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ASX RELEASE

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BOQ builds momentum with record FY14 results

Highlights FY14 vs FY13

- Statutory profit after tax of \$260.5 million, up 40%.
- Cash earnings after tax up 20% to \$301.2 million, driven by margin expansion and further improvement in impairment expense.
- Full year dividends of 66 cents per share fully franked, an increase of 14%.
- Basic cash earnings per share up 15% to 89.5 cents.
- Net interest margin of 1.82%, an increase of 13 basis points as a result of deposit pricing initiatives and improved wholesale funding costs.
- Cost to income down 40 basis points to 43.9% despite reinvestment in frontline capability and productivity programs.
- Clear, simple strategy continues to be well executed by experienced management team, with solid foundations established for the Bank.
- Disciplined approach to lending growth, prioritising credit quality and margin.
- Strong balance sheet and capital position – well positioned as regulatory focus on industry capital levels increases.
- Successful acquisition of BOQ Specialist¹ contributing \$3.1 million in cash NPAT in its first month and providing strong growth opportunities in niche specialist segments.

BOQ has posted record statutory and cash profit results for the financial year to 31 August 2014, with the Bank continuing to make good progress in delivering its strategy and building an organisation that is lower risk, lower volatility and set up for a sustainable future.

Statutory profit after tax was up 40% on the prior year to \$260.5 million. After tax cash earnings were up 20% on FY13 driven by net interest margin expansion and further improvement in impairment expense. Basic cash earnings per share were up 15% to 89.5 cents per share.

BOQ's financial performance allowed the Board to determine to pay a final dividend of 34 cents per share, taking full year dividends to 66 cents per share fully franked, an increase of 14% on FY13.

¹ BOQ completed the acquisition of Investec Bank (Australia) Limited's Professional Finance and Asset Finance & Leasing businesses on 31 July 2014. The Professional Finance business has been renamed BOQ Specialist; the Asset Finance & Leasing business has been merged with BOQ Finance.

Acting Chief Executive Officer Jon Sutton said BOQ's clear, simple strategy had continued to be well executed by the Bank's experienced management team during FY14.

"We continue to deliver against our four strategic priorities: putting the customer in charge, growing the right way, finding a better way and being loved like no other," Mr Sutton said.

"Solid foundations are now in place and we're on the way to building a better Bank that is lower risk, has lower volatility and is set up for a sustainable future."

Key highlights of the year included:

Proactive margin management

Mr Sutton highlighted BOQ's proactive management of its margins during the financial year, particularly through deposit pricing, which saw net interest margin increase 13 basis points over the year to 1.82%.

"Our ability to manage deposit pricing has delivered real benefits, supported by two credit rating upgrades during the year which aided our ability to diversify our funding mix," he said.

"The Business Bank continues to grow and, aided by the acquisition of BOQ Specialist, we have further diversified our portfolio by industry and geography."

The exit margin for BOQ at the end of the period was consistent with the 2H14 outcome of 1.85%. The addition of BOQ Specialist in the year ahead is expected to add around 9 – 10 basis points.

Investing for growth

In terms of costs, the cash cost to income ratio fell 40bps on the prior year to 43.9%. Excluding the one month impact of BOQ Specialist, operating expenses increased 6% for the year.

"While expense growth was higher than we would have liked, we remained committed to disciplined management of the Bank's expense base," Mr Sutton said.

"Expense growth reflected significant investment in frontline capabilities in line with our strategy to open more distribution channels, including expansion of our Business Banking capability and establishment of a broker support network and mobile banking unit.

"There has also been investment in productivity improvement such as digitisation of the back office, which will be implemented in 2015."

Mr Sutton confirmed that BOQ, following an extensive selection and due diligence process, has agreed a new five-year IT services contract with longstanding partner Hewlett-Packard (HP) which will underpin the Bank's strategic transformation agenda.

The renewed HP partnership will allow BOQ to reduce the complexity of its IT environment, standardise and improve the delivery of technology services across the business, increase the speed and quality of project delivery, and reduce overall IT operating costs.

Cost savings will allow increased reinvestment into growth initiatives, and also provide a buffer for an increasing amortisation profile.

Lending environment

With lending markets becoming increasingly competitive across all segments, BOQ has continued to compete selectively and prioritise credit quality and margin.

In retail lending, where the major banks that dominate market share have been gifted significant benefits over the rest of the market through capital advantages, BOQ's housing lending increased 1% over the year to \$26.3 billion.

"In a low retail credit growth environment, we've maintained our disciplined approach to growth. We're not prepared to join the race to the bottom on pricing," Mr Sutton said.

"Our retail growth has also been impacted by our overweight position in Queensland, which is growing at around half the rate of the broader system. Continued run-off of legacy portfolios has reduced our exposure to riskier market segments.

"Our branch network remains in a period of transition with Owner Manager branch numbers reducing, largely due to consolidations and retirements after a number of years in the network, and the Corporate network undergoing changes to improve productivity."

Further progress was made during the year in putting customers in charge through diversification of distribution channels. The broker network today stands at around 1,300 accredited brokers, and is in the process of expanding into Queensland.

"In the year ahead, a new commission model for Owner Managers is ready to roll out when a new franchise code is finalised which will reward behaviours across a balanced scorecard and help drive greater alignment of interests," Mr Sutton said.

"BOQ Specialist wrote around \$1 billion of mortgages in the past year, which has to date been with third parties. We expect around 50% of new mortgage originations to be on BOQ's balance sheet within a year."

Commercial lending was up 6% over the year to \$5.6 billion (excluding BOQ Specialist), supported by the appointment of business banking specialists outside of Queensland.

Asset quality & risk management

Ongoing improvement in key credit metrics reflects the Bank's focus on embedding enhanced risk management processes and tighter risk appetite frameworks, while there has also been benefit from the continuation of a lower interest rate environment.

The full year impairment expense of \$86.2 million was a \$28.4 million (25%) improvement on the prior year. Impaired assets reduced \$88.7 million (or 23%) to \$292.9 million and now sit at levels half of those reported in February 2012.

Arrears were lower across the Group driven by the improvement achieved in commercial arrears through the early identification of troublesome loans and implementation of workout strategies which further demonstrates the improving nature of the portfolio.

Balance sheet and capital position

BOQ's balance sheet continued to be conservatively managed with provision coverage remaining one of the strongest in the industry. The Bank's capital position remains robust with ratios steady while the CET1 ratio of 8.63% is at the top end of the peer range.

The Board has determined to pay a final dividend of 34 cents per share, taking full year dividends to 66 cents per share fully franked (up 14%).

The following dates apply:

- Ex-dividend date: 3 November 2014
- Record date: 6 November 2014
- Final date to elect for DRP participation: 7 November 2014
- Payment date: 27 November 2014

BOQ's annual general meeting will be held on 27 November 2014.

Outlook

Mr Sutton said business investment and consumer confidence are expected to remain subdued in the year ahead as Australia transitions from mining investment to a more services-based economy.

"Barring any unforeseen macroeconomic impacts, BOQ expects sustainable growth in earnings and dividends as we realise the benefits of our four pillar strategy," Mr Sutton said.

"In the year ahead our key priority will be to drive profitable growth across all business lines, whilst maintaining our disciplined approach to business fundamentals.

"BOQ Specialist has delivered in line with expectations in its first month and we're optimistic about the future opportunities and ability of this business to drive high margin growth.

"Finally, the strength of our balance sheet and capital position sets us up well for any regulatory changes that might result from the Financial System Inquiry."

Results webcast details

BOQ's results teleconference will be held today at 11:00am AEDT (10:00am in Brisbane due to daylight savings time difference).

Teleconference details are as follows:

Dial-in number (Australia): 1800 725 000
Dial-in number (International): +61 (0)2 8373 3610
Conference ID: 3181358

The webcast address is: <http://www.media-server.com/m/p/ssmhve54>

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