



ASX RELEASE

12 October 2017

BOQ delivers increase in profit

FY17 financial highlights*

- Cash earnings after tax of \$378 million, up 5%
- Statutory net profit after tax of \$352 million, up 4%
- Net Interest Margin up 5 bps on the prior half to 1.90%
- Cost to Income ratio down 20 bps to 46.6%
- Loan Impairment Expense down 28% to \$48 million or 11 bps of gross loans
- Common Equity Tier 1 (CET1) capital ratio up 10 bps on the prior half to 9.39%
- Basic earnings per share up 2% to 97.6 cents
- Return on average ordinary equity up 10 bps to 10.4%
- Fully franked final dividend maintained at 38 cents per ordinary share
- Special dividend of 8 cents per ordinary share
- Dividend reinvestment plan suspended until 24 November 2017

**FY17 vs FY16 comparisons unless otherwise stated. Figures are on a cash basis unless otherwise stated. FY17 includes the benefit of a \$16m profit on disposal of a vendor finance entity*

BOQ today announced cash earnings after tax of \$378 million for FY17, up 5 per cent on FY16. Statutory net profit after tax increased by 4 per cent to \$352 million.

The BOQ Board has maintained a fully franked final dividend of 38 cents per ordinary share and announced a fully franked special dividend of 8 cents per ordinary share.

Improved second half performance

Second half cash earnings after tax increased 16 per cent on the first half result, supported by a \$16 million profit on the disposal of a vendor finance entity. On an adjusted basis (excluding the vendor finance entity disposal), FY17 cash earnings after tax increased 1 per cent to \$362 million and second half cash earnings after tax increased 7 per cent on the prior half to \$187 million.

BOQ Managing Director and Chief Executive Officer Jon Sutton said one of the most pleasing aspects of the result is the improved momentum in the second half.

“The second half largely played out as we said it would at our first half result,” Mr Sutton said.

“Lending growth improved in both the housing and commercial loan portfolios. The Virgin Money Reward Me home loan portfolio has grown ahead of expectations.”

Niche business segments continue to grow

BOQ’s niche businesses continue to grow. BOQ Specialist, BOQ Finance and other commercial lending target segments have all delivered good results.

During the year, capability has been built in the niche segment of corporate healthcare, leveraging industry expertise and contacts through BOQ Specialist. Loan balances in the niche business banking segments of agribusiness, corporate healthcare & retirement living and hospitality & tourism have grown by \$309 million to \$1.5 billion.

BOQ Finance also made another strong contribution. The Cashflow Finance acquisition made during the year added another dimension to the business’ suite of finance products.

Asset quality remains sound

BOQ’s asset quality remains sound with further improvement across a range of metrics. This is the outcome of a deliberate approach to improve risk management over the past five years.

Impaired assets as a percentage of gross loans were down to 44 basis points, while loan impairment expense was just 11 basis points of gross loans during the year.

Mr Sutton said he remained comfortable with the health of the loan portfolio as there were no signs of systemic stress evident in the current portfolio performance.

Delivering ongoing cost savings to enable investment

BOQ has delivered on its 1 per cent underlying expense growth target with underlying expenses of \$510 million.

This target was achieved while still investing in the business. BOQ is continuing to invest in digitising processes, which will have the dual benefit of improving customer experiences and improving business efficiency.

Strong capital position provides flexibility for capital management

BOQ’s strong capital position further improved. The CET1 ratio was up 10 basis points over the half to 9.39 per cent.

Mr Sutton said that the combination of the increase in the CET1 and the additional capital benefits expected in FY18 provides BOQ with flexibility for capital management.

“Following APRA’s clarity on ‘unquestionable strong’ in July this year, we believe we are in a very strong position at 9.39 per cent CET1,” Mr Sutton said.

This position will be further strengthened by 20 to 25 basis points following business and regulatory changes expected to occur in the first half of FY2018.

In response to these changes and BOQ’s position, the Board has determined that returning some of this excess capital to shareholders is the most appropriate course of action at this time.

A special dividend of 8 cents per ordinary share has been announced by the Board, along with suspension of the dividend reinvestment plan for the final and special dividends on ordinary shares. This will be reinstated on 24 November 2017.

Mr Sutton said this leaves BOQ with the flexibility to explore other options to best manage its capital base in future periods.

Outlook

Mr Sutton said even though the environment for banks remains a dynamic one, BOQ is well placed.

“We have seen return to growth in the second half which gives us confidence going into FY18,” Mr Sutton said.

“The industry faces challenges of low housing credit growth, low interest rates, regulatory uncertainty, increasing consumer expectations and increased scrutiny of conduct and culture.

“We have responded well to these challenges and have been able to continue delivering our strategic priorities and returns for shareholders.

“Efficiency remains a key focus and we have embarked on a program to further improve productivity across the organisation.

“Our very strong capital position provides us with flexibility to consider options that will deliver the best value to our shareholders,” Mr Sutton concluded.

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	95730460

The webcast address is: <https://edge.media-server.com/m6/p/53uuqq9c>

Ends

<u>Media Contacts</u>	<u>Analyst Contacts</u>
Tracy Hicks, Head of Corporate Affairs M: 0439 540 960 tracy.hicks@boq.com.au	Daniel Ryan, Head of Investor Relations T: 07 3212 3990 M: 0421 757 926 daniel.ryan@boq.com.au