

ASX RELEASE



BOQ 1H19 RESULTS ANNOUNCEMENT

1H19 financial summary ⁽¹⁾

- Cash earnings after tax of \$167 million, down 8%
- Statutory net profit after tax of \$156 million, down 10%
- Net Interest Margin down 3 basis points to 1.94%
- Cost to Income ratio up 190 bps to 49.5%; Operating expense growth of 2%
- Loan Impairment Expense of \$30 million or 13 basis points of gross loans
- Common Equity Tier 1 (CET1) capital ratio of 9.26%
- Basic earnings per share down 10% to 41.8 cents
- Return on average ordinary equity down 110 bps to 8.8%
- Fully franked interim dividend of 34 cents per ordinary share

(1) 1H19 vs 1H18 comparisons unless otherwise stated. Figures are on a cash basis unless otherwise stated.

Thursday, 11 April 2019, Sydney: Bank of Queensland (ASX:BOQ) today announced 1H19 cash earnings after tax of \$167 million, down eight per cent on 1H18. Statutory net profit after tax decreased by ten per cent to \$156 million.

Basic cash earnings per share was down 10 per cent to 41.8 cents per share. The Board has announced a first half dividend of 34 cents per share. This is a reduction of four cents per share which reflects the challenging revenue and cost environment that BOQ and the industry face.

Industry developments and Retail Bank performance impacting returns

BOQ Interim Chief Executive Officer Anthony Rose said BOQ's returns have been impacted by a combination of industry-wide and BOQ-specific factors.

"Across the industry, there have been significant changes in the banking landscape which has created revenue headwinds for the sector," Mr Rose said.

"We have welcomed the work of the Royal Commission and its focus on delivering improved customer outcomes. Although the Royal Commission made no express recommendations or referrals against BOQ, implementation of the Commission's recommendations will clearly have long lasting and industry-wide implications.

"Regulator expectations are also shifting in response to the Commission's findings. Making the changes necessary to ensure compliance with these new regulatory obligations and expectations will increase costs for all banks.

For further information please call:

Media

Tracy Hicks, Head of Corporate Affairs
0439 540 960 tracy.hicks@boq.com.au

Analysts

Daniel Ryan, Head of Investor Relations
07 3212 3990 daniel.ryan@boq.com.au



“BOQ also has challenges that are specific to our business, particularly in the Retail Bank, where our lending processes, digital platforms and the ability to attract new owner managers in an environment of regulatory uncertainty, have hampered customer acquisition and returns.

“We fully acknowledge there is significant room for improvement and we are working on a number of key initiatives to address the challenges we face,” he said.

Niche growth, asset quality and capital remain strong

Mr Rose said strong levels of growth in Virgin Money Australia, BOQ Finance and BOQ Specialist demonstrates BOQ’s strategy of building niche businesses is delivering.

“Virgin Money Australia has once again exceeded expectations and achieved \$469 million of housing loan growth for the half, taking the portfolio balance to over \$2 billion”, Mr Rose said.

“BOQ Finance delivered growth of \$303 million or 13 per cent annualised for the half, through its equipment, dealer and structured finance programs,” he said.

BOQ Specialist contributed solid growth in its housing and commercial loan portfolios of \$287 million and \$70 million respectively.

“This growth shows that we are still lending and there is good momentum in these parts of the business, contributing to overall lending growth of two per cent annualised,” Mr Rose said.

BOQ’s asset quality metrics remain resilient, with impaired assets reducing 12 per cent to \$152 million and arrears remaining at benign levels. Capital also remains strong with the common equity tier one ratio at 9.26 per cent.

“Pleasingly, there has been no material deterioration across our key asset quality metrics. BOQ has made a conscious decision not to chase growth by lowering our credit or responsible lending standards,” Mr Rose said.

Loan impairment expense increased by \$8 million from 1H18 to \$30 million or 13 basis points of gross loans. This was driven primarily by an increase in collective provisions, which reflects the impact of the move to a new provisioning model under AASB 9. Under the new model, the impact of less certain general economic conditions, more dynamic provisioning for arrears and other forward looking assumptions are more pronounced.

Initiatives underway for long term value creation

Mr Rose said that BOQ was continuing to invest in a number of foundational projects which are due to be completed in 2019 and 2020.

“Once these critical projects are delivered, BOQ will be more competitive on a number of fronts, including a refreshed digital offering for BOQ customers and lending processes which will improve customer experience,” he said.

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“At the same time, we are conducting a segment by segment analysis to identify opportunities that will sharpen our focus, simplify the way we do things and improve the long term value creation for our customers and shareholders.

“This is all about differentiating BOQ in the segments we operate in and building on our existing strength in customer trust and relationships,” Mr Rose said.

The Board and management team is committed to providing the market with a detailed update on progress and outlook for long term shareholder value creation by the end of 2019.

Outlook

Mr Rose said BOQ’s 2H19 earnings were unlikely to improve from the 1H19 level.

“Although the current earnings profile is not at the level that we aspire to, there is a lot to be optimistic about in terms of the progress made through the niche strategy, Virgin Money Australia, and the opportunity of reinvigorating the retail banking business in the coming 12 months,” Mr Rose said.

“We are confident with the steps we are taking to restore returns and set BOQ up for future success,” he said.

Ends

Results webcast details:

BOQ’s results teleconference will be held today at 10:30am AEST. Teleconference details are as follows:

Dial-in number (Australia)	1800 175 864
Dial-in number (International)	+61 2 8373 3550
Conference ID	9349496

The webcast address is: <https://edge.media-server.com/m6/p/w2ikoysk>

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