think the other factor when you're talking as far back as you are, is that actually there's been a lot more activity in terms of savings accounts and so there are, depending on the age of the customer, younger customers actually prefer to put their money into some of the higher-yielding savings accounts and they're easy, from a digital perspective, they're also easier to transact around. So, the dynamic around term deposits has shifted a little bit in the market as it relates to savings accounts as well.

Matthew Wilson: (Jefferies, Analyst) Then just secondly…

Patrick Allaway: Just before we go on, sorry to interrupt you there Matthew. Given obviously the time we've had all of you on the call, we're cognisant that we've been going for a while now. So, what I'd suggest is that we maybe take two or three more questions? So, we're done after this – all right, Matthew, please go ahead.

Matthew Wilson: (Jefferies, Analyst) Just one more. I'm just interested in your outlook comments. Why do you think banks should earn excess returns above the cost of equity on a home loan which is a competitive commodity and that cost of equity reflects the required return that's driven off that product? Why should there be an excess return in the space? Given everyone's moving to digital home loans and creating efficiencies, surely competition increases further?

Patrick Allaway: So, look it is a highly commoditised market, there's no question about that, but at the end of the day, shareholders need a return above the cost of capital. If banks write business that doesn't provide an economic return, they won't be here. So, my response is that there's a cost to capital that we all have and it doesn't seem rational or sustainable that we would write business below that cost capital.

Matthew Wilson: (Jefferies, Analyst) But your ROE target is below your cost to capital and the cost of capital captures all the risks and required returns necessary in a product.

Patrick Allaway: That's correct, we're very focused on growing our ROE, and the investment that we're making in the business is to grow the ROE going forward.

Matthew Wilson: (Jefferies, Analyst) Thank you.

Jessica Smith: Thank you everyone for joining us today. If you have any further questions, please contact the investor relations team, and we look forward to speaking to many of you over the coming week. Thank you.