



## ASX RELEASE

30 March 2017

### BOQ delivers \$175 million first half profit

#### 1H17 financial highlights\*

- Cash earnings after tax of \$175 million, down 2%
- Statutory net profit after tax of \$161 million, down 6%
- Net Interest Margin down 5 basis points on the prior half to 1.85%
- Cost to Income Ratio up 100 basis points to 47.4%
- Loan impairment expense down 25% to \$27 million or 13 basis points of gross loans
- Common equity tier one capital ratio up 29 basis points on the prior half to 9.29%
- Basic earnings per share down 5% to 45.5 cents
- Return on average ordinary equity down 70 basis points to 9.8%
- Fully franked interim dividend maintained at 38 cents per share

*\*1H17 vs 1H16 comparisons unless otherwise stated. Figures are on a cash basis unless otherwise stated*

BOQ today announced interim cash earnings after tax of \$175 million for the six months to 28 February 2017, down 2 per cent on the prior corresponding period. Statutory net profit after tax was down 6 per cent to \$161 million.

The BOQ Board has maintained a fully franked interim dividend of 38 cents per share in line with the prior half.

#### **Earnings down, improved outlook for second half**

Strong competition for loans and deposits in a low interest rate environment contributed to flat loan balances and a five basis point reduction in Net Interest Margin over the half.

BOQ Managing Director and Chief Executive Officer Jon Sutton said while earnings were down, the outlook for the second half looks more favourable with lending application volumes picking up in this calendar year.

“We have prioritised margin and credit quality over growth in this half, in what has been an intensely competitive period not just in lending but also in retail deposits,” Mr Sutton said.

“A higher quality, higher margin portfolio will deliver more sustainable profits longer term and this has guided our response to a number of industry headwinds.”

Mr Sutton said the outlook for second half revenue was more positive.

“We are operating in a rapidly changing operating environment where regulation, competitive dynamics and customer demands are shifting,” Mr Sutton said.

“A number of the headwinds that emerged in 2016 abated late in the half, which saw mortgage application momentum return and deposit spreads improve.

“It’s expected that this will contribute to better revenue momentum in the second half.”

### **Continued asset quality strength**

BOQ’s asset quality was again a highlight with Loan Impairment Expense down 25 per cent to \$27 million, or 13 basis points of gross loans.

Mr Sutton said although there are pockets of weakness across the economy, there are no signs of deterioration in BOQ’s loan portfolio.

### **Delivering on expense management**

In a competitive, low credit growth environment, cost management continues to be a strong focus for BOQ which has elevated its productivity programs over the past 12 to 18 months.

Operating expenses were down 2 per cent on the prior corresponding period. This was achieved notwithstanding the investments made back into the business, including the roll-out of the Virgin Money mortgage product.

Mr Sutton said a number of efficiency initiatives were underway to digitise operations, remove duplication and improve processes.

BOQ reaffirmed its commitment to delivering its previously stated 1 per cent underlying expense growth target for the 2017 financial year.

### **Niche business segments performing well**

BOQ’s strategy of focusing on niche segments that value a more intimate customer relationship continued to deliver.

Target niche commercial segments such as retirement living, hospitality, franchising and agribusiness experienced growth of \$200 million. The high quality BOQ Specialist business delivered another strong performance with 8 per cent annualised commercial loan growth.

BOQ Finance made a valuable contribution with improved business mix and portfolio growth of 1 per cent.

The new Virgin Money Reward Me home loan product that was launched just under 12 months ago continues to gain traction with customers and mortgage brokers, delivering loan growth of \$200 million for the half.

### **Strong capital and funding position provides room for growth**

BOQ’s strong capital position improved, with the Common Equity Tier One ratio up 29 basis points over the half to 9.29 per cent.

BOQ's retail deposit to lending ratio also saw a strong increase, up 3 per cent over the half to 71 per cent. This provides BOQ with plenty of room for growth in the second half and positions BOQ strongly to respond to any potential regulatory changes.

## Outlook

Mr Sutton said he was pleased with the Bank's ability to respond to a changing operating environment.

"We have seen a 30% uplift in mortgage application volumes in recent weeks which gives us confidence of a return to growth in the second half," Mr Sutton said.

"The industry faces challenges of low credit growth, low interest rates, regulatory uncertainty, rapidly changing consumer expectations and increased scrutiny of conduct and culture.

"We've responded well to these challenges and have been able to continue delivering our strategic priorities and stable profits for shareholders.

"Throughout the rest of the year our focus will remain on BOQ's growth prospects in niche customer segments and asset quality which we believe will drive more sustainable profits longer term.

"Efficiency remains a key focus. We are committed to delivering on the 1% underlying expense target and have embarked on a transformation program to find further productivity efficiencies across the organisation.

"Even though it has been a tough environment, we are at a turning point. Our increased mortgage momentum, outlook for revenue growth and capital optionality all provide a strong framework to deliver on our full year targets," he concluded.

## Results webcast details

BOQ's results teleconference will be held today at 10:30am AEDT (9:30am in Queensland due to daylight savings time difference).

Teleconference details are as follows:

Dial-in number (Australia): 1800 725 000  
Dial-in number (International): +61 2 8373 3610  
Conference ID: 92903401

The webcast address is: <http://edge.media-server.com/m/p/gsxp4pdq>

## Ends

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