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ASX RELEASE

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BOQ delivers first half NPAT of \$179 million, up 7%

1H16 financial highlights*

- After tax cash earnings of \$179 million, up 7%; statutory profit after tax up 11% to \$171 million.
- Successful expansion of distribution channels drives above system housing lending growth of 1.6x System, strong credit quality maintained.
- Loan impairment expense to gross loans and advances down 1 basis point to 17 basis points of lending.
- Net interest margin maintained at 1.97% in a highly competitive market impacted by volatile wholesale funding markets.
- Cost to income ratio improved by 170 basis points to 46.4% including one-off restructuring costs.
- Increased shareholder returns with interim dividend up 6% to 38 cents per share fully franked.

** Comparisons are to the 1H15 prior comparative period and are on a cash basis unless otherwise stated.*

BOQ today announced interim cash earnings after tax of \$179 million for the six months to 29 February 2016. Statutory profit after tax rose 11 per cent to \$171 million on the prior comparative half.

On a cash basis, BOQ's basic earnings per share were up 5 per cent on the prior half to 47.8 cents. Return on average tangible equity increased 20 basis points to 14 per cent, and return on average equity was up 20 basis points to 10.5 per cent.

Managing Director and CEO Jon Sutton said the result was driven by above system housing lending growth and strong asset quality levels. The Bank also maintained its Net Interest Margin and kept costs under control.

"Over the half, we continued to make good strategic progress while successfully balancing our growth, margin and risk priorities in a market featuring high levels of competition, volatile wholesale funding markets and regulatory uncertainty," he said.

"Our ability to navigate these challenges and deliver a positive half year result reflects the underlying strength of our business and positions us well for the future."

The BOQ Board has determined to pay an interim dividend of 38 cents per share fully franked, an increase of 2 cents on 1H15.

Return to above system lending growth

BOQ achieved above System loan growth of \$2 billion (1.2x System) for the half predominantly as a result of its decision to diversify distribution channels.

Housing mortgage growth for the half was \$1.7 billion (1.6x System), driven by strong growth through BOQ Specialist and the broker network. Growth in these channels also improved the Bank's mortgage portfolio diversification outside of Queensland and increased its lower LVR lending relative to the portfolio.

Commercial lending growth was 6 per cent (0.5x System) for the half as it maintained a focus on credit quality and appropriate pricing for risk within its targeted niche segments. BOQ Specialist's commercial loan book grew 14 per cent to \$2.4 billion year on year while the BOQ Finance portfolio grew 1 per cent (0.6x System).

Mr Sutton said BOQ's return to growth was a key highlight of the result.

"The momentum in the broker channel and BOQ Specialist demonstrates the effectiveness of our strategy to expand our business. We also made good progress with growing our target niche commercial segments."

Net interest margin steady

BOQ maintained its 1H16 net interest margin at 1.97%. Benefits from repricing initiatives during the half were partially offset by front book and retention pricing.

The targeted loan growth in new channels has resulted in a better quality loan portfolio that will support longer term balance sheet durability.

BOQ has increased its variable home loan interest rates by 12 basis points for owner occupied loans and 25 basis points for investor loans, effective from 15 April 2016. Further details can be found on boq.com.au.

Strong asset quality

The underlying credit quality of BOQ's portfolio remained strong in 1H16. This reflects the Bank's continued focus on prudent lending and risk management practices, as well as the low interest rate environment.

Total loan impairment expense was flat on the prior comparative period at \$36 million (1H15: \$36 million). Total impaired assets across retail, commercial and BOQ Finance fell 7 per cent to \$240 million (1H15: \$259 million).

"The successful implementation of our strategy is evident. It has helped diversify our housing loan book geographically with 62 per cent of lending settlements in the half originating from outside Queensland," Mr Sutton said.

Costs under control

BOQ's cost to income ratio for the half was 46.4 per cent including one-off restructuring costs of \$7 million pre-tax. Excluding one-off costs, the cost to income ratio was 45.1 per cent with underlying cost growth of 3.8 per cent from the prior comparative half, in line with market guidance provided at the end of the 2015 financial year.

The Bank continues to focus on its goal to reduce its cost to income ratio to the low 40s in the years ahead.

Healthy capital and funding

BOQ's Common Equity Tier 1 ratio decreased 11 basis points to 8.80 per cent during the half, driven by strong loan growth in the second quarter without a full period earnings benefit. This ratio remains solid compared to peers and positions BOQ well for any regulatory changes to capital or risk weighting requirements.

Customer deposit growth of \$1.3 billion helped BOQ maintain a stable deposit to loan ratio of 66%.

BOQ positioned well for the future

Mr Sutton said BOQ's progress against its strategic objectives positioned it well to deliver its goal of EPS outperformance over the longer term.

"While we don't expect the competition and funding headwinds that have emerged over the last six months to disappear quickly, I am confident our strategy and operating model will enable us to continue to build sustainable financial performance," Mr Sutton said.

"Our retail lending origination program, the expansion of Virgin Money mortgages and our specialist niche strategy will help us grow our business further."

Mr Sutton said Australia's transition away from a resources led economy is ongoing. This presents good opportunities for expansion in the niche segments BOQ is targeting.

Mr Sutton said he was also optimistic that the future regulatory environment would provide additional opportunities for standardised banks like BOQ.

"Although the final outcomes of Basel IV remain unclear, we remain confident that we will see further convergence between the advanced and standardised approaches to regulatory capital," he said.

"This should provide opportunities for BOQ to either drive additional growth, expand margin or potentially achieve both outcomes."

Results briefing details

A briefing covering BOQ's 1H16 results will be held at 10:30am AEST today. The dial-in and webcast details are:

Dial-in number (Australia):	1800 725 000
Dial-in number (International):	+61 2 8373 3610
Conference ID:	75258684
Webcast address:	http://edge.media-server.com/m/p/gkpdu63n

Ends

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