ASX ANNOUNCEMENT

BOQ GROUP
100 Skyring Terrace
Newstead QLD 4006

1H21 Highlights

CASH EARNINGS AFTER TAX: $165m, ↑9% from 1H20	STATUTORY NPAT AFTER TAX: $154m, ↑66% from 1H20	NET INTEREST MARGIN (NIM): 1.95%, ↑3bps from 2H20	CONSUMER NET PROMOTER SCORE (NPS)[1,2]: 4th, 5th in FY19	MORTGAGE NPS[1]: EQUAL 3rd, 11th in FY19
COMMON EQUITY TIER 1 (CET1) CAPITAL RATIO: 10.03%, ↑12bps from 1H20	INTERIM DIVIDEND: 17¢ PER SHARE, ↑11¢ from 1H20[3]	CASH BASIC EARNINGS PER ORDINARY SHARE: 34.3¢ PER SHARE, ↑3% from 1H20	HOUSING LOAN GROWTH VS SYSTEM[4]: 1.6X, ↑ from 1H20	SME NPS[1]: 3rd, 4th in FY19

1H21 RESULTS ANNOUNCEMENT

CEO and Managing Director George Frazis said:

“In the first half of our 2021 financial year, the BOQ Group has produced another strong performance and is building momentum, demonstrated by an uplift in statutory profit and cash earnings. This has been driven by above system asset growth, NIM improvement, cost discipline, and a strong capital position. These results reflect the Group's sharp focus on our strategic priorities and the disciplined operational execution of our transformation plan.

“During the half, the BOQ Retail business delivered a strong turnaround, contributing to the Group's third consecutive half of improved performance, and demonstrating that our strategy and transformation are heading in the right direction and delivering results. In light of this performance, the Board has determined to pay a 17cps interim dividend.

“The Group reported statutory profit of $154 million which is an uplift of 66%, and cash earnings of $165 million which is a 9% increase compared to 1H20. Pleasingly, our Home Buying Transformation Program has resulted in the Group continuing to achieve growth in housing loans, with 1.6x system growth in the half and just under $1 billion in net housing GLAs, which is almost double the growth in 1H20. Our results have been achieved through an improved customer and banker experience, NIM improvement to 1.95%, and disciplined cost management.

“Our balance sheet and capital position is strong. The CET1 ratio of 10.03% ensures we have the necessary capital to continue with our strategic investment program and to support the growth momentum. The capital markets and our shareholders re-affirmed confidence in our business through the successful completion of our $1.35 billion equity raising which was launched at the end of February.

“As mentioned, over the past six months, the Group has executed key initiatives in our strategy and transformation including home loan growth, digital transformation and the ME Bank acquisition. The focus on the customer remains central to our transformation and customer satisfaction continues to track positively with overall BOQ Consumer NPS ranked 4th and BOQ Business NPS remaining at 3rd.

“Our Home Buying Transformation Program has resulted in application volumes increasing significantly and we have maintained good ‘time to conditional yes’ despite the increased volumes. This has seen our housing loan growth accelerating and improvements to the mortgage customer experience has seen our BOQ Retail mortgage NPS now ranked 3rd up from 11th in FY19,” Mr Frazis said.

Digital transformation

“We are pleased with the execution of our digital transformation program. The first phase of the Virgin Money Digital Bank launched to customers in March 2021.

For the first time, Virgin Money Australia now offers transaction and savings products supported by an innovative loyalty program and an integrated credit card offering delivered through a new native mobile app. Phase two is already in development which will deliver home loans, an expanded deposit and loyalty offering, and Open Banking capability.

Our foundational investment in a cloud-based Temenos core retail banking platform will in the future provide the common platform for all BOQ's retail brands.”

ME Bank acquisition

“The acquisition of ME Bank announced in February 2021 is on schedule, with integration planning well progressed and the regulatory approvals process underway. We anticipate the acquisition to be completed by the end of our financial year [5]. The acquisition is expected to deliver material scale and doubles the size of our Retail bank as we bring together trusted and complementary brands. The acquisition is expected to be cash EPS accretive, including full run-rate synergies in the first year [6]. The acquisition of ME Bank is a meaningful step in making BOQ Group a compelling alternative to the big banks. We are confident that our multi-brand, niche segment strategy will give us a competitive advantage, and provide genuine choice to millions of Australians.”

Customer and people initiatives

“Throughout the half we continued supporting our customers that have been impacted by the COVID-19 pandemic. The number of customers requiring loan deferrals decreased during 1H21, however with Government stimulus packages such as JobKeeper rolling off, we know some customers will continue to need us more than ever and we have maintained prudent provisioning levels to account for this.

“Our people have played a critical role in supporting our customers during the period and in delivering strong operational performance for our shareholders, and I'd like to thank them for their ongoing contribution to the business and our customers,” Mr Frazis said.

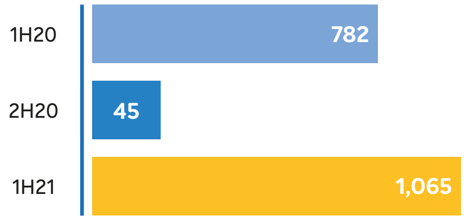
GROUP OPERATING PERFORMANCE

Gross Loans and Advances

Total GLAs growth was $1.065 billion in the first half, comprising $997 million growth in housing, a further $91 million growth in commercial and asset finance lending, and offset by a $23m reduction in consumer lending. The housing growth represented a material turnaround in the Retail bank which increased housing loans by $795 million, and continued housing growth in BOQ Specialist.

Housing growth was 1.6x system for the half and is accelerating. Commercial GLAs grew by $72 million in 1H21 despite system contracting over that period. BOQ remains focused on supporting SME customers through the economic recovery.

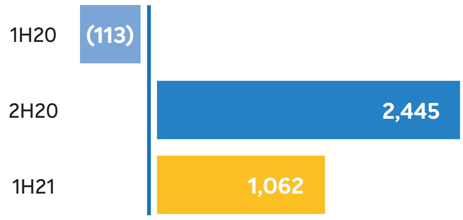
Growth in Lending GLAs ($m)



Funding & Liquidity

Customer deposits increased by $1.062 billion during the half, with growth in transaction account and savings and investment products enabling BOQ to reduce reliance on higher cost term deposits. The deposit to loan ratio was maintained at 74% for the half. The Term Funding Facility continues to provide funding capacity and flexibility to support asset growth.

Growth in Customer Deposits ($m)



9%
↑ Increase in cash earnings from 1H20

6%
↑ Underlying profit increase from 1H20

Operating Income and Expenses

Cash earnings increased 9% compared to the prior corresponding period (PCP), driven by balance sheet growth, improved NIM, disciplined expense management, and lower loan impairment expense.

Total income increased 5% compared to 1H20, which was driven by 6% growth in net-interest income compared to PCP. Non-interest income was $57 million for the half which declined by $1 million versus 1H20 but increased by $5 million compared to 2H20.

Expenses increased by $12 million or 4% to $306 million versus 1H20 largely driven by the impact of business volume growth and increased spend on project operating expenses. The productivity program delivered a further $13 million in savings offsetting inflation and other cost growth for the half. Expenses were up 2% on 2H20.

Underlying profit increased by 6% compared to 1H20 and by 3% or $8 million on 2H20.

1.95%
↑3bps from 2H20

NIM

NIM increased by 3bps to 1.95% vs 2H20. The improvement in NIM was largely driven by lower funding costs from reduced deposit rates and lower wholesale funding costs, partially offset by asset pricing and mix, and the ongoing impact of the low cash rate on the replicating portfolio and uninvested capital and low cost deposits.

ASSET QUALITY AND CAPITAL

Loan impairment expense

Loan impairment expense decreased 14% or $4 million to $24 million compared to 1H20 as impairments reduced to historical levels in the half. BOQ remains prudently provisioned to withstand potential future losses arising as a result of COVID-19 as the government stimulus measures are reduced.

Asset Quality

Arrears across both the housing and commercial portfolios have improved during the half as customers return to performing status and collections activity has recommenced. 95% of loans on housing banking relief packages and 97% of SME loans on banking relief have now returned to performing status [7].

10.03%
↑25bps from 2H20

Capital

CET1 increased by 25bps during the half to 10.03%, reflecting underlying organic capital generation of 28bps from cash earnings and the lower FY20 full year dividend. CET1 of 10.03% sees the bank well above BOQ's target range of 9 – 9.5% and well positioned to support future investment and growth momentum.

1H21 RESULTS ANNOUNCEMENT

OUTLOOK

Looking forward, the economic outlook appears more positive and is showing encouraging signs of improvement. Australia is relatively well placed for economic recovery, with less likelihood of negative impacts on unemployment and house prices given the success of Government stimulus. The national COVID-19 vaccine rollout will enable the economy to open further and build confidence.

In line with our strategy to focus on distinctive brands serving attractive niche customer segments, the Group expects to complete the divestment of St Andrew's and the acquisition of ME Bank in the second half of FY21.

We expect to deliver positive jaws of around 1% in FY21, driven by above system growth in lending, NIM positive in FY21 and broadly flat half on half, and cost growth of approximately 3% (8).

BOQ Group remains prudently provisioned for any potential losses arising from the outcomes of COVID-19.

We remain committed to sustainable profitable growth, supporting returns to shareholders and a dividend payout ratio target range of 60 – 75% of cash earnings(9).

ENDS

Authorised for release by: The Board of Directors of Bank of Queensland Limited

Investor call:

A briefing call will take place via audio webcast at 10am (AEST) on Thursday, 15 April 2021.

Teleconference details:

The webcast address is:
https://edge.media-server.com/mmc/p/ndbgqkc2

Teleconference registration for analysts:
https://s1.c-conf.com/diamondpass/10013182-357g0e.html

(1) RFi XPRT Report, February 2021 and August 2019. DBM Atlas Report February 2021. SME for 2021 refers to Any Financial Relationship (AFR) and businesses under $40m turnover. DBM BFSM Report August 2019. SME for 2019 refers to Any Financial Relationship (AFR) and businesses under $10m turnover. 4th rank in FY19 is based on BOQ's current competitor set.
(2) An additional competitor was added to the competitor comparison suite in FY21. Excluding this, Consumer NPS would be 3rd.
(3) The 1H20 interim dividend was deferred with a FY20 dividend declared which represented 6c from 1H20 profits and 6c from 2H20 profits.
(4) Represents Monthly Banking Statistics as at February 2021. Reflects the APRA definition of lending and therefore will not directly correlate to the balance sheet growth.
(5) Subject to regulatory approvals.
(6) FY2022 pro forma EPS accretion on an underlying cash EPS basis assuming the Acquisition is effective from 1 September 2021. Excludes transaction and integration costs and amortisation of acquired intangibles. Calculated in accordance with AASB 133, Earnings per Share, with adjustments to reflect the bonus element of the Offer. Based on market consensus earnings for BOQ.
(7) As at 31 March 2021. Performing loans includes loans which have been restructured.
(8) Subject to no material change in market conditions. Excludes any impacts from the divestment of St Andrew's or the acquisition of ME Bank.
(9) The amount of any dividend paid will be at the discretion of the Board and will depend on several factors, including (a) the recognition of profits and availability of cash for distributions; (b) the anticipated future earnings of the Company; or (c) when the forecast timeframe for capital demands of the business allows for a prudent distribution to Shareholders.

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