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ASX RELEASE

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BOQ achieves solid 1H15 result

1H15 key points*

- After tax cash earnings of \$167 million, up 19% (1H14: \$140 million); statutory profit after tax up 14% to \$154 million (1H14: \$135 million).
- 11% increase in underlying profit (before impairment expense and tax) to \$276 million (1H14: \$249 million).
- Basic cash earnings per share up to 45.8 cents (1H14: 43.2 cents). ROTE up 60 basis points to 13.8% (1H14: 13.2%); ROE maintained at 10.3% (1H14: 10.3%).
- Lending growth momentum building in the Retail and Business Banks but not at the expense of risk or margins.
- Healthy contribution from BOQ Finance in subdued market conditions.
- BOQ Specialist performing well with cash profit contribution of \$19 million, in line with targets.
- Net interest margin up 20 basis points to 1.97% (1H14: 1.77%) as a result of BOQ Specialist and a disciplined approach to growth in a highly competitive market.
- Continued improvement in the credit quality of the Bank's portfolio with loan impairment expense down to 18 basis points of lending (1H14: 26 basis points).
- Higher cost to income ratio of 48.1% (1H14: 43.8%) due largely to one-offs; excluding one-off items, CTI was in line with expectations at 45.1%.
- Robust balance sheet and capital levels position BOQ well for evolving regulatory environment.
- Increased shareholder returns with interim dividend up 13% to 36 cents per share fully franked (1H14: 32 cents).

** Comparisons are to the 1H14 prior comparative period, which did not include BOQ Specialist contributions*

BOQ today announced record interim cash earnings after tax of \$167 million for the six months to 28 February 2015, a solid result driven by growing momentum in lending growth, strong Net Interest Margin performance and further asset quality improvements.

Statutory profit after tax rose 14% to \$154 million on the prior comparative half.

In its first full half since acquisition in July 2014, BOQ Specialist performed well with highlights including lending growth of \$352 million in on-balance sheet mortgages, on track to exceed its target for the full financial year.

BOQ's financial performance enabled the Board to set an interim dividend of 36 cents per share fully franked, an increase of 4 cents or 13% on 1H14.

Steady execution of strategy

Managing Director and CEO Jon Sutton said the result showed BOQ was continuing to make steady progress in delivering its strategy.

"What you see today is a bank that has come a long way in recent years. Strong foundations are now in place and we're well into building a bank that is lower risk, lower volatility, and set up for sustainable growth," he said.

"This is another solid result which represents a record half year profit for BOQ. I am particularly pleased to see lending growth improve while the Bank's risk settings, margins, balance sheet and capital position are all strengthening."

On a cash basis, BOQ's basic earnings per share were up 6% on the prior half to 45.8 cents, return on average tangible equity increased 60 basis points to 13.8%, and return on average equity was stable at 10.3%.

Other key highlights for the half included:

Lending growth returning towards system

Lending growth headed back towards system levels as a result of the strategic initiatives BOQ has implemented in recent years, including expansion of the mortgage broker channel and investment in the Business Bank's presence and capabilities.

Retail lending grew at an annualised 6% to \$27.3 billion over the February half with \$813 million underlying growth. The housing book saw increased diversification with 57% of applications originating from outside of Queensland, largely driven by the broker channel which contributed \$420 million of loan growth and accounted for 14% of settlements.

Commercial lending balances continued to exceed system levels, growing by an annualised 10% over the six months to \$8.0 billion. A greater presence in New South Wales, Victoria and Western Australia saw the geographic concentration of the portfolio in Queensland reduce further.

In its first full half of contribution, BOQ Specialist's contribution to lending growth exceeded expectations delivering \$352 million in on-balance sheet mortgages while maintaining margins and credit quality across the portfolio.

BOQ Finance grew by an annualised 6% over the half to \$4.0 billion. This was a healthy result against an industry backdrop of lower volumes due to a slowdown in plant and equipment investment in the broader economy.

"While it was pleasing to see genuine growth momentum across each of our businesses, it was equally important that this wasn't at the expense of our risk fundamentals or margins," Mr Sutton said.

“We believe we can continue to drive growth through our existing strategy especially when you consider we’re still below our peers’ market share in the broker channel and we have further upside through BOQ Specialist, as well as Virgin Money Australia where we expect to launch mortgages within 12 months.”

Margin increased in a competitive market

Despite a highly competitive market, the Bank’s net interest margin rose 20 basis points from February 2014 to 1.97% due to an 11 basis point increase from BOQ Specialist as well as ongoing pricing discipline.

“While the market remains incredibly competitive, both in business and home lending, we are growing our book without compromising asset quality or cutting pricing to the bone,” Mr Sutton said

“Even with BOQ Specialist’s contribution, this is a very good performance given market conditions.”

Capital and funding strength

During the half, BOQ continued to strengthen its balance sheet, creating a sustainable funding profile that is able to support growth and deliver internal capital generation.

Fitch Ratings’ decision in November 2014 to lift its long-term credit rating from BBB+ to A- followed similar upgrades from other ratings agencies. These changes have improved access to long-term wholesale funding markets and allowed the Bank to actively manage its funding profile by diversifying composition and increasing duration, while reducing cost.

BOQ’s Common Equity Tier 1 ratio increased 19 basis points to 8.82% during the half. The Bank’s capital position remains the highest of Australia’s regional and major banks based on Standard and Poor’s risk-adjusted capital approach, positioning it well given the evolving domestic and global regulatory environment.

Higher costs due to BOQ Specialist and one-offs

Cost to Income (CTI) ratio for the half increased to 48.1% due to the inclusion of BOQ Specialist for the entire period as well as one-off costs (property costs and CRM impairment expenses) already flagged to the market. Excluding BOQ Specialist, underlying expense growth was 3% annualised from 2H14.

Further improvement in asset quality & risk management

The underlying credit quality of the Bank’s portfolio continued to improve in 1H15, reflecting improved credit management practices, favourable realisations in the commercial portfolio and the continuation of Australia’s low interest rate environment.

Total loan impairment expense was down 22% on prior comparative period to \$36 million (1H14: \$46 million). Total impaired assets across retail, commercial and BOQ Finance fell 13% to \$259 million (1H14: \$298 million).

“Balance sheet and capital strength is an absolute non-negotiable for BOQ and this result sees further improvement in key metrics with impaired asset levels and bad and doubtful debts both continuing to fall.” Mr Sutton said.

BOQ positioned well for the future

Mr Sutton said BOQ remained focused on successfully delivering its strategic priorities which were aimed at building sustainable financial performance, consistent growth in returns to shareholders and superior service to customers and the wider community.

More broadly, Mr Sutton said the outlook for the national economy remained uncertain over the short to medium term.

“The economy is currently running at a pace below its long-run trend and, while there are some positive factors emerging, any sustained improvement will require a pick-up in consumer and business confidence,” he said.

Mr Sutton said BOQ’s balance sheet and capital levels continued to position it well amidst market uncertainty around global and domestic regulatory environments.

“At this stage, no-one can accurately predict the outcome of the Basel Committee and Financial System Inquiry processes,” he said.

“Given our robust comparative capital position, we are very comfortable with our position and ability to adjust to any new regulatory requirements.

“We continue to wholeheartedly support the findings of the Financial System Inquiry’s final report and urge the Federal Government and regulators to move quickly to create a more level playing field.”

Results webcast details

A briefing covering BOQ’s 1H15 results will be held at the Museum of Sydney’s AGL Theatre at 11am AEDST (10:00am Brisbane) today.

Briefing

Venue: Museum of Sydney, AGL Theatre
Address: Corner of Bridge Street and Phillip Street, Sydney

Teleconference

Dial-in number (Australia): 1800 725 000
Dial-in number (International): +61 2 8373 3610
Conference ID: 3687407
Webcast address: <http://edge.media-server.com/m/p/cctnx63e>

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