



BOQ Full Year Results Announcement

Wednesday, 14 October 2020

Speakers: George Frazis, Managing Director and Chief Executive Officer
Ewen Stafford, Chief Financial Officer Chief Operating Officer
Adam McAnalen, Chief Risk Officer
Cherie Bell, General Manager Investor Relations

Transcript:

Operator: Ladies and Gentleman, thank you for standing by and welcome to the Bank of Queensland Group full year results. At this time, all participants are in a listen only mode. After the speaker's presentation there will be a question and answer session. To ask a question at that time, you'll need to press star one on your telephone.

I'd now like to hand the conference over to your first speaker today, Ms Cherie Bell. Thank you, please go ahead.

Cherie Bell: Thank you and good morning everyone. Welcome to BOQ's Full Year results presentation for 2020. Before we begin, I would like to acknowledge the traditional custodians of the land upon which we meet today and recognise elders past, present and emerging.

I would like you to thank you for joining us for this morning's audio webcast. Joining me today is George Frazis, our Managing Director and CEO, Ewen Stafford, our Chief Financial Officer and Chief Operating Officer, Adam McAnalen, our Chief Risk Officer and members of BOQ's Executive Team and Senior Management.

I will now hand over to George to provide an overview of the financial results and an update on our progress against strategy.

George Frazis: Thanks, Cherie. Good morning everyone and thank you for joining us. While our focus today is the bank's full year results, given COVID I'll also provide our thoughts on the impact on our business and BOQ's response.

As Cherie mentioned, Ewen will be presenting the detailed financial results and Adam will provide further information on our portfolio quality and the banking relief package.

As you can see on page 6, I'm joined this morning by members of my Executive Team, Fiamma who runs the Business Bank, Lyn who runs the Retail Bank, Greg our CEO of Virgin Money Australia, Craig our Chief Information Officer, Deb who looks after People and Culture, Chris our Chief Product Officer and Racheal our Deputy CFO.

The Refreshed Management Team consists of high calibre experienced leaders with strong execution capability, who are focused on delivering our strategy.

The Management Team and I will be available to answer questions following the presentation.

Turning now to an overview of the year on slide 7. While clearly FY20 has been a year like no other, we have delivered a solid result given the headwinds and all the work we are doing to transform the bank. Our lower statutory profit of \$115 million reflects the challenging environment and a year of transition for BOQ.



Pleasingly, there is business momentum with revenue growth and good margin management. Throughout these difficult times we have also been working to support our customers, our people and the broader economy. Despite the many challenges, we've remained firmly focused on the execution of our strategy: our digital transformation is on track.

We have completed the migration of our data centres to the cloud, modernising our core infrastructure.

Phase 1 of the Virgin digital bank will be completed later this year, forming the strategic platform for the Retail Bank.

As previously flagged to the market, FY20 was always going to be a transitional year. We have re-set our intangible assets to align with the strategic pathway.

The operating model review is complete and has delivered significant productivity savings which we have been able to invest in new strategic initiatives and capability uplift.

We are well provisioned against the potential lifetime losses in our portfolio as a result of COVID. Our updated economic assumptions take into account the RBA forecast and ongoing uncertainty.

Given the government stimulus and good handling of the crisis, there is potential upside opportunity should the economy recover at a faster rate than currently forecast.

The CET1 ratio of 9.78% is well above our target ratio of 9% to 9.5% with organic capital generation in the second half offsetting the additional COVID impairment provision. The capital buffer, comfortably above 'unquestionably strong' provides us with the ability to execute on our growth strategy and support our customers and the broader economic recovery.

Importantly, as a standardised ADI, we do not expect to see any material impacts to our capital position that relate to pro-cyclicality. As a result, the Board has determined to pay a full year dividend of \$0.12 per share representing \$0.06 from the first half profits and \$0.06 from the second half profits. We believe this represents a prudent approach to balancing the needs of our shareholders and the perseverance of capital during this period of uncertainty. This also meets APRA's guidelines on dividends.

Today, we also announced the sale of St Andrew's which represents an important strategic milestone for BOQ. We are delighted to have secured a buyer that has a long-term vision for the business which includes meeting the continued obligations of policy holders. The divestment enables us to focus on our niche customer segments, whilst simplifying our business model.

Slide 8 highlights a number of steps BOQ has taken to ensure the ongoing resilience of our business - while providing ongoing support for our customers and our people. Our relationship bankers, people in our branches and call centres, as well as those working right across the business, have all adapted to new ways of working and they've played a key role in supporting our customers.

We have stayed close to our customers and I'm very proud of how everyone has responded to more than 20,000 customer requests for assistance. We are seeing customers adjusting with an 18.8% reduction in customer balances on deferral since April. Our bank is strong and has shown resilience during these uncertain times.

Turning now to the results, themselves on slide 9. Statutory net profit after tax was \$115 million impacted by a number of below the line adjustments relating to our restructuring activities and the COVID impairment charge. Cash earnings, after tax decreased to \$225 million. This was due to the COVID collective provision overlay. Cash return on equity decreased to 5.4%. Common equity tier one



remained strong at 9.78%. Overall, our cash earnings per share decreased to 51.1 cents per share and the Board has determined to pay a full year dividend of \$0.12 per share.

As I mentioned at the outset, having to increase the provision in line with AASB9, our underlying full year result, excluding the impacts of COVID, was ahead of our expectations we flagged at the strategy briefing in February.

The drivers of the full year result are outlined on slide 10 and Ewen will take you through those in more detail shortly. Total lending grew by \$826 million. Combined with the strong NIM throughout the period, this resulted in a 3% increase in net interest income compared to FY19 and a 4% increase from the first half.

Given the focus on margin management, NIM increased by 3 basis points in the second half delivering a 2 basis points reduction for the year.

The cost to income ratio improved slightly to 54.1% in the second half, driven by the favourable income result and the benefits from the \$30 million productivity savings.

The loan impairment expense was materially up at \$175 million as we took additional provisions of \$133 million to cover the anticipated lifetime losses on the loan portfolio relating to COVID.

Turning now to lending and deposit growth on slide 11. Customer deposits lifted materially resulting in a deposit to loan ratio of 74%, whilst reducing our reliance on term deposit funding. Improvement in lending growth was seen across both the housing and commercial portfolios. Both businesses focused on tighter margin management.

Housing growth finished the year at 0.9 times system and the commercial growth was well above system for the period. On the housing book, both VMA and BOQ Specialist again delivered good growth. BOQ Blue is still contracting, but at a slower rate thanks to increased acquisition volumes and improving lender productivity.

The Specialist segment has been impacted by COVID, but we expect to see these volumes return as the medical industry recovers from the downturn.

Overall, our mortgage application volumes are back to pre-COVID levels.

In the commercial portfolio we experienced strong growth in both the BOQ Commercial and Specialist businesses, through their focus on niche segments.

In the Asset Finance business the focus was on improving margins and returns, which has resulted in reduced growth for the year in a declining market. BOQ Finance remains an important differentiator for our small business offering, particularly in light of the recent asset write-off budget announcements.

We took a cautious approach to growth in the third quarter of FY20 before accelerating during quarter four to a strong exit rate.

Diving a little deeper into the divisional performance on slide 12. Both the Retail Bank and Business Bank have been focused on supporting our customers during these extraordinary times. Our relationship led approach underpinned by our empathetic culture, has been key to this. Notwithstanding the challenges we currently face, both businesses have delivered a solid performance for the year.

A priority for me was the need to fix the Retail Bank. We have made good progress over the last 12 months. The Retail Bank has delivered a 1% increase in net interest income through home loan growth



and improved margins, while also increasing customer deposits by \$1.2 billion during the year. FY20 is the first time since 2015 that the Retail Bank has delivered net mortgage lending growth. Importantly, it has also delivered a number of improvement initiatives, including product and process simplification.

Improvements in the customer experience are reflected in higher NPS scores. In BOQ Business we have delivered good growth in a contracting market, with this outperformance seen across all business lines. Our niche segment focus is working. Net interest income has increased by 3% for the year.

In line with the industry, business lending growth slowed in the second half as we supported our customers through the impacts of COVID on their businesses. We have rebalanced our growth from BOQ Finance to our core Commercial, SME and Agri segments. We are well-positioned to provide additional credit into the market as we enter the economic recovery phase.

We've made good progress on our strategic roadmap, as shown on slide 13. As mentioned, while looking after our customers and our people throughout the COVID period, the management team and I have stayed focused on strategy execution and our transformation.

We now have in place a high calibre executive team, comprised of experienced leaders with deep execution capability. Importantly, we are seeing results in a number of key areas. We have simplified our mortgage process and reduced the time to yes from five days to one day.

The improvement in the customer experience has seen our NPS ranking lift across the consumer, mortgage, and business measures. We are growing market share with housing broadly returning to system growth and our commercial portfolio has grown in a declining market.

In February, I communicated our digital transformation program. We are delivering against that, with six core projects completed, Virgin Money on track for December, and a strategic pathway determined for our BOQ Blue mobile app development.

We have completed the strategic reset of our intangibles portfolio. We are putting in place a robust project management approach and have lifted our execution capability to ensure we continue to deliver.

Moving forward to FY21, we remain committed to executing against our strategic targets. Critically, we will focus on our people, driving employee engagement through inclusive leadership and an uplift in capability.

We will continue to grow our lending portfolio, returning our branch network to net growth and lifting market share through the broker channel. Finally, there will be a strong cost discipline and we expect to deliver a further \$30 million in productivity savings.

Updating you now on the development of our Virgin Digital Bank on slide 14. Phase one is on track to complete later this calendar year. It will provide a fully digital transaction and savings account capability as well as an integrated credit cards experience. This is a foundational investment for BOQ and is providing a strategic pathway for the Retail Bank's migration to the digital platform.

The Virgin Digital Bank enables us to build a new digital bank with the benefits of an existing customer base, and the support of the BOQ Group. We have established strong execution capability, partnering with Deloitte Digital and cloud-based technology partners to leverage their global expertise.

The VMA platform is the market leading technology solution providing customers with a personalised digital experience. It is an API first in design and has been developed as a cloud based scalable solution, with an evergreen upgrade path, hosted in Australia.



This project is key to the digital transformation of BOQ and will provide us with the ability to sustainably grow our market share through a highly efficient channel. This will also be an important lever to improving ROE.

I will now pass to Ewen to talk to the financial results in more detail, and Adam to cover off the portfolio quality.

Ewen Stafford: Thanks George and good morning everyone. Turning firstly to the Group financial performance on slide 16. Starting with total income of \$1.1 billion, which is up 1% on FY19, and 3% in the second half. The 1% increase was a result of the 3% increase in net interest income, driven by ongoing growth in the balance sheet, and tight margin management.

Non-interest income declined by \$18 million compared to FY19, comprising a \$4 million reduction due to the sale of the debtor finance book in the second-half of 2019, circa \$10 million in COVID-related impacts from reduced and waived fees, and lower travel insurance sales through Virgin Money, with the balance reflecting ongoing industry trends.

Operating expenses increased 7% as a result of investments in strategic initiatives and increased spend on regulatory and compliance activities, and was 1% lower than the previously flagged 8% growth.

Our second half underlying operating profit was up 3% sequentially, driven by positive jaws reflecting top-line growth, and the benefits of the productivity savings beginning to flow through.

In line with our earlier announcement, we've taken \$133 million collective provision overlay in relation to the potential lifetime impacts from COVID. This increased our impairment expense to \$175 million or 37 basis points of GLA.

The increased loan impairment expense significantly reduced second half cash earnings, with FY20 down 30% to \$225 million.

Statutory net profit decreased to \$115 million, impacted by largely one-off 'below the line' adjustments of \$110 million, which are broadly in line with the phasing and quantum of the outlook provided at the half.

There are three notable items in the second half. Firstly, the acceleration of our digital bank transformation for the 'Blue' brand has resulted in the impairment of two legacy intangible assets, totalling \$25 million. This completes the recognition of the impacts of the strategy refresh on intangible assets.

Secondly, an additional \$8 million in the half for the final tranche of redundancy charges from the operating model review and thirdly, as communicated to the market on 29 September, there was also an \$8 million post-tax expense relating to the employee pay and entitlements review.

Turning to net interest margin on slide 18. NIM has increased 3 basis points from first half 2020 to 1.92%. Asset pricing and mix delivered a 13 basis point benefit. Within this, housing repricing activities increased NIM by 12 basis points, and improved fixed housing margins resulted in a further one basis point benefit.

We saw a 3 basis point benefit from commercial and asset finance repricing, and a 2 basis point benefit to NIM as a result of a shift in mix towards higher margin commercial and asset finance lending. This was partially offset by a 5 basis point reduction from front to back book drag.

Funding costs relating to consumer deposits had an adverse impact of 11 basis points, partly offset by 1 basis point benefit from the Term Funding Facility and a 1 basis point benefit from funding mix.



The impacts of hedging costs improved NIM by 4 basis points in the half, driven by a reduction in average basis portfolio spreads from 24 to 17 basis points, with an additional benefit from the OIS rate falling below the RBA target cash rate.

NIM was further adversely impacted by 5 basis points due to a 2 basis point reduction on the replicating portfolio, and an additional 3 basis point reduction on the uninvested free funding and low-cost deposits.

As you can see on slide 19, expenses increased 2% for the half, and 7% across the year to \$594 million. This was below the 8% that we had previously flagged to the market. The key drivers for the expense increase for the year were \$23 million relating to expenses from key digital transformation projects, including \$11 million relating to the Virgin Money Australia digital bank, and \$8 million relating to the migration of our data centres, \$21 million on risk and regulatory programs, and \$14 million of other costs, including increased technology cost, such as licenses from investments in new platforms, automation activities, and also people and culture programs.

The \$30 million in productivity savings reduced gross expense growth by 5%. This reduction comprised reduced salaries and on costs resulting from the operating model review, lower discretionary spending, and other savings relating to procurement activities, including partnership costs and communication costs.

FTEs declined by 5% at an underlying level as a result of these productivity actions. This has enabled us to convert a number of contractors to permanent roles and to also recruit additional FTEs to manage COVID-related customer contact, while still delivering a reported 3% overall reduction in FTEs for the year.

Turning to the delivery of our transformation on slide 20. Despite the challenges presented by COVID, we have maintained momentum and made substantial progress on delivering the strategic transformation roadmap.

In FY20 the focus was on building the foundations of our transformation, with investments concentrated on the digital transformation and streamlining of our processes, products, and systems. We have also made enabling investments supporting future segment growth and improving risk management.

Phase 1 of the Virgin Money Australia cloud-based digital bank is the most significant single transformation program within the portfolio, and includes 25 plus partners and vendors coming together to deliver for Day 1; 40 plus technologies - either enhanced or introduced; and over 7000 days of build and test effort.

Importantly, this program will also deliver additional enterprise functionality, including a new debit Card Management System, fraud monitoring technology, NPP, and Customer Identity and Access Management foundations, enabling customers to engage with BOQ using modern identity methods.

We have also invested in a specific program to uplift execution capability, with a focus on strong executive engagement, with integrated strategy planning, and investment portfolio management, transparency of delivery outcomes through an enhanced benefits realisation framework, and the adoption of new delivery methods, with a focus on 'time to market', and 'time to value'.

Looking now at the financial side of our capital investment program on slide 21. We've invested \$48 million in the second half, building on the \$52 million from the first. As a result of finalisation of our intangible assets review, in the second half, we have taken an impairment of \$34 million on two



intangible assets, as a result of the strategic decision to accelerate the migration of our BOQ Blue customers to the new future state digital bank platform.

During the year, we have decreased the number of intangible assets from 135 to 58, with those assets remaining having an important role to play in our refreshed digital strategy. The amortisation charge for the period was \$39 million, which we expect to increase to circa \$50 million in FY21.

Turning now to portfolio provision and loan impairment expenses on slide 22. In line with our ASX release on 29 September, loan impairment expense was \$147 million for the half bringing the full year total to \$175 million. The main driver of this was the \$133 million COVID collective provision overlay, which increased as a result of our updated economic assumptions and probability weightings to the downside and severe scenarios.

As a result of this the collective provision balance has increased to \$275 million. The specific provision expense for the half reduced to \$21 million and impaired assets remained stable with realisations in Retail and Commercial being offset by new impairments in BOQ Finance.

Moving on to our funding and liquidity position on slide 23. BOQ remains strongly positioned. During the year we have grown customer deposits by \$2.3 billion which has increased our deposit to loan ratio to 74%. Reliance on higher cost term deposits has reduced by \$1.2 billion with lower cost, savings, and investment balances increasing by \$2.1 billion.

The launch of the Virgin Money digital transaction and savings deposit product later in 2020 will further support growth in lower cost customer deposits.

This increase has enabled us to reduce our reliance on short term wholesale funding by a further \$1.1 billion during the year. We have drawn down \$820 million through the Term Funding Facility during the year with an additional \$418 million utilised in September. This leaves us with an additional \$1.4 billion in capacity.

BOQ has a Liquidity Coverage Ratio of 164% at the end of FY20 boosted by the TFF and CLF and a Net Stable Funding Ratio of 119%. As we mentioned at the half year, we redeemed our wholesale capital notes in May 2020. A new issue to replace these notes remains subject to market conditions and regulatory approval.

Finally, moving to capital on slide 24. George has already flagged that we are in a strong capital position with a CET1 ratio of 9.78%. Importantly, underlying capital generation added 43 basis points to CET1 in the second half FY20 which broadly offset the 39 basis point reduction resulting from the COVID collective provision. The 'below the line' statutory adjustments relating to the strategy refresh I touched on earlier resulted in a decrease of 9 basis points for the half as did the net capex impact.

So rounding out FY20, it has been a year where we have built balance sheet strength and resilience as demonstrated by the strong capital position, the clean-up and alignment of intangible assets to the strategic roadmap and the prudent collective provision overlay for anticipated lifetime loan losses.

I will now pass to Adam to provide some comments on the arrears and the banking relief packages.

Adam McAnalen: Thank you Ewen. Looking first at the arrears trends in our portfolio on slide 25. In line with the economic downturn we have seen both 30 day and 90 day arrears increase during the second half. While many customers have accessed the banking relief packages, a number were either not eligible or have not elected to access the packages which has driven this increase.

We are also seeing increased 90 day arrears as we support customers with longer workout times during the pandemic. Encouragingly, we have seen reductions in 30 day arrears to a more normalised



level after the peak in May as we recommenced collection activity and customer loans return to performing. Ninety day arrears remain slightly elevated representing the current environment.

Moving now to an update on our banking relief packages on slide 26. Firstly, it is important to note that we continue to focus on the diversification of our portfolio by geography, industry and asset class. Understandably, we have seen a higher representation of take-up within the healthcare sector reflecting our niche business within this area and the early impacts of the pandemic. However this sector has seen a more rapid return to performing with 52% of loan balances coming off banking relief.

The balance of our requests for banking relief are reflective of our overall portfolio mix. We have completed the three month check-in process and are now engaging with those customers coming to the end of their Banking Relief Package. As a result of the three month check-in 17% of housing and 12% of SME customers cancelled their banking relief request.

Turning now to housing loans on slide 27. We are supporting our customers through the impacts of COVID with banking relief packages offered to housing customers. The balance of loans on banking relief has reduced by 23% since the peak in April. The characteristics of the portfolio of banking relief loans aligns with the underlying portfolio noting particularly that the average LVR is 65% whilst 30% of loans are more than three payments in advance. We continue to see reductions in the number of customers seeking relief with housing loan deferral balances reducing a further \$200 million in September.

Looking at SME deferrals on slide 28. As I have mentioned our SME portfolio has seen a higher take-up of banking relief packages due to our niche business in the healthcare sector which was impacted early in the pandemic. 37% of our total SME deferrals sit within the BOQ Specialist portfolio of healthcare assets.

On a positive note a quarter of our healthcare assets on banking relief have now returned to performing since the peak in April with total SME loans on banking relief having now reduced by 12% since the peak in April. Mirroring the housing portfolio customers on banking relief reflect the underlying diversification of the SME portfolio.

While our large exposures are not able to access banking relief, we have conducted a review of our significant exposures to assist in understanding how these businesses have been impacted by the COVID pandemic and importantly provide support to assist them in their recovery.

With that, I will now hand back to George for concluding remarks and comments on the FY21 outlook.

George Frazis: Thank you Adam. As Ewen and Adam have outlined I am pleased with the underlying financial performance we have delivered during this period of economic downturn.

We have supported our customers, communities and our people while continuing to grow our business and deliver against our strategy. Importantly our lending growth momentum is continuing with housing growth returning to system and commercial lending growth well in excess of system, whilst also managing margins.

The decision to increase our provisioning is based on prudent economic assumptions and recognises the ongoing uncertainty providing us with good levels of coverage for any lifetime losses arising in the portfolio from the impacts of COVID. We are executing on our strategy. We are overcoming our legacy structural disadvantages through the use of digital channels, partnering and new technologies.

Finally, we are leaning into the health and economic crisis that has been well managed by the government and regulators.



In closing, while the broader outlook remains uncertain until we have an effective vaccine, Australia is relatively well placed given the government's management of the health crisis and the substantial economic stimulus.

Executing against our strategy remains our key priority. We have a clear transformation roadmap and are delivering against it. It is challenging in this environment to provide a definitive outlook. However, we expect to deliver broadly neutral jaws in FY21, led by above system growth in lending, margin management to within 2 basis points to 4 basis points decline, with cost growth of circa 2%.

The increased collective provision sees us well placed to withstand the anticipated lifetime losses arising from COVID. Our capital position is strong and a priority for me. Our organic capital generation will provide us with the ability to continue to invest and grow our business in FY21, while also delivering improved returns for our shareholders.

We understand the importance of dividends for our shareholders. We remain absolutely committed to delivering long term shareholder value through sustainable, profitable growth and attractive returns.

Thank you very much for your time this morning. With that I'll hand back to Cherie to open questions.

Cherie Bell: Thank you George. Ladies and gentlemen firstly I understand that the webcast page numbering is misaligned with the ASX release, so an apology from us for that. The references that the team has been speaking to align to the documents on the ASX this morning.

We will now go to the phones for questions from analysts and investors. Could I please ask you to limit it to two questions per person? With that I'll hand over to the operator.

Operator: Thank you. Ladies and gentlemen if you would like to ask a question please press star one on your telephone and wait for your name to be announced. If you need to cancel that request, please press the pound or hash key. Our first question comes from Andrew Lyons from Goldman Sachs. Please go ahead.

Andrew Lyons: (Goldman Sachs, Analyst) Thanks and Good morning. Just a question on your guidance for FY21. The combination of your 2 basis points to 4 basis points of a decline, greater than system growth, flat jaws and 2% expense growth implies one of two things, either quite strong balance sheet growth or very strong growth in non-interest income.

Just with that in mind can you just talk through is there any reason to believe you should see a turnaround in the performance of your non-interest income versus recent year trends where it has been in decline? Or is the guidance more about fairly strong balance sheet growth? Just with that in mind, how do you expect the change to responsible lending announced by the treasurer recently will impact system growth in 2021?

Then just a second question just around slide 53 and the SME deferrals. I'm quite surprised to see Bank of Queensland has any lending in New Zealand with 5% of your SME deferrals coming from New Zealand. Can you just provide a little bit more guidance around that? Thanks.

George Frazis: Thanks Andrew. It's George here. I'll start off with your first question and then hand over to Ewen. I'll ask Adam to cover up on your second question. The first point to make is the way we're looking at managing our business is to make sure we're carefully making the correct trade-offs between growth and margin.

As you can see in the last 12 months that's been a key way in terms of how we've managed the business. If I look at growth, the outlook on growth is improving. So although it's partly driven by the



substantial economic stimulus that the government announced but also there's just increased confidence given how well the health crisis has been managed in Australia. So we've got very low COVID cases.

We're also in terms of housing prices, we're being a little bit more positive about that as well. So our sense is that housing growth will be stronger than most previously predicted and where initially there was a view that business lending will be in decline a sense that that's going to be broadly flat.

Now our objective given our niche segment approach - you can see that basically we're very selective on the segments we're after and the fact that we are a smaller player in the market means that we can actually go ahead of market whilst managing our margins carefully. So that's my broad comments. I'll hand over to Ewen to add to that.

Ewen Stafford: Thanks George and Andrew, I think your specific question was around the outlook for non-interest income.

Andrew Lyons: (Goldman Sachs, Analyst) Yes.

Ewen Stafford: So just on that point, I mean it's really quite challenging or hard to be too definitive at the moment given the situation, but I do think it's fair to say that we are starting to see some signs of non-interest, of the decline moderating. If you get down to the underlying nature of our number in FY20, so I'll just quickly walk you through that, I mean it was down \$18 million year on year, but \$4 million of that was a result of the sale of debtor finance business in the second half 2019.

I'd also called out earlier circa \$10 million of COVID impact. So that does get you down to an underlying trend of \$4 million down, so that is starting to see it moderate. So yes it will still be a drag in 2021, as those macro trends continue, but we don't believe it will be to the extent that we have seen it over more recent years. But I'll just finish where I started with that caveat, it is a little hard to be too definitive and whether some of those, that COVID impacts will repeat in 2021 or not.

Probably the only other point I'd note and with the sale of St Andrew's that George spoke to earlier being announced this morning, obviously that insurance income will be out next year, but there will be a comparative PCP restatement.

George Frazis: Adam, can you touch on the second question?

Adam McAnalen: Certainly, so just in relation to our exposure in New Zealand, our BOQ finance company does have leasing business in New Zealand and our exposure there is rather small in contrast to our overall portfolio and we did extend the same banking relief terms to our customers in New Zealand as we did in Australia. It's fair to say that that portfolio, the consistent representation of our broader portfolio in Australia focusing on equipment to main industry in New Zealand.

Andrew Lyons: (Goldman Sachs, Analyst) Thanks so much.

Operator: Our next question comes from Josh Freeman from Macquarie. Please go ahead.

Josh Freeman: (Macquarie Group, Analyst) Good morning all. So congratulations on the result in a challenging environment. Just a couple of questions from me. Just in the guidance, you guys mentioned margin decline of two to four basis points, would you be able to provide a bit more colour on some of the moving parts of that, maybe perhaps front to back book gap as well in there?

Just on the second question, you guys noted a dividend of \$0.12 but you guys disclosed \$0.06 within each half of FY20. Just looking forward, how should we really consider that from a dividend growth



perspective? Should we be considering it from \$0.12 or from \$0.06 that you've kind of allocated to each half? Thank you.

George Frazis: Hi Josh, its George. I might touch on the second question first and then hand over to Ewen to talk about our margin. The first point to make is that obviously dividend is a decision that the Board takes each year. We clearly understand the importance of dividends to our shareholders. The way to look at the \$0.06 and the \$0.06 is there are a number of APRA guidance around dividend payments at the moment in terms of profit tests and how much of statutory profit you can pay out. That is worked out on a rolling 12-month basis.

So to think about how we then manage and provide flexibility around that, \$0.06 of the dividend which is allocated to the second half then gets included in any assessment of that guidance from APRA. So it does provide us a bit more flexibility and the way I would see it is we're looking at sustainably growing our profitability and our returns and our objective over the long term is to make sure we're creating shareholder value through both dividends and the share price.

Ewen Stafford: So Josh, thank you for the question and as you say, we have guided to 2 to 4 basis points decline in the outlook statements. Clearly quite a few uncertainties, just the macro environment, given COVID, whether there will be or not another rate cut and just to be clear, we have not assumed that in any of our outlook statements and there's obviously significantly intense competition at the moment, also just trying to anticipate customer behaviours through this highly unusual time.

But having said all that, let me unpack the key moving parts for you at a high level. Just from an asset pricing and mix perspective, we see that to be neutral outcome for the year, so a continuation of that front-to-back book drag of 4 to 5 basis points per half, but largely offset by the full-year impact of the repricing that occurred in the second half 2020. Definitely seeing funding cost benefits, both in terms of customer deposit repricing and also through the TFF. Positive impact from hedging costs. The capital and low-cost deposits will continue to be a drag through FY21.

Then in a lot of respects, the significant unknown is just what will be the impacts of the elevated liquidity levels. I mean we're clearly seeing it as a negative, but just exactly where that all lands remains to be seen.

Josh Freeman: (Macquarie Group, Analyst) Thanks for that.

Operator: Our next question comes from Jon Mott from UBS. Please go ahead.

Jonathan Mott: (UBS, Analyst) Hi George, I had a question, following on from Andrew Lyons really, about the credit growth. If you look at the second half, the housing book was dead flat and the total loans were dead flat as well. What we're seeing is with rates going down, people are taking the opportunity to accelerate the paydown and the amortisation of the back book. So to get credit growth, you really need a large acceleration of the front book and I think you said mortgage applications are now back to pre-COVID levels.

So to get credit growth accelerating, your front book has to accelerate to a very, very large amount, well above where you were pre-COVID, so you're effectively assuming a housing boom going through. Just wanted to make sure that's kind of what you're anticipating and obviously Queensland is better than other parts in Australia, but is that correct, you're really expecting new applications to be well above pre-COVID record levels?

George Frazis: Yes, Jon, it's George again, good morning. It's a good question. I suppose I did temper what's happening to applications because of the exact point you raised. What we are seeing is that



offset accounts are increasing and also prepayments are also increasing. So what's happening with the increased government stimulus primarily, that extra liquidity is being used against housing for those who have home loans.

If you look at our actual applications compared to pre-COVID, they are quite a bit up from where they were and I was really adjusting that for that prepayment. It's fair to say that our sense is that some of that prepayment will abate as the government stimulus rolls off during the next 12 months. We haven't assumed that in any significant amount, but that's upside, so we are, at the moment, running at rates that provide us the confidence in terms of our volume growth.

Just to give you a sense of the levers that we're pulling, we've made significant progress on our owner-manager branches and our expectation is that that will get to break even at least next year in terms of a net basis, so that is a big drag on our numbers to date. Our Virgin Money growth now has reverted back to pre-COVID and as you know, we're launching our Virgin Money digital bank later this year and fully rolled out early next year. So again, that's providing us opportunity.

Then the third thing to note is – and sorry, BOQ Specialist at the moment is running slightly below but we've taken that into account. We will see that slowly recovering as the medical profession continues to come back on stream. But then the other important lever is at the moment our flows from broker, including Virgin Money, is around about 30%. So we've put in a number of initiatives that are going to start increasing that flow over the next 12 months, so that's a big opportunity for us in terms of driving growth. So we're able, through the increased productivity in those distribution channels to achieve that growth whilst also managing margin.

Jonathan Mott: (UBS, Analyst) Okay and thanks for that. A second question if I could, it really relates to slide 17. Another year passes where BOQ has very, very large numbers of below-the-line, non-cash items being put through, including the \$8 million of staff underpayment, which you've considered a non-cash item. Given that statutory profit at the moment is a key driver of the dividends that it can pay, should we expect this to continue? It's been going on for more than a decade now, this trend, are there other items that will come through below the line next period?

Can we have a commitment that we can stop this practice? If any other large and lumpy items come through, as we've seen in the major banks, they're now just taken into cash profits and declared through cash, will you follow that lead and no longer be putting these large and lumpy items through below the line, especially given the dividend treatment here?

George Frazis: Yes, Jon, I'll start off on it and then hand over to Ewen to just add a bit more colour on it. We always stated that the year that's just passed, it was going to be a transitional year for us. One of the things we did in February, we clearly laid out a strategy and what we've been able to do in the second half of that is number one, become increasingly confident on the pathway to that strategy and we've been able to ensure that all of our investment going forward is aligned to the strategic pathway of that strategy.

So we're very comfortable that the clean-up has been completed but I'll hand over to Ewen now to discuss that.

Ewen Stafford: Look I don't have a lot more to add, other than to say our absolute intent moving forward is to deliver as clean a set of numbers as we can. I think that strategic context that George just outlined is really important.

I did note your earlier comments, Jon, on the employee pay and entitlements review. I mean that does relate to a historic and legacy issue and it relates to three enterprise agreements that go back almost



10 years. So I think that is a legitimate one to have out of current year cash earnings. But nevertheless, we take your point and the intent moving forward is to be as clean a set of numbers into the market as we possibly can.

Jonathan Mott: (UBS, Analyst) thank you.

Operator: Our next question comes from Ed Henning from CLSA. Please go ahead.

Ed Henning: (CLSA, Analyst) Thank you for taking my question. Just looking at the St Andrew's sale, can you just confirm you'll lose the full \$11 million of revenue there? Then looking at the cost side, how much costs are associated with that and then can you just tie that in with your cost guidance, which has increased and then potentially some costs associated with St Andrew's rolling off as well, what that increased cost guidance is for please?

George Frazis: Thanks Ed, I'll ask Ewen to cover that off.

Ewen Stafford: So Ed, yes and as previously mentioned, once this settles and bearing in mind that will be at some point through FY21, that that \$11 million of revenue will disappear.

In terms of your cost point, I - at the moment, we've never particularly disclosed this but we do see it as broadly neutral to just a slight drag from a Group perspective. But that will take some time. I mean, we clearly - we have transition agreements to work through for six to 12 months as that business works towards - well firstly, we need to complete and then there are transition service agreements beyond that. So I think it's really a '22 issue where we'll see the full impacts of St Andrew's being out of our numbers but it's not likely to have any material impact.

Operator: Our next question comes from Brian Johnson from Jefferies. Please, go ahead.

Brian Johnson: (Jefferies, Analyst) Good morning, everyone and congratulations on a great underlying result. Ewen, I just want to come back to the question that Ed asked. I'm just intrigued, on St Andrew's, and I have two questions but the first one is, in the annual report, you can see that you've got \$30 million invested but you're basically saying that you'll take a \$27 million to \$30 million loss.

You're also saying that you've given a vendor loan for this. I'm intrigued as to why this isn't accounted for as a discontinued business but also, I think we need some more detail on how this mirrors in with the cost guidance of 2%.

The other thing, I suppose, about it, is if you have vendor finance basically the person coming in, have you effectively sold it? Then I have another question.

George Frazis: Brian, its George. I'm going to ask Racheal our Deputy CFO to provide some more detail around the financial impacts of St Andrew's but just on the vendor loan, it's broadly on commercial terms. So it's - there was a business loan, effectively but apart from that, I'll hand over to Racheal, just to give you a bit more flavour on the revenue and cost impact of St Andrew's. As we said, it's not material. Hopefully the technology works because she is in another state.

Racheal Kellaway: Hi Brian, hi, Racheal Kellaway.

Brian Johnson: (Jefferies, Analyst) Hi.

Racheal Kellaway: So the first part of your question was around why it's not considered discontinued. The answer to that is that the test for that is actually as at 31 August. Now, this is a very recent deal. As you saw, we only released the ASX announcement today and so the test is that it wasn't at that point probable nor - and definitely not highly probable that we would have a sale.



So it is currently held for - sorry, it is currently within our operations and in FY21, it will be reported as a discontinued operation. So that's the question around the why is it still in the result.

The question around financials, I think Ewen has given a good overview on the impact to the Group results. That's the \$11 million worth of revenue that will come out. In terms of the loss on sale, that represents the purchase consideration, some consolidation entries and then also the fact that we, as you said, had an investment in that business. So...

Brian Johnson: (Jefferies, Analyst) But Racheal - Racheal, sorry, what I want to get my head around is, I know the revenue line is \$11 million. How much is the cost line and how does that factor within the 2% cost guidance.

The second one is, if you - you're recognising a loss of \$27 million to \$30 million but we can see in note 6.5, you've only got a \$30 million investment in it, is that implying that you're really selling it for nothing?

Racheal Kellaway: So the question on costs within the business, that - as Ewen said, we don't have, and haven't disclosed the costs of running St Andrew's. There are some direct costs as you would imagine and then some shared service costs that will transition out from a Group's perspective.

As Ewen has pointed out, that won't impact our results until FY22. So it's not particularly in our guidance for FY21. We still don't know exactly when that - so when that will transition, so when we will actually complete the transaction and...

Brian Johnson: (Jefferies, Analyst) So, it will be treated that - not really, so it will be treated as a discontinued business in FY21 whereas it's not in FY20 and the cost guidance includes the discontinued business. Am I right in thinking that's what you've said?

Racheal Kellaway: Correct.

George Frazis: Yes, that's right.

Brian Johnson: (Jefferies, Analyst) Then - okay. Okay and then the second one is - the point is that note 6.5 says you've got a \$30 million investment in this. We can see you're recognising a \$27 million to \$30 million statutory loss with a vendor finance loan. Can I just confirm that means that you're basically selling it for next to nothing?

Racheal Kellaway: So we are selling it for a loss, obviously. That's why we've got a statutory loss. So that's - technically, you're absolutely right. I think the one point is that whilst there's the investment in St Andrew's that you're pointing out within the notes to the financials, we have \$44 million worth of net assets.

So that's how you get - you've got consideration of \$23 million and transaction costs obviously and then we have net assets that actually are \$44 million, which you can see in the account. So that's how you get the statutory loss, you're right and we've clearly disclosed that the transaction is hitting our result at a statutory loss.

Brian Johnson: (Jefferies, Analyst) Okay. The second question I had, George, and I really want to preface this by saying well done on the result but I just want to go back to one of the issues that is really smacking around sell-side analysts at the moment is AUSTRAC.

In this result, we can see an uplift in your regulatory and compliance costs. In July 2018, AUSTRAC actually did an on-site review which they said unearthed significant shortcomings. We can see an uplift in the compliance spend.



I suppose what I'd be intrigued about and I think full disclosure is a very important point, what did the AUSTRAC review find? Did it find some problem in the owner-managed branches? What did it actually find? And are you confident that you have basically avoided any civil penalty?

George Frazis: Yes, so Brian, I'll start off on that and then hand over to Adam, who has been running our overall improvement program. So the starting point is that we don't have any incidents of non-reporting or - that we know of or incidents of non-reporting that have been investigated to see if there was any activity behind that, that should have been known by AUSTRAC. Just to be clear.

So it's a totally different scenario to some other cases that have been recently reported by other banks. What we had through the review was, identified elements on how we can strengthen our existing processes and procedures. We had a - quite a comprehensive program to achieve that. That program, by the way, is on track and we're close to completing that program.

We have had regular contact with AUSTRAC on a quarterly basis, ensuring that they're totally up to date in terms of what we're doing and nothing material has come out of those.

Adam, I've probably stolen all your thunder but is there anything else that you would add to that?

Adam McAnalen: No, I think George has certainly covered off the key components. The element I would add is, the review that was done in 2108 was a scheduled review of part of our program that AUSTRAC undertook. Your point around ongoing engagement is a critical one that we continue to engage with AUSTRAC to show how we continue to invest in our program of work.

The program is extensive and beyond the scope of what AUSTRAC reviewed, just as part of our underlying investment in improving our processes and procedures around regulatory compliance.

Brian Johnson: (Jefferies, Analyst) So, can I just confirm, so what you've said is, as I said at the time AUSTRAC said they had unearthed significant shortcomings. So I'm taking it from the commentary today, it's not a reporting problem, it's basically processes but it's not specific incidences of malfeasance? So it's just the system wasn't quite up to scratch. Am I correct in thinking that?

George Frazis: Correct, Brian. So if you think about it, while - if you think about our total digital transformation, it's all about getting to a digital bank where we're more automated. It's just - it reduces the probability of errors and just makes the controls more robust.

So there was nothing that was missing, this is basically strengthening what we had and there was no incident - no incidents of not reporting.

Brian Johnson: (Jefferies, Analyst) thank you.

Operator: Our next question comes from Andrew Triggs from JP Morgan. Please, go ahead.

Andrew Triggs: (JP Morgan, Analyst) Thank you and good afternoon, everyone. I had a couple questions, please, too. On the deferral data, looking at the APRA stats for August, it suggested BOQ had a higher percentage of both home loan and SME loans under deferral. Can you talk to some of the drivers you think are behind that?

Obviously, this week we've also seen CBA report a large decline in deferral balances in the month of September. Could you please give us some thoughts on what you're seeing with customers over the last month or so?

George Frazis: Yes, Andrew, probably the first thing to note is, obviously the retail banking and business banking is something I understand really well and what this process has enabled us to do is really get under the covers of our books. So it has been a good process. As stated already - and I'm



going to hand over to Adam to give you more flavour straight after these initial comments, a big part of what impacted our book was the fact that we've got a good market share in the medical profession.

The medical profession was impacted quite severely, particularly the dentists. Now, as they're coming back on stream, which we're seeing that happening at the moment, things are looking good. Just to give you a sense about - GPs were impacted but, through telehealth, they really stayed open throughout that whole thing.

Interestingly, we're now seeing our specialists, medical professions, busier than ever and people are taking the opportunity to actually do some elective surgery because of the time that they've got on their hands.

Now dentistry outside of Victoria, by the way, is coming back to pre-COVID levels. Victoria still has some issues in terms of their lockdown and there's other parts of our business that are coming back strongly.

September has been a better month as well but I'll hand over to Adam to give you that detail.

Adam McAnalen: Yes, thank you, George. So yes, certainly September we saw another month of reductions on banking relief requests. It's probably important to reference that Bank of Queensland really made the banking relief available to customers from March. So there was no back-dating in that offer, which means that the majority of our customers will mature during the month of late September but October and November.

So we won't start to see in the voluminous way, the reportable outcome of the customers rolling off but what we have observed, which is absolutely encouraging, is the way that particularly Queensland has started to perform.

So we do obviously have a reasonable exposure to Queensland, which in light of the pandemic, has probably proven to be a good position because Queensland, whilst we did see an early take-up of banking relief, it was more so in that initial month where there was a lot of uncertainty around how the government would play a role and what the longer term outlook has been.

What that has translated to though is that we are seeing for Queensland, a reasonably higher return for customers back to full repayment compared to the national average, which if we think about the national average, we're seeing in the very small sample, around 60% of customers going immediately back to repayments. For Queensland, that's just nudging over 70% so it is a much more confident position than what we saw before.

The other aspect is for us in Queensland, most of the exposure is in the south east Queensland corner, which as we've observed, continues to perform quite well on a macro sense.

George Frazis: So Andrew, maybe just to add to that, if you look at our disclosure to August, we had a decrease of 18.8% in balances on deferral. That now, by the end of September, is at 23.8% reduction in balances on deferral.

Andrew Triggs: (JP Morgan, Analyst) thanks George, and just a follow-up on the BOQ Specialist business. If you look at your home loan growth over recent years, it's been fairly concentrated in that book and you mention that VMA is a maturing portfolio. How penetrated are you within the BOQ Specialist customer base on home loans now? Is that a limitation to growth going forward?

George Frazis: I might hand over to Fiamma to add to that but just before I do that, if you look at our BOQ Specialist, as you can imagine in the second half, a big impact was the reduction in growth in that segment, particularly in our segment on dentistry. That has come back to around about 75% of pre-



COVID applications and it's steadily increasing, so we're quite confident that that book will come back to pre-COVID over the next three or so months and also potentially exceed that. But I'll hand over to Fiamma who heads our Business Bank to give you a bit more colour around that.

Fiamma Morton: Andrew, thanks for the question and yes, within Resi (the residential portfolio) in BOQ Specialist, we have seen continued application growth in these recent weeks. One of the challenges we're facing is a supply challenge within the Resi portfolio, which is reflective across the housing market more generally.

The bigger challenges that we see in the softness that George is referring to in applications is coming through Victoria, which understandably is reflective of the situation of the lockdown in Victoria. We actually are forecasting that Resi will return (the residential portfolio in specialist) will return to its pre-COVID application and settlement in the coming months.

Andrew Triggs: (JP Morgan, Analyst) thank you.

George Frazis: Andrew, just to finalise that question, if you look at the key value proposition we provide to that sector, the personal side lending is a key component of that, so that will continue as it comes back on-stream.

Andrew Triggs: (JP Morgan, Analyst) thanks, George.

Operator: Our next question comes from Matthew Wilson from Evans and Partners. Please go ahead.

Matthew Wilson: (Evans and Partners, Analyst) Good morning, team. Hopefully you can hear me down in locked-down Melbourne? First question...

George Frazis: Hi Matthew, we can.

Matthew Wilson: (Evans and Partners, Analyst) Yes, with respect to deferrals, what is the balance of capitalised interest and secondly, on the margin guidance, does it include the likely removal of the committed liquidity facility in 2021 and if that facility does go, can you quantify the impact on the margin, given we've got more than ample levels of government debt in our system?

And also on the margin, is the spirit of the TFF to provide a bank with a margin benefit or is it to pass on lower cost of funding to business and households?

George Frazis: Matthew, thank you for the questions. What I'll do is I'll touch on the second two questions, just briefly. When you look at - we have taken into account the likely changes to the CLF when we're looking at margin, so that's fully in our guidance.

In terms of the TFF, obviously what that is doing is providing your well-priced liquidity to the market, so our objective, without discussing pricing, which we're unable to do, our objective is to remain competitive and also, to make sure that we're supporting our key segments, which are specialised SME business segments, family owned businesses, so that's definitely going to be our approach.

On the first question, Ewen will touch on that.

Ewen Stafford: Obviously, we are still accruing interest and we continue to work with and support our customers to get back on their feet. In terms of your reference to that, in terms of the outlook, we have built into our forecast some of those customers moving into an arrears situation and the impact that that would have on our NII.

But I think it's fair to say that it's - just given the time when this will unfold and then obviously the time - and depending on when they went in, depending on when they come out - and that then the time



to get to 90 days past due. There is some minor impact that we have modelled into that outlook for FY21 but it's likely to be more of a FY22 issue. It's certainly not material.

Matthew Wilson: (Evans and Partners, Analyst) But in your FY20 accounts, you would have had four months at least of capitalised interest recognised in your P&L, which is just an accounting entry and I - so, what is the balance? The other banks provide us with the balance. George, to draw on your experience, the wealth of experience you've had in retail and business banking over the last decade. Do you think deferrals was a sensible way to approach this issue, given interest rates are very low? When you were learning about banking, the conventional approach would have been to migrate people to interest only...is that a policy error?

George Frazis: No, Matthew, I think it was absolutely the right thing to do on deferrals because if you recall, we did have situations where effectively, demand in small businesses just shut down completely and they were shut down due to a health crisis, not shut down to any mismanagement of those businesses. So, the deferrals - and as the Reserve Bank and Government mentioned, this was all about providing a bridge to the other side as we came out of this.

The pleasing thing is that the health crisis has been well managed. The other thing is, as I speak to our customers, and I've been having frequent Zoom meetings with a variety of our customer group, it's interesting how innovative they are in terms of tilting towards making sure that they can actually create some activity within their business.

If you then look at the payments either partially or fully that businesses have been making, in the order of 25%. Effectively, what's happening, there was a large part of our customer base that took the deferral as a precaution and where they did have the cash, that cash went into offset accounts and things like that. So, it was all about providing them with really insurance in case of multiple shutdowns or issues around their business.

What we've been doing at the three month and the six month check-in, and by the way, we have called all of our deferred SME customers in the three month check-in and the six month, and it wasn't required at the three, but we did it at the three. Where possible, we have encouraged customers to either go on interest only or to actually increase their offset accounts, which they've done.

So, people have not spent any extra liquidity, they really have saved it, so they've done the prudent thing. In terms of how we deal to those customers, there will be an element of extending those loans in the order of about six months to deal with that.

Matthew Wilson: (Evans and Partners, Analyst) Thanks, guys.

Operator: Our next question comes from Brendan Sproules from Citi. Please go ahead.

Brendan Sproules: (Citi, Analyst) Thank you, good afternoon, George and team. I've just got a couple of questions around your new NIM forecast for FY21. Just on the asset side, in this year you have called out some expansion on the commercial lines of business and also positive mix. I was wondering what you're expecting on that in FY21.

Then secondly on the funding side, the large part of your funding now and historically has come from high-rate term deposits. We have seen quite a fall in the public rates that we can see over the last six months. To what extent is that going to be a big tailwind for your NIM in FY21, please?

George Frazis: Hi, Brendan, it's George. I'll touch on the funding and then hand over to Ewen to give a bit of a flavour on both of those questions. If you look at BOQ historically, historically we've had low transaction banking accounts, so we have had to rely on more expensive term deposit funding. Given



the liquidity, we've actually been able to grow our transaction banking accounts quite strongly and we've become less reliant on term deposit funding.

I think there's still opportunity for us to continue down that path and importantly, when the Virgin Money digital bank - soft-launched by December and then a full launch early next year, the key component of that is really in a growth segment that we can't actually offer transaction banking. This is going to provide us really with state-of-the-art technology and mobile banking app that will enable us to grow in transaction banking.

So again, I think from a margin perspective, number one - it's interesting, we're not - if there is an official rate decline, we're not - we're relatively well-placed, compared to the other banks, because we don't have that large transaction existing base. But at the same time, with the launch of our new digital mobile app in Virgin Money, it gives us the opportunity to grow our transaction banking accounts. I'll hand over to Ewen to just add to that.

Ewen Stafford: Just on the funding cost, when I spoke to it earlier, I called out that it would be a tailwind, both from the customer deposit pricing and also on the wholesale side. To be a bit more specific on the wholesale side, which I think is your question, at this stage, we're anticipating an additional benefit of 1 - 2 basis points across the year, because of that funding cost, including the TFF. Then also, there's a positive mix benefit of about a basis point. That sits within that broader tailwind for overall funding costs that I spoke to.

In terms of your question on the asset pricing, again, the headline that I provided was that it was a broadly mutual outcome, with continuation of the front to back book drag of 4 - 5 basis points per half but then we have some offsetting benefits from full year impact to repricing that occurred in the second half FY20.

If - the question there I think was more around the business banking side of the portfolio and we definitely see some benefit coming through, particularly on the asset financing. We've been very clear that there was a lot of work done in FY20 to manage that business for improved returns, but then there's also - it's also a highly competitive market in terms of the consumer - commercial side, sorry. We're expecting that to be broadly net neutral.

Brendan Sproules: (Citi, Analyst) Thank you very much.

Operator: Our next question comes from Azib Khan from Morgan Financials. Please go ahead.

Azib Khan: (Morgan Financials, Analyst) Thank you very much. A couple of questions from me, both relating to provisioning and asset quality. Firstly, on slide 31, you've said, "there's a less likelihood of downside scenarios". Are you suggesting that you're likely to reduce the probability ratings that you're currently applying to the downside scenarios, going forward?

The second question relates to deferrals. APRA's obviously provided the banks with an option to restructure the loans of borrowers in hardship leading up to 31 March next year. Do you think the reforms proposed to the responsible lending obligations will make it easier or make you more comfortable taking up that option, and does that improve the outlook for arrears?

George Frazis: Thanks, Azib. I'll cover both of those and if someone else wants to add anything to that, that's fine. If you look at the way we've thought about our scenario planning and the provision COVID overlay of \$133 million, our objective was, number one, to take a very prudent approach to the assumptions and the scenario planning that we did.



The second point to note is that we have a very strong capital position and even under the various scenario planning that we did and testing, our capital position remains in a very strong position.

Now what we've seen more recently is that there are some commentators around in terms of potential upside on some of those assumptions that we've got, even in our base case and that's a fair reflection. The critical issue from our perspective, however, is that this environment is a very difficult environment to forecast, global pandemics are really hard to forecast and a key component of that uncertainty abating is really a viable vaccine or medication that is more effective in terms of after you've caught it.

So from our perspective, until we see a viable vaccine, that uncertainty stays there and my preference is that we manage this business in a prudent way. What we've done is take a provision that ensures that any lifetime losses are covered by that provision. Now as you'll also see, we have taken some probabilities around a downside and extreme and that's really just recognising there is a scenario where a vaccine isn't easily discovered. Now most commentators have it as a high probability that a vaccine will be around in the next 12 months, but it's not 100%, so we've just been very prudent on that.

On the responsible lending side, although responsible lending really deals to personal customers, at the small end of SME banking, that distinction does blur, so I think the change that the Federal Government is recommending on responsible lending is a very positive one. Number one, it simplifies the regulatory oversight, so you go from two regulators to really APRA determining that. Then the second thing, you're able then to take a much more risk-based approach and thirdly, you can also take into account the fact that you know the customer well, whereas the previous regime made that difficult and it became more of an issue at the smaller end where basically your personal banking and your business banking became blurred. So from my perspective, you're right, this is going to make it a lot easier for us to be able to do the right thing by the customer.

Cherie Bell: Thank you ladies and gentlemen. That concludes the Q&A session this morning. I'll just pass to George now for a closing comment.

George Frazis: Thanks Cherie and thank you all for joining us on this call. As you can see, our objective in terms of running the business was to be really well balanced and also making sure that we're well positioned to number one, take any shocks that may occur, but also be able to lean into the opportunity as the economy recovers. Key points for me are that we've got a very strong capital position. The second point is that our provisioning has taken prudent assumptions. The third point is that effectively we are seeing good business momentum in a quality way and it's as a result of our commitment to our strategic transformation. We have absolutely upgraded our execution capability and that's coming through the results.

Once again, thank you all for you joining us today.

END OF TRANSCRIPT