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ASX RELEASE

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BOQ delivers increased profit

FY16 financial highlights*

- Statutory net profit after tax up 6% to $338 million
- Cash earnings after tax of $360 million, up 1%; basic earnings per share down 2% to 95.6 cents
- Net Interest Margin down by 3 basis points to 1.94%; total lending growth of 5% or 0.8x system
- Cost to Income Ratio up 80 basis points to 46.8%, including one-off restructuring cost
- Loan impairment expense down 9% to $67 million or 16bps of gross loans
- Common equity tier one capital ratio up 9bps to 9.00%
- Fully franked dividend of 76 cents per share, up 3%

**FY16 vs FY15 comparisons. All figures are on a cash basis unless otherwise stated.*

BOQ has today announced an increase in statutory and cash profit results for the financial year to 31 August 2016 against a backdrop of record low interest rates, continued market volatility and intense competition for both loans and deposits.

Statutory profit after tax was up 6 per cent on the prior year to $338 million. Cash earnings after tax increased to $360 million. This resulted from a continuing focus on niche businesses, further improvement in the loan impairment expense and included the one-off $15 million investment to refine BOQ's operating model. BOQ's basic earnings per share was down 2 per cent on the prior year to 95.6 cents.

As a result, the Board has maintained a final dividend of 38 cents per share, taking full year dividends to 76 cents per share fully franked, up 3 per cent on the previous year.

Return on equity decreased 40 basis points to 10.3 per cent.

Managing Director and Chief Executive Officer Jon Sutton said he was pleased the Bank has achieved another profit increase.

"BOQ has delivered increased cash earnings after tax for the fourth consecutive year, a significant achievement in an environment of low interest rates and intense competition," Mr Sutton said.

"The Bank has come a long way in recent years and we are confident that we have the right strategy in place and are well positioned for the future."

Managing growth and margins in a low rate environment

Mr Sutton said a number of industry-wide headwinds had emerged in 2016 which saw the Bank adapt its focus to fit the operating environment.

"Expectations of lower interest rates in Australia for longer has meant a lower rate of return on capital and low cost deposits. A widening of spreads in Term Deposits and other liabilities also emerged alongside fierce competition for deposits and pricing for new lending," Mr Sutton said.

"We have taken steps to adapt to this low interest rate environment. Given the expensive funding environment and increased competition, we slowed asset growth in the second half, following a strong period of growth in the first half. During this period we have focused on deposit gathering and growing in niche segments where we believe specialisation can deliver superior returns."

Total lending growth for FY16 was $2.2 billion, a growth rate of 5 per cent on the prior year, which was 0.8x system. This was achieved through Housing (up 5 per cent), Commercial (up 7 per cent) and BOQ Finance (up 3 per cent). With an increased emphasis on deposit gathering, asset growth was fully funded through retail deposit growth in 2016, lifting the Group's deposit to loan ratio from 66 per cent to 68 per cent.

Net Interest Margin reduced 3 basis points over the year as tougher funding conditions and increased price competition emerged. Cost to Income increased to 46.8 per cent, which includes the one-off $15 million restructuring cost announced in February 2016.

Driving productivity and efficiency to reduce costs

Mr Sutton said with the increasing pressure the industry is facing to deliver revenue growth, BOQ had increased its focus on productivity and efficiency initiatives to reduce costs.

"In 2016 we kept underlying expense growth to 4 per cent, while continuing to invest in the business to set ourselves up for the long term. The one-off $15 million to refine our operating model is on track to deliver above its payback target over the 12 month period," Mr Sutton said.

"We also have a number of additional efficiency initiatives underway, such as reducing duplicate processes across the business by creating centralised hubs to deliver a leaner more efficient operating structure."

Mr Sutton said the initiatives fit within BOQ's current expense profile and will deliver additional expense savings in the years ahead.

"We expect to keep underlying expense growth to 1 per cent in 2017, while continuing to build out our multi-channel and niche segment market strategy", Mr Sutton said.

Niche strategy delivering strong results

Mr Sutton said one of the most pleasing aspects of the result was the strong contribution from BOQ's niche businesses, including BOQ Specialist and BOQ Finance.

BOQ Specialist has continued its momentum, delivering solid sustainable returns and commercial loan growth of 13 per cent over the year. This was achieved while maintaining good margins and low loss rates. The mortgage portfolio has also continued to go from strength to strength, with $1.5 billion of growth over the year.

BOQ Finance also delivered good returns. Asset growth increased 3 per cent in a low growth market, with loss rates moving in line with expectations.

Mr Sutton said growth in the other Business Banking niche segments was above system. Over the year, bankers and credit specialists were realigned with the target segments.

"We have also expanded our presence in other niche business segments with positive results in retirement living, hospitality and agribusiness. We will be looking to further build out this capability and its contribution to the Group over time," Mr Sutton said.

"I'm also pleased to report that Virgin Money has launched its Reward Me home loan product through the broker channel, with promising early signs. Since its launch in May 2016, we have received $100 million worth of loan applications."

Further improvement in already strong asset quality

Mr Sutton said another highlight of the full year result was the further improvement in asset quality across all portfolios.

The FY16 loan impairment expense reduced 9 per cent to $67 million, while impaired assets declined by $5 million (2 per cent) to $232 million. The portfolio has continued to diversify away from Queensland. It now comprises 48 per cent of total loans, down from 56 per cent three years ago, with the broker channel and BOQ Specialist contributing to this diversification.

"While assisted by a low interest rate environment and relatively low levels of unemployment, this improvement is the direct result of the disciplined approach we have taken to risk management since 2012. The business is now on a much more sustainable footing and better placed to withstand the up and downs of the Australian economy," Mr Sutton said.

Strong capital position maintained

The Group further strengthened its capital ratios during the year with the CET1 ratio increasing 9 basis points to 9 per cent.

Commenting on the Bank's capital position Mr Sutton said the Bank remains very comfortable with its capital position.

"We compare well against our peers, particularly given BOQ's more conservative risk weightings. We look forward to gaining clarity on a number of global regulatory reforms later this calendar year, and remain optimistic that changes will improve BOQ's competitive position," Mr Sutton said.

Outlook

Mr Sutton said the Bank remained committed to its four strategic pillars which would provide opportunities for growth into the future.

He said BOQ was well positioned to adapt to the new operating environment.

“While some of the headwinds experienced over the past year may be one-off in nature, there are a number which will continue through 2017, Mr Sutton said.

“Managing our costs in a disciplined way remains a key focus for the year ahead and this will be supported by the rollout of further efficiency initiatives and improvement in our digital capability.

“I am pleased with today’s result as it demonstrates the progress we are making against our strategic objectives and the growth opportunities that exist in the customer segments that we are targeting. I remain confident about the future for BOQ as we continue to build a bank that can deliver consistent performance and solid returns to shareholders over the long term.”

Results webcast details

BOQ’s results teleconference will be held today at 10:30am AEDT (9:30am in Queensland due to daylight savings time difference).

Teleconference details are as follows:

Dial-in number (Australia):	1800 175 864
Dial-in number (International):	+61 2 8373 3550
Conference ID:	86499391

The webcast address is: http://edge.media-server.com/m/p/mcq37mut

Ends

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