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ASX RELEASE

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BOQ delivers 1H14 record result in highly competitive market conditions

Highlights of 1H14 results

- After tax cash earnings of $140.2 million, a 17% increase on the prior comparative period (1H13: $119.9 million).
- Statutory profit after tax of $134.7 million, up 34% (1H13: $100.5 million).
- Underlying profit before tax up 8% to $249.2 million (1H13: $230.7 million).
- Basic cash earnings per share up to 43.8 cents (1H13: 37.9 cents).
- Maintained a disciplined approach to growth in a highly competitive market. Strong improvement in net interest margin, up 11 basis points to 1.77% (1H13: 1.66%).
- Quality and strength of balance sheet evidenced by two credit rating agency upgrades; level of impaired assets now in line with industry levels, capital position amongst strongest of peers.
- Cash ROTE now at management target levels, up 160 basis points to 13.2%; Cash ROE at 10.3%, in double digits for the first time since 2009.
- Interim dividend up 14% to 32 cents per share fully franked (1H13: 28 cents).

BOQ today announced strong cash earnings after tax of $140.2 million for the six months to 28 February 2014, a record half-year result for the Bank and a significant achievement given highly competitive market conditions. Statutory profit after tax rose 34% to $134.7 million.

Underlying profit before tax was up 8% to $249.2 million as a result of the Bank maintaining its disciplined approach to growth and costs.

BOQ's financial performance enabled the Board to set an interim dividend of 32 cents per share fully franked, an increase of 14% or 4 cents on 1H13.

BOQ's total shareholder return over the half was 28% compared to 8% for the ASX200 Accumulation Index.

Simple, well-executed strategy, delivering results

Managing Director and CEO Stuart Grimshaw said BOQ was making good progress in the delivery of its strategy.

"Our performance over the half shows we are successfully executing our strategy and proactively managing the levers available to us to deliver results," he said.

"We maintained a focus on profitable growth rather than compromising margins or risk standards, building momentum in our new customer distribution channels, tightly controlling expenses while investing in future growth, and building our customer-focused culture."

Net interest margin rose 11 basis points from February 2013 to 1.77% with rating upgrades from Standard & Poor's in September and Moody's in March helping BOQ to manage its mix of deposits. This margin improvement was achieved despite the run-off of high margin assets and intense competition in front-book pricing.

Retail asset growth was impacted by runoff of the legacy line of credit product, which now represents 15% of the retail portfolio compared to 21% two years ago, and the network's adjustment to new risk and compliance expectations. The Bank is starting to see promising growth in its new retail distribution channels, which have significant further upside.

"At the half year, we had accredited 536 brokers across New South Wales, Victoria, Western Australia and South Australia. For the month of February, brokers accounted for 7% of all lending applications across the Bank," Mr Grimshaw said.

"The corporate network has seen an 8% lift in approvals year on year while our new property related mobile app, developed with RP Data, and "Property Ladder" social media project delivered more than 7,000 new leads combined.

"While we're talking small numbers, it's worth noting the digital channel has delivered the entire FY13 growth result in the first half alone."

BOQ continued to diversify its earnings by geography and industry through lending to high-quality business and agribusiness customers and supported this strategy by building sales and service capability outside of Queensland. Excluding the run-off of legacy exposures outside the Bank's revised risk appetite, commercial lending growth was 5.9% for the half.

Mr Grimshaw said a key take-out from the result was the quality and strength of BOQ's balance sheet, which is now amongst the best-in-class.

"Our impaired assets have nearly halved in two years to $298m and, at 85 bps of gross loans and advances, we're back in line with industry levels," he said

"Our specific and collective provisions remain amongst the strongest in the industry. These metrics all reflect the significant work we've done to our risk management processes over the past two years."

The Bank reported its first sub-44% cost to income ratio in 2H13 and has seen further improvement this half to 43.8%. Expenses were tightly controlled over the half, despite the increase in regulatory costs and increased investment in frontline capabilities.

BOQ's emphasis on building a customer-centric culture continued to underpin its strong performance on customer satisfaction and net promoter score metrics with the Bank tracking higher than the Big 4 banks.

Virgin Money Australia's financial performance was ahead of expectations, achieving a small profit six months ahead of expectations after performing strongly in credit cards, travel insurance and superannuation and improving its expense profile.

Lending growth

With assets at $26.1 billion (1H13: $25.9 billion), Retail lending remained flat over the half as the Bank chose to focus on quality and risk in a market where competitors are discounting heavily to achieve growth.

The Bank saw momentum build in each of its new retail distribution channels with brokers, mobile bankers and digital channels all starting to build promising new business pipelines. The corporate branch network also improved year on year as a result of efficiency initiatives.

'Clear Path', a simplified housing product, was launched during the half and grew to half of new settlements over the February quarter.

Commercial lending assets increased to $5.4 billion or 2.4x system (1H13: $5.3 billion), excluding impaired asset run-off, which reflects execution of the Business Banking & Agri strategy.

Asset quality & risk management

The underlying credit quality of the Bank's portfolio continued to improve in 1H14, with key measures reducing on the prior comparative period.

Total loan impairment expense was down 23% on prior comparative period to $46.1 million (1H13: $59.5 million), reflecting improved credit management practices and a tighter risk framework.

Total impaired assets across retail, commercial and BOQ Finance fell 38% to $298.4 million (1H13: $478.5 million). Only one exposure greater than $5 million transitioned to impaired status in the half.

Capital and funding

During the half, BOQ's long-term credit ratings were upgraded from 'BBB+' to 'A-' by Standard & Poor's and from 'Baa1' to 'A3' by Moody's.

These upgrades recognised the progress BOQ has made in strengthening its balance sheet, creating a sustainable funding profile and improving capital generation. They also provide the Bank with further opportunities to enhance and diversify its funding sources.

BOQ's Common Equity Tier 1 ratio remains the highest in its peer group at 8.84% (1H13: 8.72%). The Bank's improved cash earnings generated surplus capital to support the 2013 final dividend and risk weighted asset growth.

The Bank's deposit to loan ratio increased to 68% (1H13: 65%). This was accompanied by a change in funding composition with the targeting of lower cost funding sources and a further repurchase of remaining Government Guaranteed debt.

Dividend

The Board has approved an interim dividend of 32 cents per share fully franked, up four cents on the prior comparative period.

Outlook

Mr Grimshaw said BOQ remained focused on successfully executing against its four strategic priorities of multi-channel optimisation, risk/return balance, operational excellence and talent, capability and culture.

Looking at the broader economy, he said BOQ was well placed to benefit from improvement to the Queensland economy.

"In terms of external market conditions, we don't expect to see any significant change in business conditions but we remain well placed to capitalise on any further improvement to the Queensland economy.

"With the likelihood of a return to a more normal trend in house price growth, we expect business credit growth will be the main driver behind future credit growth.

"However, there is a sense that microeconomic reform will be critical in providing further impetus to the economy."

Results webcast details

A briefing covering BOQ's results for the half year to 28 February 2014 and the Investec acquisition will be held at the Intercontinental Hotel in Sydney at 10:30am AEST today.

Briefing

Venue:	Fort Macquarie Room, Level 2, Intercontinental Hotel
Address:	117 Macquarie Street, Sydney

Teleconference

Dial-in number (Australia):	1800 725 000
Dial-in number (International):	+61 2 8373 3582
Conference ID:	13716115
Webcast address:	http://www.media-server.com/m/p/enrj5e4g

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