



Your own personal bank

Bank of Queensland Limited
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ASX RELEASE

18 April 2013

BOQ achieves solid 1H13 profit, delivering against strategic and management targets

Highlights

- Cash earnings after tax up 16% to \$119.9 million¹
- Statutory profit after tax up 37% to \$100.5 million
- Increase in fully franked dividend – up 2 cents to 28 cents per share
- Basic earnings per share (EPS) of 37.9 cents, a 2% increase
- Normalised cash net interest margin (NIM) of 1.66%, an increase of 2 basis points
- Expenses tightly managed with normalised cost to income ratio down 1.7 percentage points to 44.7%
- Continued focus on asset quality with impairment expenses down 19% to \$59.5 million
- Strong capital base – Common Equity Tier 1 capital of 8.7%
- 11.6% return on tangible equity (excluding goodwill and other intangibles), up from 10.6%

BOQ today reported a solid 16% increase in cash earnings after tax to \$119.9 million, and a 37% increase in statutory profit to \$100.5 million, for the six months to 28 February 2013.

The Bank's cash net interest margin increased 2 basis points to 1.66% as a result of asset re-pricing and a focus on minimising the impact of higher deposit spreads.

Annualised lending growth of 3.1% was fully funded by retail deposit growth, with the Bank improving its deposit mix and reducing its reliance on wholesale funding during the half.

Managing Director and CEO Stuart Grimshaw said the improvement in the Bank's profitability and other financial indicators underlined the significant progress being made.

"Our solid results for this half demonstrate we are delivering against our strategy, with all key financial indicators heading in the right direction," he said.

"We have worked hard to re-establish BOQ's business fundamentals and are now organisationally fit and in a better position to focus on sustainable and profitable growth.

"While there is still more work to do, I'm satisfied with our achievements over the half. I am also confident that we have the right strategy and team in place and are building good momentum within our business."

¹ Unless otherwise stated, all financial comparisons in this document refer to the prior half (to 31 August 2012) as the prior comparative period (to 29 February 2012) included a number of significant items resulting in a loss.



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Delivery against strategy

Mr Grimshaw said BOQ is well placed to meet the FY13 key management targets it outlined in August last year.

“We are successfully growing the Bank’s asset base, particularly within the Business Bank, while staying within our revised risk framework and tightly managing expenses,” he said.

“Basic EPS increased 2 per cent to 37.9 cents and we have seen improvement in our return on tangible equity to 11.6 per cent.”

Over the course of the half, BOQ delivered a number of important strategic initiatives.

“A key objective has been to expand our distribution footprint and make it easier for our customers to do business with us,” Mr Grimshaw said.

“We have launched a mortgage broker pilot program in Western Australia and recently announced the acquisition of Virgin Money Australia, a deal which enhances our ability to acquire customers online and opens up new market segments.”

A new Customer Relationship Management system is being successfully piloted in the Retail network and is delivering expected benefits, particularly in enhancing branch efficiency.

The Business Bank invested in its Agribusiness offering with seven agri centres now open across Queensland and NSW, and expanded its financial market offerings with early sales of interest rate hedging products.

Back office support has been streamlined across the Bank, St Andrew’s and BOQ Finance, reducing duplication and enabling investment in front line capabilities.

Asset Quality & Risk Management

The reduction in impairment expense, down 19% to \$59.5 million, was a major contributor to improved profitability. Total impaired assets across Retail, Commercial and BOQ Finance reduced 9% to \$478.5 million.

Mr Grimshaw said BOQ’s enhanced focus on risk management and the credit quality of its balance sheet had driven the improvements.

“The Asset Quality Review undertaken last year and subsequent changes to our risk processes resulted in a stronger portfolio and new business quality,” he said.

“The application of a prudent risk appetite and strong risk management controls, as well as macro-economic factors including low interest rates and stabilising property markets, also contributed to the improved result.”



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Capital and Funding

BOQ continued to build its balance sheet strength over the half. At 28 February 2013 the Bank's Common Equity Tier 1 level increased to an industry leading 8.7%, while the total capital adequacy ratio increased to 13.1% following a \$300 million convertible preference share issue in late 2012.

The recently announced acquisition of Virgin Money Australia (VMA) will reduce the Common Equity Tier 1 ratio by approximately 12 basis points at completion.

Retail deposits now represent 60% of the Bank's total deposits and borrowing, further reducing its reliance on short term wholesale funding.

Dividend

The Board has approved a fully franked dividend of 28 cents per share, up 2 cents per share or 8%. The following dates apply to this dividend:

- Ex-dividend date: 2 May 2013
- Record date: 8 May 2013
- Payment date: 27 May 2013

BOQ is reducing the discount applied to its Dividend Reinvestment Plan (DRP) from 2.5 per cent to 1.5 per cent, bringing it into line with current market practice. This change is effective immediately.

Outlook

Mr Grimshaw said global economic instability continued to provide challenges to confidence and sentiment in the domestic economy.

"Domestically, there is significant uncertainty with many small businesses demonstrating signs of stress and unemployment starting to trend adversely. The high Australian dollar has also been a headwind to sectors such as mining," he said.

"On the positive side of the equation, equity market gains were strong in the first half and residential property clearance rates have been reducing available stock, suggesting investor confidence may be beginning to return.

"However the risk of ongoing volatility is likely to continue to impact consumer and business confidence in the months ahead."

Despite improving funding markets, retail product pricing remains competitive with few signs of easing.



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While credit growth is expected to remain subdued, the benefits of sales and service initiatives in the Bank's Retail network and expanded distribution via mortgage brokers should help BOQ deliver above-system housing growth in line with key management targets.

The Business and Agribusiness division continues to build a solid pipeline of new business that is expected to deliver solid lending growth in a contracting market.

Costs will remain tightly controlled, in line with inflation, while investment will continue in frontline capabilities.

Results webcast details

BOQ's results briefing will be webcast at 11:00am AEST on Thursday 18 April 2013.
The webcast address is: <http://www.media-server.com/m/p/tuyvowrs>.

Ends

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