



BOQ 2021 Full Year Results Announcement

Wednesday, 13 October 2021

Speakers: George Frazis, Managing Director and Chief Executive Officer
Ewen Stafford, Chief Financial Officer and Chief Operating Officer
Martine Jager, Group Executive Retail Banking and CEO of ME Bank
Cherie Bell, General Manager Investor Relations & Integration

Transcript:

Operator: Thank you for standing by and welcome to the Bank of Queensland Group full year results call. All participants are in a listen only mode. There will be a presentation followed by a question-and-answer session. If you wish to ask a question, you will need to press the star key, followed by the number one on your telephone keypad.

I would now like to hand the conference over to Cherie Bell, General Manager of Investor Relations. Please go ahead.

Cherie Bell: Thank you and good morning everyone. Welcome to BOQ's full year results presentation for 2021. Before we begin, I would like to acknowledge the traditional custodians of the land upon which I'm speaking to you from today, the Turrbal People and recognise elders past, present and emerging.

I would like to thank you for joining us for this morning's audio webcast. Due to COVID restrictions, we are joining you from different locations. Joining me today in Brisbane is George Frazis, our Managing Director and CEO and joining from Melbourne is Ewen Stafford, our Chief Financial Officer and Chief Operating Officer and Martine Jager, Group Executive Retail Banking and CEO of ME Bank. We also have other members of BOQ's Executive Team and senior management on the phone line.

Before I pass to George to provide an overview of the results, I would like to highlight that today's results presentation includes two months of ME Bank earnings. The investor presentation will primarily focus on the performance of the underlying BOQ business in FY21. In the overview, George will speak to the key headline numbers on a consolidated basis before touching on the key drivers of the movement for the underlying BOQ performance.

Ewen will talk to the numbers in more detail and will also focus on the various drivers on a BOQ only basis in order to ensure that an appropriate comparison can be made. He will then touch on the FY21 pro formas for each of the key lines, which should be used as the basis for George's outlook



commentary. The 12-month pro forma figures also exclude St Andrews from the baseline, given the expected divestment in the first half of FY22.

I will now hand over to George to provide an overview of the FY21 financial results and an update on execution of the BOQ strategy.

George Frazis: Thank you, Cherie. Good morning everyone and thank you for joining us. As Cherie mentioned, I'm very pleased to be joined today by members of the Executive Committee and senior management who have been integral in the execution of our strategy and the delivery of these financial results.

Turning to an overview of FY21 on slide 7, today we're reporting yet another strong performance and you can see the continued momentum of the BOQ Group, demonstrated by the notable increases in statutory profit and cash earnings. These results highlight our progress on returning the Group to sustainable profitability and reflect the sharp focus on our strategic priorities and the disciplined execution of our transformation plan.

Today's results marks our fourth consecutive half of improved performance and it is worth calling out these results have been delivered during a period marked by uncertainty given the pandemic disruption across Australia and also in a year where we executed the transformative acquisition of ME Bank.

So on the actual figures, our statutory net profit, including two months' contribution from ME Bank has increased to \$369 million, an increase of 221% on the prior period, and our cash earnings have increased 83% from FY20. Our EPS growth of 51% reflects strong business growth and improved economic conditions.

Our business momentum continues to build, with housing loans growing at 1.7x system for the year. We are continuing to support our customers and people through the ongoing COVID-19 challenges and have demonstrated our business resilience.

The execution of our strategy and our digital transformation is on track. Compared to a year ago, our digital customer offering and footprint has been considerably improved and expanded following the successful launch of phase one of the new Virgin Money digital bank and the completion of our acquisition of ME Bank.

Our asset quality remains sound with collective provision levels reducing during the year in line with the improved economic outlook. We continue to have the balance sheet strength to support business growth and the integration program with the CET1 ratio of 9.80%. As a result of this strong



performance, the Board has determined to pay a final dividend of 22 cents per share, an uplift of 5 cents per share from the first half. This represents a full-year dividend of 39 cents per share and a 61% cash earnings payout ratio.

Turning now to the results in more detail on slide 8. As mentioned earlier, statutory net profit after tax, including two months' contribution from ME Bank increased to \$369 million, and we saw an 83% increase in cash earnings after tax to \$412 million. Cash return on equity was 8.2%, reflecting an increase of 280 basis points for the year, driven by improved underlying earnings and the collective provision release. Common equity tier 1 remains strong at 9.80% and our cash earnings per share increased to 74.7 cents per share.

The drivers of the full-year results are outlined on slide 9. These figures are presented excluding ME Bank in order to enable a comparison with FY20 performance, and Ewen will take you through these in more detail shortly.

Total lending grew by more than \$3.5 billion in the year. This, combined with the four basis points of NIM growth in FY21, has resulted in a 6% increase in net interest income compared to FY20 and a 5% increase sequentially.

The cost to income ratio again improved during the half to 53.3%, driven by the favourable income result and the 2% positive jaws.

The loan impairment expense benefited from a net \$69 million release of the collective provision, in line with improving economic conditions and from data quality improvements relating to collateral. This resulted in an LIE benefit to the P&L of \$20 million for the year.

Turning now to lending and deposit growth on slide 10.

Lending growth momentum has continued to accelerate, with lending GLAs increasing by \$3.5 billion for the year. Housing growth of \$2.9 billion, was 1.7x system and business lending increased by \$598 million, reflecting our niche segment strategy of providing a tailored relationship, and recovery in the SME segment in the second half.

On the BOQ housing book, positive growth was achieved across all three channels for the first time since FY15, as momentum steadily accelerated over FY21 which I will provide more details on shortly. In the commercial portfolio, we delivered growth across the Corporate lending, BOQ Specialist and Small Business portfolios.

Small business remains a key focus area for BOQ and we have seen increased volumes through our branch, broker and direct business bank channels.



Customer deposits lifted by \$3.3 billion during the year, supporting asset growth, and increasing the deposit-to-loan ratio to 75%, while further reducing our reliance on term deposits.

Turning to home lending growth on slide 11. Virgin Money delivered another strong performance with growth of \$1 billion across the year. The broker channel recorded home lending growth of \$1.1 billion as we focused on building quality relationships with new and existing brokers, simplified our end-to-end mortgage processes and enhanced our customer retention activities.

The BOQ Specialist home lending portfolio grew by \$0.5 billion with settlement volumes growing in the second half as the healthcare sector rebounded from the impacts of COVID, prior to the latest round of lockdowns.

Further, the BOQ branch portfolio achieved a turnaround in its performance with a return to positive growth in FY21 of more than \$0.3 billion, the first full year growth in seven years.

Importantly, this has been quality growth. During the year, loans with an LVR above 90% decreased to 3%, we decreased interest only loans to 13% and PAYG customers increased, making up 81% of new home loans. Maintaining our time to yes standards and superior customer experience has been critical to the growth turnaround.

Now looking at the divisional performance on slide 12. I'm pleased to report today both the Retail and Business Bank have delivered a solid performance, with the BOQ Retail business delivering a significant turnaround in housing growth of \$2.5 billion for the year.

The turnaround in performance was driven by embedding the Retail Banking strategy, which included mortgage process simplification, a new owner-manager incentive program, improved retail banking and lending capability, an uplift in customer experience and quality third-party broker relationships. During the year, our mortgage net promoter score also improved to fourth position, up from fifth in FY20 and up from eleventh in FY19.

As business confidence returned and the economic conditions improved during the year, lending growth from BOQ Business continues to improve with \$1.1 billion of loan growth for the year. During the year, deposit growth for BOQ business increased by \$1.1 billion, which has fully funded the business lending growth for the period.

Diving into more detail on our digital bank progress on slide 13.

We have a clear pathway to a common cloud-based digital retail core banking platform that will benefit from ongoing innovation by our global provider, Temenos. We are transforming BOQ from a Bank that was constrained by legacy architecture with batch processing, non-real time, complex,



layered technology into a cloud-based digital Bank. This will deliver us a scalable solution that is multi-brand enabled, provide operational excellence with a high degree of automation and will be fully digitised.

Pleasingly, we have completed the build of the major components that will enable our customers to start to engage with these experiences. We have launched our mobile first capability for VMA with a focus on everyday banking.

We have a new cards management system that is in the cloud and enables our first migration of BOQ customers onto that experience. We have successfully completed the ME Bank upgrade to version 18 that enables the pathway to the cloud version 20.

As we continue to deliver against our data strategy and enable open banking, the customer experience will become highly contextual and support productivity and quality growth in our retail bank. Once all retail customers have been migrated to the new common digital platform and legacy systems retired, we will see a step improvement in our cost income ratio. This will also provide us with the opportunity to develop ecosystems around our key niche segments.

Turning to the ME Bank acquisition on slide 14. The completion of the ME Bank acquisition has delivered a number of strategic and financial benefits for the BOQ Group. It has significantly enhanced BOQ's scale and portfolio mix, with customer numbers increasing to 1.5 million, retail banking GLAs broadly doubling to more than \$57 billion and it has rebalanced the portfolio with retail banking net profit contributing approximately 55% to the Group.

The ME Bank brand is complementary to BOQ's existing suite of brands and minimal overlap drives the geographic diversification of our portfolio. We have seen immediate financial benefits, and the integration program is well progressed. We are focused on returning ME Bank to growth and are seeing signs of green shoots, with higher application volumes post completion.

We have accelerated the delivery of synergies which are expected to be fully delivered by the end of FY23. The combination of the two businesses enables us to leverage the capital investment across both organisations, while still delivering capital expenditure benefits.

Diving into more detail on our execution progress on slide 15 now. Momentum continues to build and we are delivering growth while we closely manage margins and deliver productivity improvements. This revenue growth combined with the second year of our productivity program has enabled us to deliver positive jaws of 2% for the year.



Our consumer and business NPS scores have continued to reflect the improvements made over the last 18 months and our focus on the customer. Our mortgage NPS ranking has increased to fourth position compared to eleventh two years ago.

Our time to yes standards are improving, despite managing a significant increase in volumes during the period.

We have a clear digital transformation roadmap and the successful execution of this remains a key priority with a number of core transformation projects completed or well underway.

Finally, we have a strong balance sheet and capital position with a CET1 ratio of 9.80% and the deposit to loan ratio increasing to 75%. This sees us well placed to ensure the ongoing stability of the bank and provides us with the capacity to support growth and investment.

Lastly, moving on to our sustainability initiatives on slide 16.

We remain committed to building a sustainable business with a clear focus on positive environmental, social and governance outcomes. During the year, we achieved our carbon neutral certification and were recognised as an Employer of Choice for Gender Equality. Our employee engagement score of 64% has improved 5% and we are working hard to meet our target of 72%.

We continue to support and invest in local grass-roots communities through our partnerships.

Looking ahead, we are building a more sustainable business. We have a plan to reduce our emissions and are targeting 100% renewable energy by 2025. We are working closely with our suppliers and customers through the transition to a low carbon future.

We are well progressed on our gender diversity target of 40% and employee engagement continues to lift. We will continue to support our customers, community partners and local communities in which we operate.

Before I hand over to Ewen I would like to once again recognise the strength and execution excellence of our management team. I would like to thank them and all our people, for their tireless efforts in supporting our customers and delivering these very strong financial results in these challenging times. I want to acknowledge all our customers who have shown resilience and trusted us with their banking needs.

Over to you Ewen.

Ewen Stafford: Thank you George and good morning everyone.



Further to Cherie's comments, my presentation this morning will focus primarily on the performance of the underlying BOQ business. I will also provide an update on the transformation and progress with the ME Bank integration.

Turning firstly to the group financial performance on slide 18. Excluding ME Bank, BOQ delivered total income of \$1.18 billion for the year which is up 5% or \$61 million on FY20. This increase was the result of a 6% increase in net interest income driven by growth in the balance sheet and strong margin management.

Non-interest income declined 2% or \$3 million on FY20.

Operating expenses increased 3% or \$21 million compared to FY20 and by 1% sequentially. This expense increase has supported strong growth in business volumes, the build-out of the Virgin Money Australia operating model and further investment in digital and technology projects.

BOQ has delivered an underlying full year operating profit uplift of 8% on FY20 and 6% on the first half. As previously discussed, we are managing the business to deliver positive jaws and have achieved 2% jaws in FY21 and also 2% half on half.

The loan impairment expense for the year was a benefit of \$20 million. Cash earnings excluding ME were \$389 million, an uplift of \$164 million or 73% compared to FY20. Including the two month contribution from ME Bank and as set out on the far right hand side of slide 18, the BOQ Group delivered cash earnings of \$412 million, an uplift of 83% from FY20.

The combination of BOQ's strong financial performance and the inclusion of ME Bank has resulted in a cash ROE of 8.2%, and EPS of 74.7 cents for the year.

Moving to non-cash earnings on slide 19. Excluding ME Bank, statutory net profit increased \$237 million compared to FY20 and \$352 million for the year. There were three notable adjustments being finalisation of the employee pay and entitlements review, ME Bank acquisition transaction costs and early integration costs.

Looking ahead to FY22 we expect to incur integration costs of approximately \$70 million to \$80 million over the year and a \$26 million post-tax loss on the disposal of St Andrew's.

Turning to net interest margin on slide 20. NIM grew four basis points for the year to 1.95%. For the second half 2021, NIM remained steady at 1.95%. Stepping through the walk for the second half, Asset pricing and mix resulted in an adverse impact of 10 basis points. Within this there was continued front to back book drag of 5 basis points on housing and 1 basis point in relation to commercial.



We saw a further 5 basis point reduction from increased flows into lower margin, fixed rate housing lending at reducing spreads. This was partially offset by a 1 basis point benefit arising from the November 2020 repricing.

Funding costs had a favourable impact of 13 basis points. We actively managed Retail and Treasury term deposits over the half to optimise margin which had a favourable impact of 6 basis points.

We also saw a 4 basis point benefit from repricing of transaction and savings deposits and a further 3 basis point benefit from a reduction in wholesale funding costs including a further 1 basis point benefit from the Term Funding Facility.

There was an adverse impact of two basis points relating to lower returns on the replicating portfolio and uninvested free funding and low cost deposits. Liquidity levels had minimal impact on NIM during the half.

Incorporating two months of ME, the printed NIM for the Group is 1.92%. Including ME Bank annualised NIM of 1.70% and on a 12 month proforma basis the combined NIM for the Group for FY21 is 1.86%.

Turning now to slide 21. Non-interest income of \$125 million was down \$3 million year on year. Banking fee income stabilised at \$69 million. Other income increased by \$5 million, driven predominantly by a \$3 million one-off benefit in the cards portfolio in the first half.

Insurance income was down \$4 million due to the closure of St Andrew's to new business in the first half 2020. Trading income reduced by \$4 million, consistent with industry trends during this period. Proforma non-interest income for the Group in FY21 is \$134 million.

Moving on to operating expenses on slide 22. Expenses increased \$21 million or 3% to \$633 million for the full year and by \$3 million or 1% sequentially. The key drivers of the expense uplift for the year were \$6 million for the build-out of the VMA operating model to support the digital Bank, a further \$7 million investment in technology and digital projects and \$14 million to support volume growth in operations, product and marketing.

Productivity savings of \$30 million has more than offset \$24 million of other cost growth. We have now completed the second year of the three year productivity program with \$60 million delivered to date.

This year's benefits relate to the full year impact of the FY20 operating model review, improved strategic sourcing outcomes, less reliance on third party vendors as we build internal capability, benefits from simplification and automation and ongoing disciplined discretionary cost management.



The third and final year of the productivity program will focus on further automation and use of AI and digitisation of end to end processes and will take the total of the productivity benefits over three years to \$90 million. This ongoing focus on growth, productivity and cost discipline has seen the cost to income ratio improve by 100 basis points in the year, to 53.9%. On a pro forma basis, FY21 expenses are \$933 million, with a cost to income ratio of 55.8%.

Looking now at the transformation investment program on slide 23. As it was flagged at the half year results, capital investment accelerated in the second half to \$66 million, as a number of major projects move from discovery into mobilisation during the period. There was also a further investment of \$10 million in a digital scalable cards management system which was partner funded with a small upfront payment with the balance to come in future periods.

The amortisation charge for the year was \$39 million, consistent with FY20. It is worth noting that amortisation increased by \$5 million in the second half as the VMA Digital Bank asset moved into use. On a pro forma basis, amortisation for FY21 was \$66 million. Looking ahead, we expect the amortisation of the Group to grow by approximately \$20 million in FY22. Amortisation will further increase in FY23 and is expected to plateau into FY24.

Turning now to provisions and loan impairment expense on slide 24. LIE for the year was a benefit of \$20 million. This comprises the \$75 million release from the collective provision as previously advised to the market and was partially offset by \$6 million due to the impact of asset growth in the portfolio. Specific provision expense for the year of \$49 million was broadly in line with FY20.

Impaired assets increased by \$14 million for the year and by 8% on the first half. The housing and consumer increase was driven primarily by one new \$12 million single name impairment and the increase in asset finance impairments was driven by the lockdowns impacting some of the niche medical practices. Commercial impairments were flat in the half and down \$9 million on FY20. The underlying loan portfolio quality remains strong. Loan impairment expenses to GLA's, excluding the collective provision release, was 12 basis points for the second half.

Moving to slide 25. During the second half we have seen arrears continue to improve in housing to 55 basis points for 90 days past due and 85 basis points for 30 days past due, reflecting low interest rates and a recovering economy lifting house prices. Commercial arrears remained steady in the half at 93 basis points for 90 days past due and 152 basis points for 30 days.

Asset finance arrears have increased in the second half driven by the impact of the extended lockdowns, on assets within the BOQ specialist portfolio and as we paused enforcement activity in lockdown affected areas. Our teams continue to work closely with those customers who require



ongoing support to manage the impacts of extended lockdowns. As at the end of September, we have 0.5% of retail customers and 0.6% of commercial customers receiving lockdown assistance.

Moving onto funding and liquidity on slide 26. BOQ remains strongly positioned. During the year we have grown customer deposits by \$3.3 billion, resulting in an improved deposit to loan ratio of 75%. We have increased lower cost savings in investment and transaction account balances by \$3.1 billion during the year, due in part to the lockdown which have resulted in increases in household deposits.

We have continued to decrease our reliance on term deposits by a further \$300 million. BOQ has now drawn down its full Term Funding Facility allowance of \$2.2 billion or \$3 billion including ME Bank. Inclusive of ME Bank the liquidity coverage ratio is 149% and we have a Net Stable Funding ratio of 122%.

Moving to capital on slide 27. We are in a strong capital position with a CET1 ratio of 9.8%. On a year-on-year basis CET1 increased by 2 basis points. The second half however, saw unusually high capital utilisation for three key reasons. Firstly, the phasing of the investment spend across the year, secondly, the skew in loan growth to the second half and finally, the absence of ME Bank earnings for the full period to support the dividend payment.

As a consequence of these three items, there was a net organic capital usage of 3 basis points in the half. 49 basis points were generated from underlying performance of the business, of which 37 basis points of capital was utilised to deliver 1.7x system housing growth and strong growth in the commercial and asset finance book, particularly in the final quarter.

There was also a 7 basis point benefit from the collective provision release. The interim dividend utilised 22 basis points of capital. It is worth noting that this was paid from first half profits without the benefit of any additional earnings, but was paid to all new shares issued as part of the capital raising in March. Unpacking the remaining 20 basis point impact, CET1 reduced by 12 basis points as we invested in the digital transformation, there was a two basis point impact from securitisation runoff and a further six basis point impact from other non-cash statutory P&L adjustments.

Moving to slide 28. As George has outlined, we have continued to execute against the transformation roadmap. The transformation is delivering significant improvements in customer and banker experience. Our digital products have increased self-service capabilities and materially reduced account opening, KYC and maintenance processes for transaction and savings products. The simplification, automation and process re-engineering initiatives are starting to deliver meaningful efficiencies and unit cost improvements.



To illustrate this, we have processed an additional 54% in lending applications in a year, with an underlying expense growth of 1.5% and have decreased the number of products available for sale from 202 to 127 since 2019. The continued uplift of BOQ's execution capability remains critical to the delivery of the transformation program. During the period we have strengthened our assurance, project mobilisation and benefits realisation capabilities. The deployment of an integrated project portfolio management tool has improved discipline in delivery, reporting and governance.

Turning now to an update on the ME Bank integration on slide 29. The first 90 days of ownership has seen a fast start to the integration program and we are tracking ahead of the original plan. Our key focus has been returning ME Bank to growth. We have commenced the home buying transformation program and have aligned our product and pricing functions. We now have a single Board and Leadership team in place and structural changes have largely been implemented to the CEO minus four level. These changes have also delivered a number of early synergies.

The consolidation of the two ADI licences is well progressed with the technology changes to combine our treasury and market risk systems underway, along with the program to deliver consolidated EFS and FCS reporting. We have commenced engagement with the regulator and expect to complete the consolidation in early calendar year 2022.

We moved quickly to deliver technology collaboration tools for our people on day one, with work currently underway on the core network integration, focused initially on identity management and cyber security. The risk and compliance workstream has moved quickly to accelerate and enhance the AML program, customer compliance and prudential compliance programs, so as to align risk management capability with the broad BOQ Group. Further, we have a number of consolidation and simplification activities underway including the harmonisation of policies and consolidation of our supply chain arrangements.

The synergies and integration costs are outlined in more detail on slide 30. During the first 90 day sprint we have undertaken a detailed validation of the synergy due diligence assumptions. This has provided us with the confidence in our ability to accelerate delivery of the cost synergies. We now expect to deliver 50% to 56%, or approximately \$38 to \$42 million of annualised run rate synergies in FY22. This will have an in year P&L impact of \$30 to \$34 million. This sees us on track to deliver the full cost synergy benefits on a run rate basis by the end of year two, FY23.

We are also exploring additional synergy sources. Firstly, we have firmed up \$15 million of CapEx benefits from the consolidation of the investment roadmaps. Secondly, and as noted at the time of the transaction, we identified approximately 20 basis points of funding cost upside for the ME Bank



NIM. Approximately half of that has been delivered in FY21. We see a further 5 basis point of benefit to flow through in FY22 and additional wholesale funding benefits as the balance sheet is restructured post the ADI handback. Finally, we are also assessing potential non-interest income opportunities.

Although not yet quantified, we anticipate further cost synergy benefits in FY24 and beyond as ME Bank consolidates onto the Group core banking platform. Integration costs of \$130 to \$140 million have been reconfirmed through the integration planning process. The acceleration of the integration program will result in the majority of these costs being incurred in the first two years of the program.

The FY22 spend of \$70 to \$80 million relates primarily to operating model and restructuring costs, the risk and remediation program, costs of network integration and ADI handback requirements. The balance of integration costs into FY23 and FY24 relate primarily to the remaining systems integration and customer migration.

Before passing back to George, I wanted to briefly touch on the pro forma key metrics on slide 31. These pro forms have been developed to align ME to BOQ's year end and also to ensure consistency of presentation. ME Bank numbers have been brought to an underlying cash earnings position and we have adjusted the pro forma to remove St Andrew's income and expense to reflect the expected divestment in the first half of '22.

To summarise the key pro forma numbers, revenue is \$1.67 billion. Expenses are \$933 million including \$66 million of amortisation. The underlying profit is \$740 million. NIM is 1.86% and the cost to income ratio is 55.8%. These pro forma numbers provide the basis for assessing the Group's go forward position and should be used as the baseline for the guidance on the FY22 outlook.

In summary, BOQ has delivered a strong financial result for the year, with underlying profit up and positive jaws. The integration program is well established and moving at pace and we are delivering against the transformation roadmap, all of which are providing us with confidence in continuing to deliver improving near and medium-term returns.

I'll now pass back to George for some closing remarks and the outlook for FY22.

George Frazis: Thank you, Ewen. I'm really pleased with the financial performance we have delivered during the year and the ongoing momentum we are seeing in the business. We have supported our customers, people and communities while continuing to grow our business and deliver against our strategy.

Our lending momentum continues to accelerate in a quality way whilst we also balance margins and costs to deliver sustainable profitable growth. We are executing on our strategy, delivering against



the digital transformation roadmap and have completed the first phase of our retail digital bank program.

We have successfully completed the acquisition of ME Bank and expect to complete the divestment of St Andrew's in the first half. We have a strong balance sheet and capital position and our asset quality remains sound with conservative provisioning.

Finally to our outlook for FY22. The economic environment is showing encouraging signs of ongoing improvement. Australia is relatively well placed for economic recovery with house prices remaining strong, consumers ready to spend, businesses ready to invest and the vaccine rollout accelerating towards one of the highest globally.

We remain absolutely committed to achieving sustainable, profitable growth and delivering positive jaws. In FY22, we expect to deliver positive jaws of at least 2%. We expect above system growth in BOQ and VMA to continue and have a clear pathway to returning ME Bank to around system growth by year end, supporting our customer's needs. We expect to grow around system in our niche business segments as the market opens up further.

We see a number of NIM tailwinds and headwinds in FY22, we expect to see a NIM decline of 5 to 7 basis points for the year. Tailwinds from lower retail and wholesale funding costs and the funding synergy benefits are expected to partially mitigate the headwinds from ongoing front to back book pressure, the market shift towards lower margin fixed rate products and higher third party costs.

FY22 expenses are expected to be flat. Headline expense growth for the Group is likely to be 3% inclusive of the \$30 million productivity savings, which will be fully offset by accelerated year one synergies from the ME integration.

The combined FY22 capital investment envelope will be approximately \$115 million to \$120 million. We maintain a watching brief on the impacts of COVID and have prudent levels of provisioning. CET1 is expected to remain comfortably above 9.5%.

We understand the importance of dividends for our shareholders and our dividend payout ratio target range remains at 60% to 75% of cash earnings. Thank you very much for your time this morning and with that, I'll hand back to Cherie to open to questions.

Cherie Bell: Thanks, George. So we'll move to Q&A now. We have a number of analysts and investors on the call so if I could ask you to limit your questions to two per person. With that, I'll pass to the operator.



Operator: Thank you. If you wish to ask a question, please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star two. If you're on a speaker phone, please pick up the handset to ask your question.

Your first question comes from **Jarrold Martin (Credit Suisse)**. Please, go ahead. Pardon me, Jarrod. You may have yourself on mute? Your next question comes from Richard Wiles from Morgan Stanley. Please, go ahead.

Richard Wiles: (Morgan Stanley, Analyst) Good morning, everyone. I've got a couple of questions on housing. Firstly, George, can you talk about how you think macro pru might impact BOQ? For example, what proportion are actually borrowing at the maximum level and how will the interest rate buffers affect BOQ? Do you think you'll be impacted more or less than the broad system?

Then onto ME Bank, can you talk about how you expect to improve the performance? Unlike your BOQ business, it doesn't have a proprietary network so I'd like to know what the key drivers of the improved performance at ME Bank could be.

George Frazis: Thanks, Richard. I'll start off with both questions and I might actually then handover to Martine on the second one, to give a bit more colour around ME Bank and what we've got in place.

You're right to say the move by APRA will take the froth off mortgages. We're very supportive of that move. Just to give you a sense of the relative impact, if you look at our serviceability buffers that we had in place, we had a minimum of 5.35%, which is above all four majors. Then we would also have a higher 2.5% on the customer rate. So that's increasing to 3%.

We see that having a modest impact on growth. More so, in terms of slowing down the acceleration as opposed to reducing growth substantially. So we still see a healthy mortgage environment of about 7.5% growth next year.

Then the other thing to note, Richard, from our perspective given our size, our objective in terms of growing ahead of market still continues to be there and we're confident that we can actually achieve above system growth in mortgages overall and continue that momentum.

If I look at ME Bank, what we've done there, I mean, this is a business that we understand really well. As you said, it's primarily third party flow. If you look at the turnaround in BOQ, we did start off in the proprietary channel but you've also now seen that we're getting very strong growth out of our mortgage channel, which we're really pleased about.

What we've done is instigated effectively the program that we had for BOQ into ME Bank. It's quite detailed. There's a weekly cadence and we're already seeing green shoots in terms of the application



volume. So they've gone up by 36% over the two months that we've had ownership compared to the average of those applications over the last 12 months.

Effectively, that momentum is continuing. So we're highly confident we can get ME Bank back to system growth but I'll hand over to Martine, maybe just to talk about the weekly cadence and some of the initiatives we've got in place.

Martine Jager: Thanks, George. As George mentioned, in week one of ownership, we did put in place our home buying transformation program which we've taken all the learnings from the BOQ experience and we're really focussed on three key areas there.

Which is re-energising the broker channel, simplifying and aligning the key policies and processes that we have across the Group and implementing initiatives for our customer retention program. All of these initiatives will obviously continue to improve our time to yes and our performance.

I would also add, we do have a small proprietary channel in the ME Bank, which is about 30% of our flows with broker being about 70% of the flows.

George Frazis: Thanks, Martine. Richard, maybe just two more points? We have centralised pricing for all of our operations now so, our best in class pricing capabilities now apply across all brands. We've also integrated operations. So again, the learnings in the middle office under Ewen's leadership have been applied to ME Bank.

As you know, success requires both your front and distribution to be really firing, your operations being able to handle that and making the right price volume trade-offs to optimise revenue, which is what we'll continue to do.

Richard Wiles: (Morgan Stanley, Analyst) Thanks, George. That's really helpful. Could I just clarify one thing? The 7.5% growth number that you talk about, that's your best estimate of system growth for 2022 at the moment and you think that BOQ brands including VMA can grow above that whereas ME Bank can track - can hit that run rate by the end of the year. Is that a good way to summarise your expectations?

George Frazis: Yes, that's right, Richard.

Richard Wiles: (Morgan Stanley, Analyst) Yes.

George Frazis: So our expectation, is ME Bank in the year will deliver around system growth. So we're quite confident we can actually turn that around fairly quickly and as I said, we've made good progress over the last two months. 7.5% is our best estimate given the latest changes that APRA has made.



Obviously APRA may go further and we'd have to take that into account, but that is more likely to have an impact on the second half.

Richard Wiles: (Morgan Stanley, Analyst) Thank you.

Operator: Thank you. Your next question comes from Andrew Lyons from Goldman Sachs. Please, go ahead.

Andrew Lyons: (Goldman Sachs, Analyst) Thanks and good morning, all. Just two questions. Firstly, on expenses. In FY22, you're expecting underlying expense growth of 3%. It does seem a bit high against the ongoing delivery of productivity benefits which you've spoken to today and also the fact that you've got fairly sizeable integration costs being taken below the line. So, perhaps you can talk in a bit more detail, around the drivers of that expected 3% expense growth?

Then secondly, in late September, you announced some executive changes including a new COO and Head of Business Banking. Could you perhaps just give a bit more detail, on those executive changes? Particularly what drove them? Thanks.

George Frazis: Thanks Andrew, I'll take the second question but I'll hand over to Ewen now to touch on expenses.

Ewen Stafford: Thanks, George. Andrew, just in terms of the 3% underlying, the key point there is 2% of that will be taken up by the amortisation uplift that I spoke to. So that leaves 1% then to support the ongoing business growth and the continued build-out in capability.

So as you point out, the productivity program is really important there. The focus next year as that program is maturing, is all about automation and AI and also end-to-end process re-engineering. So we're happy with how that productivity program is delivering. It's enabling us to manage costs effectively but still spend money on capability uplift, as well as support the volume growth. But the key point is that 2% is amortisation and 1% true underlying.

Andrew Lyons: (Goldman Sachs, Analyst) Thanks.

George Frazis: Andrew, just on the management changes, the first thing to note is I'm very proud of the capability we've been able to build up in terms of expertise, experienced leaders and also the focus on execution that we've got in the executive team at BOQ. You've also seen that we've had really good outcomes both from a risk perspective and a business banking perspective and I'm really proud of what those two teams have achieved in terms of delivering those results.



Adam, our Chief Risk Officer, will be in the role until David joins us, then will transition on to our transformation program. There's a huge amount of involved on that and we're really utilising his expertise to do that. If I think about what's happened on the Business banking side, we're really pleased with that performance.

Our focus going forward for the Business Bank is going to be small business. Chris Screen has a depth of knowledge and experience in small business, so this is all about what we require going forward, so a focus for business banking will be growing the SME business and I'm really pleased with the calibre of the executive team that we've got at BOQ.

Andrew Lyons: (Goldman Sachs, Analyst) Thanks George.

Operator: Thank you. Your next question comes from Brian Johnson from Jefferies. Please go ahead.

Brian Johnson: (Jefferies, Analyst) Good morning everyone and thank you for the opportunity to ask two questions. George, I'm just intrigued, when we have a look at your NIM performance, which was very good once again, we see a pretty sharp contraction on the asset side offset by basically improved performance on the liability side.

The front to back book margin compression was five basis points for the half, again, which is running at 10 basis points per annum. I was just wondering if you can basically reconcile for us the risk, that if you're targeting growing above system with more through ME Bank that's actually got a lower margin than basically BOQ, what is the risk to the downside on that margin assumption, that margin guidance? Then I've got a second question, if I may.

George Frazis: Brian, do you want to give us your second question and then we'll work it out?

Brian Johnson: (Jefferies, Analyst) Certainly. If I have a look on slide 60, it basically says that you ran down your liquidity, however when I look at your margin walk, it doesn't say it ran down very much at all. In fact it says it was a NIM drag, about one bp. I'd like to understand the difference of that. But the really big one is what is the excess balances that you've got sitting in the RBA exchange settlement accounts? So not the minimum exchange settlement account, but what is the excess? That's it.

George Frazis: Thanks Brian. I'll hand over to Ewen to take both of those and we might also hear from Tim, but over to you, Ewen.

Ewen Stafford: Yes, thanks George. I'll talk to the margin and perhaps Tim can talk to the liquidity point. Brian, so you're right in terms of the key moving parts. Obviously this year, we have the added complexity of ME Bank coming in and it brings with it its own portfolio characteristics and also changes



the mix in the Group, which is important. Just to reiterate, that five to seven basis points is against the pro forma of 186, just to anchor the conversation.

I would just break it up then into three key buckets and the first one is that the impact of capital, low-cost deposits, liquidity and other, which we're anticipating that to be a wash in 2022, so that will offset each other and largely be zero. So, that then gets us to the funding cost and mix tail winds, which we do see continuing into FY22. There's still further opportunity for deposit repricing in BOQ, albeit at a reduced rate from prior period and we certainly see significantly further opportunities in the ME Bank deposit book. Then we are starting to see increasingly more benefit from the wholesale funding pricing coming through, including the impact of the TFF.

So that will partially offset those headwinds that you talked to in terms of the front-book back-book impacts. From a BOQ perspective we see that, as largely in line with the market and in fact starting to slightly slow. Then there'll be a reasonably material impact from the market shift towards the lower margin fixed rate housing. So that's really just unpacking that.

But we feel, to your point about risk on the downside, this is fairly balanced across each of those three buckets and obviously comfortable with the overall outlook statement of negative five to seven.

Brian Johnson: (Jefferies, Analyst) That's great, thank you. What about the RBA exchange settlement accounts balance excess?

Tim Ledingham: Brian, it's Tim Ledingham, I'll take that one. So I guess the first point I'd make is that at the end of August we actually settled REDS equipment finance transaction, which generated net cash of about \$780 million. So that was obviously on the books at the end of August, so is partly generating higher ESA balances. I think our ESA balance is around \$895 million at the end of the half.

I wouldn't call this excess, but it's really part of our liquidity portfolio that just hadn't been deployed at that point in time. So obviously with the changes that APRA recently made around CLF, some of that money will go towards buying high-quality liquid assets as part of our liquid portfolio. But I guess at the end of the year, around about \$895 million sitting in the account waiting to be deployed and subsequently some of that has already been deployed.

Brian Johnson: (Jefferies, Analyst) Tim, sorry, can I just push my luck? Of the \$895 million, how much could you deploy?

Tim Ledingham: Look we have deployed a fair chunk of that now, so probably around about half of that. It's just looking at opportunities to acquire assets, as it comes through, at levels which are over and above what you can return in your ESA account.



Brian Johnson: (Jefferies, Analyst) Thanks mate, which is zero. Thank you.

Tim Ledingham: Yes.

Operator: Thank you. Your next question comes from Josh Freiman from Macquarie. Please go ahead.

Joshua Freiman: (Macquarie Group, Analyst) Hi guys, thanks for the opportunity and well done on the results. Just quick question from me, you've accelerated your previously disclosed integration synergies from \$70 million to \$80 million to be achieved in FY23. Though the decommissioning of legacy platforms I think still remains in FY24, what sort of uplift do you think is left unpacked from the decommissioning of those platforms which will roll off post this integration program?

George Frazis: Thanks Josh. I might start off and then hand over to Ewen. You're right to point out that we've got a really exciting opportunity in terms of when we move the whole retail bank onto a common digital cloud-based platform. As I said, this is a scalable platform, there's going to be a significant amount of automation when we do that, so effectively it will make a substantial impact on our cost-to-income ratio.

The other thing to note, by the way, is because we haven't customised that system, it means that we've got an ongoing evergreen upgrade pathway as Temenos improves their platform. Now, we will be seeing benefits as we go through this digital transformation, so it's not as if it happens right at the end, but you're right in the sense that the big jump in benefit occurs when effectively we've got all three retail brands onto the new digital platform and we've migrated all of the back book onto that platform.

Again, the risk of that program is a lot lower than normal programs because we're not fixing the old. We've already stood up that platform, so we're really excited about what we're going to be able to achieve in two to three years' time. But I'll hand over to Ewen to add to that.

Ewen Stafford: Thanks, George has given a pretty comprehensive answer, so probably just two comments I would make. The core banking platform is obviously critical but so too are the digital assets that will sit around it.

If I just give you one really important example, which is the digital loan origination asset. Both BOQ and ME Bank at the time the transaction was announced were in the market looking for a new digital origination systems, one of the benefits is we've been able to bring that together and do that work in unison. So, to your question, there will be further upside that will absolutely come from that. Of



course that flows through all the way from the distribution part of the business into the operations and the risk areas.

Then the second point I'd make is in the lead up to 2024 and beyond, we are still consolidating and aligning our approaches across the business. A really strong example would be in the operations area and there'll be significant advantages and synergies that will come from that in the lead up to the core banking consolidation, as there will be in the corporate services areas, treasury, finance, HR and also in technology operations. But you're absolutely right, we're very excited about the prospects of what 2024 and beyond can bring from that migration as well as the decommission.

Joshua Freiman: (Macquarie Group, Analyst) Okay, thank you and just a second question, if I may, I know you guys have given guidance for FY22, but if we look past that to FY23, FY24, do you think it's reasonable to assume underlying expense growth of 1% plus additional amortisation expense and those both being offset by cost saves from synergy?

George Frazis: So Josh, I mean obviously the guidance for FY22 is flat at an underlying perspective, so the 3% which is two and one, as I outlined earlier, to Andrew's question, offset by the synergies. The profile, as we look forward, will have a similar nature to this in 2023. Then I think we've had a long conversation about 2024, but that's when we can certainly see some real acceleration in the cost-to-income ratio outlook.

Joshua Freiman: (Macquarie Group, Analyst) Thank you.

Operator: Thank you. Your next question comes from Brendan Sproules from Citi. Please go ahead.

Brendan Sproules: (Citi, Analyst) Good morning gents. I've just got a couple of questions particularly around the funding of the balance sheet going forward. You've obviously got \$2 billion of the TFFs. I just wanted to get a bit of a feel about how you think that that will ultimately be refinanced. Is that something you leave to the final year or is that something that you start looking at earlier?

Then my second question just relates to some of the more expensive wholesale debt that you've obviously acquired with ME Bank. What is the strategy to lower the cost of that?

George Frazis: Thanks Brendan. I'll just make a couple of comments and then hand over to Ewen, and Tim can give a bit more colour. A couple of things to note is we've improved our deposit to loan ratio this year to 75%. So we've got a good position in that.

The other thing that the combined entity does, is that it increases our covered bond capacity by about \$2.4 billion. So that is a very effective way in terms of us raising wholesale funds. But on that note I'll hand over to Ewen and then Tim can add to it.



Ewen Stafford: Yes, so Brendan just a couple of points I would make and then I'll pass to Tim. We were careful in terms of how we drew down the TFF. It was drawn down progressively, just mindful of the maturity towers. So we now have those in the second half 2023, the first half 2024 and the second half 2024.

Obviously they can be repaid at our option earlier should we want to do that. We do have a very experienced and a very stable treasury team. They have been able to put in place over time a really diverse range of funding channels, ranging from domestic and offshore funding programs to the four BOQ securitisation programs.

Just noting that ME Bank does bring with it its own securitisation programs which we like. Then the covered bond program that George spoke to of which we have another \$3.5 billion of capacity once we merge the two balance sheets. So bringing those balance sheets together will provide the opportunity to further diversify that funding base.

Tim, is there anything else you would add? I'll take that as a no.

Brendan Sproules: (Citi, Analyst) Thanks gents.

Tim Ledingham: Sorry Ewen, I was on hold. I think you've covered it very well. Probably the only thing I'd add to the refinancing of the TFF is the additional covered bond capacity that we get out of the ME acquisition.

Operator: Thank you. Your next question comes from Ed Henning from CLSA. Please go ahead.

Ed Henning: (CLSA, Analyst) Thank you for taking my questions. Two from me please. Firstly you've called out at least 2% positive jaws next year. Can you just talk about where you potentially see the upside there? Is it just in credit growth or is it beyond that?

Then if we can just circle back to NIM - I know you've answered a few questions on this - but you've called out 5 to 7 basis point headwinds for next year. If you look at the second half it was flat. Can you just run through and simply, in FY22 is there just more headwinds coming through from the front book or is there just less funding tailwinds coming through to see that movement down? Thank you.

George Frazis: Thanks Ed. I'll touch on the first one and then hand over to Ewen to add to the first and the second one. As we stated in the outlook statement we said at least 2% positive jaws. We see opportunities potentially both in margin and in revenue growth and also in costs around that number. But on that note I'll hand over to Ewen to add some colour. Thanks Ed.



Ewen Stafford: So Ed, just on the NIM to try and address your questions directly - I won't go through the response that I gave earlier. Just on the asset pricing and mix, obviously we don't have the benefits of the repricing coming through that we enjoyed in 2021, but beyond that, we expect that it is broadly consistent.

Then on the funding cost and mix, the tailwinds that are coming from there, are less of a tailwind from the BOQ side. I think we now have 50% of our deposit book priced at 25 basis points or less. Not to say there isn't some opportunity, but there is less opportunity.

On the ME Bank side I think that equivalent number is at about 20%. So we definitely see further tailwinds on that side. We are starting to see some further benefit coming through on the wholesale from both the TFF but also as the average wholesale cost averages down.

Then everything else is a bit of a wash. So they're probably the differences on the past which is I think, Ed, is what you were looking for.

Ed Henning: (CLSA, Analyst) Yes, that's helpful. Thank you.

George Frazis: Maybe just to add to Ewen's comments, what you've seen over the last four halves is we've been all about disciplined growth. So this is making sure that our credit quality continues to improve and that we optimise revenue. Now I think we've built a really great capability in doing that and will continue with that approach going forward.

Ed Henning: (CLSA, Analyst) Thanks.

Operator: Thank you. Your next question comes from Jonathan Mott from Barrenjoey. Please go ahead.

Jonathan Mott: (Barrenjoey, Analyst) Thanks guys. I've got another question on costs. This is kind of looking forward a few years so I wanted to tease out some numbers. Also looking back at what you've said previously on costs and seeing where they've landed. So if we go back to your strategy day which was last year, you said in FY22 your cost base was going to be broadly flat at a number of around \$600 million - obviously before ME Bank came along.

Now if we look at slide 31 - and there's obviously some great numbers in there so we can benchmark you to that - your cost base for BOQ stand-alone was \$626 million just to FY21. You're now saying next year is going to be 3% above that, before the synergies obviously come through.



So stand-alone you're looking at \$645 million for the BOQ business versus \$600 you were expecting. So obviously there's been a lot of investment and costs have come in a lot higher than you were expecting at the strategy day not too far ago.

Now if we go forward from here and we look at the synergies that you're hoping to get - I'm now looking at that final column on slide 31 where you give the proforma Group numbers, that I think you've anchored all your guidance to, so you've got a cost base of \$933 million.

But you're saying that you're going to get synergies of about \$80 million which takes you back to sort of around that - or at least \$80 million - to around that \$850 million mark. So it means that from here we should be benchmarking you as a starting point with about \$850 million on costs. I think there were questions about where that goes from there to get to the number in 2024, of where you think you will get to, when you get the synergies.

So two questions - I'll give you two ways of answering this - firstly if you use that \$850 million post-synergies versus the revenue growth today you should be at least a 50% cost to income based on those numbers here, net of synergies that you think you can get to. So do you think in 2024 firstly, you're going to have a 50% or below cost to income ratio for the combined Group?

Or alternatively if you use the approach that ANZ, NAB and Westpac have given us which is where in dollar terms do you think the cost base will be in 2024? The reason I want to do that is it's really easy to say oh we're going to get these synergies but oh we'll spend a bit of money here and there and these targets disappear over the years.

So I want to actually narrow you down on what your cost base is going to be in 2024 or alternatively what you think the cost to income ratio will be at that time?

George Frazis: Jon I might start with this then hand over to Ewen. If I look at the way you've positioned this the first time around is probably close to the mark. I mean obviously we're not going to provide an outlook for FY24. But we're confident, number one on our ability to continue to get productivity improvements. You've seen that now in two years of \$30 million. We've committed to three years of that. That productivity program in some form will continue. Then we've also accelerated the synergies.

That doesn't take into account, by the way, the benefits we will get as we migrate onto a single core banking platform. As I said until we complete full migration and retire all systems you don't get that full benefit. But there is some benefit that flows through from that journey. On that note I'll hand over to Ewen.



Ewen Stafford: Thanks George. Jon, I think in some ways you almost answered your own question with the overview of what was announced in February 2020. I mean everything is largely consistent with the exception of the level of growth that's been coming through and the investment we have made to support that. I spoke about the operations, product and marketing area, and we're continuing to invest in our digital capabilities.

We did subsequently communicate to the market, that the way we're setting the business and managing the business is to positive jaws. I feel we have certainly delivered on that commitment. A little higher cost, yes, but considerably higher revenue than when we stood in front of you on 22 February, 2020. So that would be the first point.

In terms of the synergies, I mean we've had the keys for two months - three months now - and we're very confident to stand before the market today and talk about an acceleration and a delivery of those initially identified synergies on a run rate basis by the end of 2023. So we've made good progress on that I feel.

We've also signalled a number of other synergies we're looking at, some of which we have now quantified and others which remain a work in progress. It's just too early today, Jon, to be providing further detailed synergy guidance on FY24. I mean to be frank by the time we get to that point the business will be integrated and we will really be focused on the overall cost to income position.

Then finally just on the cost to income ratio. George is right. We're not going to provide that target today. But we can certainly see a pathway to a cost to income ratio that is consistent with what you outlined. But that detailed forward-looking view will come later when we're further into the integration.

Jonathan Mott: (Barrenjoey, Analyst) I need to hold you to something here guys because we've seen a lot of times people will throw out these great numbers through integration benefits and then they disappear in other investments, brand or digital investment. They disappear over time. So can you give us something that we can actually hold you to like you did at the strategy day a year and a half ago?

So the cost base net of synergies as of today is \$850 million, that's where the starting point is, and add the synergies. In a few years' time, where do you expect it to be or alternatively, 50% cost to income net of the synergies is where you are today? What cost to income should we expect in a few years' time, because we need you to hold to some number, not oh, we'd like to get synergies better and it just disappears somewhere else over time. We'd like to hold you to some numbers, if possible.



George Frazis: Jon, we're not going to give an outlook on FY24 during this call, but we will be conducting a strategy briefing this year that will update the February strategy briefing and that will provide an outlook over the next three years. The thing to note is number one, we have delivered on our productivity commitments two years in a row now and we're committing to the third as well. The second thing to note is we did a detailed due diligence on those synergies and we've now reconfirmed those synergies of \$70 million to \$80 million, so they're not going to disappear anywhere.

Secondly, we've actually accelerated the delivery of those synergies. If you look at the way we've been operating the business, there's two components of our cost growth and a big part of that is the amortisation of our digital investment. The pleasing thing is that those programs and the money we've spent on those programs have been delivered or are about to be delivered, so it's been really well managed and controlled.

The second point to make, if you look at our true underlying operating cost growth, the way we operate the business is that we effectively ensure that we are seeing the revenue growth before we're allowing additional cost growth in that area to realise itself, over and above actually also achieving the \$30 million in productivity.

Chris Screen: Jon, just two things I would add. Firstly, the next strategy day is likely to be the middle of next year, calendar year, so we'll have a much clearer view on that. Just in terms of using the numbers from the February '20, you just need to gross those up or add \$18 million for the gross-up on the VMA expenses, which we've done this period. Just one small point there.

Jonathan Mott: (Barrenjoey, Analyst) Okay. Thank you.

Operator: Thank you. Your next question comes from Azib Khan from Morgan Financial. Please go ahead.

Azib Khan: (Morgan Financial, Analyst) Thank you very much. Morning, everyone. George, first question for you. You cited high third-party cost as part of the reason behind your expectation of margin contraction in FY22. Is this higher third-party cost being driven by the mix impact from increased flow through the third-party channels, or is it being driven by the new remuneration framework that you've implemented for OMBs? That's the first question.

The second question is around your deposit mix. You've generated pretty strong growth obviously in both your transaction deposits and savings deposits over FY21. To what extent do you attribute this growth to the realignment of incentives for OMBs and do you expect to sustain above-system growth in low-cost deposits over the next couple of years?



George Frazis: Thanks, Azib. I'll touch on both and then hand over to Ewen to add to that. If you look at our third-party costs, there's no increase in the actual unit cost of that activity. While we've seen, as you know, the growth opportunities that we have had and we still have growth in our third-party channels. In the previous year we were growing about 30%, that's now increased to 38%. As you know, third-party is growing probably between 55% and 60%, so that does provide us with ongoing opportunities for growth. With that costs comes obviously to support the revenue growth.

Before, I hand over to Ewen, on the deposit mix, a thing to note is, while the launch of the new digital bank with VMA does provide us now with a really compelling and state-of-the-art mobile banking capability for our customers, it will also help drive transaction accounts further. We're hoping to actually launch that capability for our BOQ Blue brand by the second half and again, that would add to our ability to grow transaction accounts, which will be low cost. On that, I'll hand over to Ewen.

Ewen Stafford: Azib, just in terms of your question about third-party costs and the impact on NIM in '22, actually, we're seeing it as a positive impact in '22, the brokerage costs a bit of a wash, and slightly lower relatively, along with slightly lower OMB share. That's actually a positive, a very small positive as will be liquidity, and as I mentioned, that will be offset by a lower but still negative capital and low-cost deposit impact. So, net of those three is a zero, but to your actual question, third-party costs are a very small positive.

Operator: Thank you. Your next question comes from Andrew Triggs from JP Morgan. Please go ahead.

Andrew Triggs: (JP Morgan, Analyst) Thank you. I had a couple of questions on asset growth with reference to slide 10, please. First of all, I'm a bit surprised that asset finance growth wasn't a bit stronger given the changes to the instant asset write-off scheme and some of the comments by larger banks in the market, so just some comments there, please.

Secondly, the improvement you've reference in ME Bank applications, is that on its own enough to drive positive loan growth in the early parts of FY22, noting that you're obviously looking for further improvements to get back towards system by the end of the year?

George Frazis: Thanks, Andrew. I'll touch on both and then also hand over to Chris to give you a bit more commentary on the asset finance.

Firstly, we're really pleased with our BOQ Finance business. It's had a good year, and it's quite distinctive in terms, some of the key things it does, is actually fund tools of trade for small businesses and it's really diversified geographically and by industry. So, what it provides us is a really quite steady,



sustainable approach to growing and supporting our small businesses. We do have a strong focus on making sure that we're managing margin and returns for that business given the capital.

On the ME Bank applications, as I said, we're really pleased with the green shoots. If we take the two months where we've had ME Bank, it is up 36%. That's not quite at the point that would get us to a neutral position on growth, but fairly close. So, to have achieved that in two months is really encouraging. As I said, we're committed and we expect that we will get ME Bank around system growth for the year given the improvement program that we've got in place. It is a detailed improvement program; we've got about 18 initiatives and Martine runs a weekly cadence on that.

These are all learnings that we had from turning around BOQ Blue, that are now being applied to ME Bank and achieving results in a much more accelerated fashion. On that, I'll hand over to Chris maybe just to add a few more comments on asset finance or BOQ Finance.

Chris Screen: Thank you, George. Just a couple of things to note with our asset finance performance. We did see and have seen through the year the benefits of the instant asset write-down coming through, so that has been pleasing.

To George's point, we have also had a fairly well diversified performance both through the sectors and across the geography, so that has also been positive. I would call out that our second half has been a very substantial contributor to the growth, so the momentum that we've seen come through in those industries and those sectors has been trending upwards through the financial year.

Andrew Triggs: (JP Morgan, Analyst) Thanks, guys.

Operator: Thank you. Your next question comes from Matthew Wilson from E&P. Please go ahead.

Matthew Wilson: (E&P, Analyst) Good afternoon, team, and thank you for taking my questions. It's a remarkable briefing given we're 90 minutes into a regional bank, but anyway, I've got a couple. Headcount is 3300 with ME Bank now in there. With respect to the synergy realisation, where does that go to and what inflation assumption is in your numbers?

Secondly, when you took on ME Bank you picked up \$112 million of intangible IT and software. You haven't written any of that off. Should we expect that to happen later down the track?

Then to what extent are shareholders exposed to the ASIC investigation of ME Bank, i.e. can you give us details of the retention and cover that should be in place? Thank you.



George Frazis: Thanks, Matthew. I might touch on the ASIC investigation quickly and also the FT, but then hand over to Ewen to give you more information on the first two items. As you know, the ASIC matter is in front of the courts so we are limited in terms of what we can actually talk about.

The thing I would say is that we conducted a very detailed due diligence before the acquisition. This matter was well known and discussed and considered, both in the price for the acquisition but more importantly in terms of the indemnities that we negotiated. They're conservative and are quite widespread in terms of their application, so we're very comfortable with where we are in terms of that exposure.

On the synergies, we have combined the operating models. As you know, there's the moratorium on the nine levels between both organisations. Those synergies are not dependent on those. There were some senior leaders impacted by the integration but that's not a lot of headcount. The synergies that we've accelerated over the next two years are not dependent a lot of system work. It is about optimising supplies, optimising the way we're doing business, but I'll hand over to Ewen to give you a bit more detail on that.

Ewen Stafford: Yes. Matt, just on the headcount synergies, our view on that hasn't changed, certainly in terms of the \$70 million to \$80 million that we're reconfirming and accelerating today, so that was always in the 12%, 13%, 14% from a Group perspective. That's a really important point, because as George noted, we have completely rebuilt and consolidated the Group operating model and we are looking at the best of both as we look to integrate the businesses. There have been many, many former ME executives and team members who have been appointed into really important Group roles. But that's the number, overall percentage, but important to look at it on the 3300 not the 1100 headcount.

Your second one, inflation, 2%, and then your third one on intangibles. There was a \$3 million - not impairment but alignment of policy. A couple of years ago we changed the BOQ capitalisation threshold to \$1 million, you may recall that, through '20. So we've just gone through the intangibles register and cleaned that up from the ME Bank side as part of the initial consolidation. That was just a little bit over \$3 million write-off there.

I think more broadly though, to your suggestion as we look forward, we've obviously had a really good look at those assets. We think the intangibles that are coming across are all important parts of the future strategy. If you look back in history, recent history at the ME Bank accounts, you'll see that they also had a clean-up of their intangible register, as BOQ did last year, and so we're not anticipating any further material intangible write-offs. I think they were the three, George. Thank you.



Matthew Wilson: (E&P, Analyst) Yes. Thanks for that. Just to be clear then, shareholders won't be exposed to the ASIC investigation, and then secondly, a 2% inflation rate looks fairly optimistic in this current environment.

Chris Screen: Potentially, you're right, particularly on the labour side given the closed borders and the challenges with the labour market, but at the moment that's broadly our planning assumption, but we're obviously monitoring that one closely. Sorry, George, back to you on the ASIC.

George Frazis: Yes. Matt, as I said, we're well covered for a range of potential regulatory issues and that ASIC item was well discussed and considered in the provision - sorry, not the provision but the warranties that we've got, we negotiated during the sale process.

Matthew Wilson: (E&P, Analyst) Is there a retention though, or an excess? Is there a retention or an excess that you'll have to incur before the warranty kicks in?

George Frazis: Not specific for that item. Yes, the warranties have got a number of elements to it, but what I can say is that we've got a material warranty in place that anything that is material will be covered off. It's not something that's going to impact our financials.

Matthew Wilson: (E&P, Analyst) Thank you.

Operator: Thank you. Your next question is from Brett Le Mesurier from Velocity Trade. Please go ahead.

Brett Le Mesurier: (Velocity Trade, Analyst) Thanks very much. You'll be pleased to know I only have one question. When I look at your outlook statement for FY22 it implies a return on NTA of around about 10% assuming say 12 basis points bad debt charge of loans.

Now, on the face of it that gives you a reasonable amount of capital generation but that's not really the end of the story because you also have your capital investment spend of up to \$120 million and integration costs of up to \$80 million, which really reduces that return on NTA or capital generation to around about 7%, which is similar to the loan growth that you've been talking about.

The point of the story is to pay a dividend it looks like you will be reducing your common equity tier 1 ratio and using the DRP to substantially fund the dividend in FY22. Is that how you see it?

George Frazis: Brett, I'll make some comments and let Ewen add to them. The starting point is that the way we're going to manage the business is having CET1 above 9.5%, which is the top end of our range. Our objective will be to improve our ability to generate organic capital, so we're fairly confident in terms of our capital management opportunities that we've got. The key thing for us is



that we will be operating above that range and secondly, we'll be generating additional organic capital to deal with our growth. Ewen, did you want to add to that?

Ewen Stafford: Just three comments, Brett, as it relates to the CET1 walk in '22. Firstly, important to bear in mind the portfolio mix is now changed, so there's a higher weighting to housing, so lower risk-weighted asset usage. Secondly, we have further work to do on our RWA optimisation more generally and in the business bank particularly.

One of the real focuses for Chris and the team moving forward will be that growth in that SME sector at lower risk weights and then thirdly, important also to remember that there was no securitisation benefit in '21 and we are anticipating some of that to come through in '22. All of those three will help capital generation.

Brett Le Mesurier: (Velocity Trade, Analyst) So you're saying the CET1 may not fall below 9.8% in FY22?

Ewen Stafford: As George reiterated, our intention is to be comfortably above the top end of the range.

Brett Le Mesurier: (Velocity Trade, Analyst) Okay, great. Thank you.

Operator: Thank you, ladies and gentlemen. That does conclude the Q&A section of this morning's call. I'll now pass to George for some closing remarks.

George Frazis: Thanks, Cherie, and I'd like to thank everyone for joining us this morning. We really appreciate your time and hopefully we'll be able to see you face-to-face in FY22. As you can see, this has been another big year for BOQ. We're really pleased with the financial results and the progress we've made on our digital transformation, and the ME Bank integration. Now we've got another big year ahead of us. We're focused on executing on our strategy and driving the business to deliver strong financial results each period. Once again, thank you for your time and please stay safe.

Operator: That does conclude our conference for today. Thank you for participating. You may now disconnect.

End of Transcript