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ASX RELEASE

BOQ GROUP

100 Skyring Terrace
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BOQ's FY22 result reflects good business momentum, tightly managed costs and improved portfolio quality. Integration and strategic transformation are on track and delivering results.

STATUTORY NET PROFIT AFTER TAX

$426m

↑15% from FY21[1]

CASH EARNINGS AFTER TAX

$508m

↓5% from FY21

NET INTEREST MARGIN

1.74% ↓12bps from FY21

(**1.75%** 2H22 ↑1bp from 1H22)

OPERATING EXPENSES

$937m flat from FY21

HOUSING LOAN GROWTH

$4.4bn ↑7% from FY21

BUSINESS LOAN GROWTH[2]

$1.2bn ↑7% from FY21

FINAL DIVIDEND PER ORDINARY SHARE[3]

24¢

↑9% from 1H22

CASH EARNINGS PER ORDINARY SHARE

78.4¢

↑5% from FY21

CASH RETURN ON AVERAGE EQUITY (ROE)

8.4%

↑20bps from FY21

COMMON EQUITY TIER 1 (CET1) RATIO

9.57%

↓11bps from 1H22

FY22 Results Overview

Managing Director and CEO George Frazis: BOQ's financial results for FY22 highlight our progress on delivering quality sustainable profitable growth and reflect the sharp focus on the execution of our strategic plan.

Today's result demonstrates the disciplined execution of our strategy, the digital transformation program and ME integration and represents another period of improved underlying performance. This has been achieved during ongoing economic uncertainty, and as we bed down the integration of ME and upgrade our digital capability for our customers and our people.

Statutory net profit after tax increased 15% to $426m[1]. Cash earnings of $508m have decreased 5% from FY21 given the provision write back in the previous year. Underlying profit was up 1% given the strong growth and cost management, and reflects the impact from increasing competition and swap rate volatility on NIMs. We have continued to support more Australians into their homes during the year, returning the ME home loan book to growth and the BOQ and Virgin Money (VMA) brands have continued to deliver above system growth. We have refocused our Business Bank to helping medium sized family businesses which has seen our SME business grow at 1.5x system for the year.

We have advanced our strategy and have a clear pathway to 2025 which builds on the success of our execution to date on the digital transformation and the ME integration. We are a step closer to building a truly multi-brand, cloud-based, digital retail bank with the launch of myBOQ joining VMA on the new common core digital banking platform to enhance our customer experience. The integration program is well progressed with synergies ahead of plan and key milestones delivered during the year.

Our capital strength has enabled our business to grow and to invest significantly in our transformation. Our asset quality remains sound with prudent collective provisioning levels. The Board has therefore determined to pay a final fully franked dividend of 24 cents per share which represents a 65% payout ratio for 2H22.

We remain firmly focussed on delivering on our strategy to create real competitive advantage, transform BOQ into a future fit digital bank and create a compelling proposition for our shareholders, customers, people and the community.

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FY22 Key Financial Results

Statutory NPAT[1] for FY22 was $426m, a 15% increase on FY21.

Cash NPAT for FY22 was $508m, a 5% decrease on FY21. The decrease is primarily attributable to NIM pressure during the period and lower ME balances in the period prior to acquisition, partly offset by strong momentum in the legacy BOQ business and carefully managed costs.

Total income of $1.7bn increased 1% from FY21. The increase was driven by higher asset balances and non-interest income revenue, offset in part by the NIM decline.

Net Interest Income decreased slightly to $1.5bn, down 1% from FY21, driven by the NIM decline and the impact of the ME Bank decline in average interest earning asset balances prior to ownership. In the second half NII increased by 6% as a result of balance sheet growth and a higher NIM.

Non-interest income increased 14% to $153m, driven by a number of one-off revenue items in the first half including incentive income from an updated card services arrangement and a termination fee relating to a third party insurance provider.

Net Interest Margin was 1.74% for the year, representing a decrease of 12bps. This comprised 6bps of underlying decline primarily due to industry dynamics including ongoing competition, higher fixed rate lending volumes and volatile swap rates, and a further 6bps relating to increased liquidity during the period. In 2H22 NIM increased 1bp to 1.75%.

Operating expenses remained flat at $937m for the year. Ongoing productivity initiatives and synergy savings from the ME Bank integration have offset higher expenses to support the digital transformation, regulatory spend and increased business volumes.

Loan Impairment expense was $13m in FY22 reflecting improved specific provisions as a result of lower arrears and higher asset values.

Cost to income ratio improved by 10bps to 55.7% in FY22. This was due to the increase in revenue while expenses were held flat and reflects the positive jaws of 1% achieved for the year.

2H22 Dividend BOQ has determined to pay a final 2H22 fully franked dividend of 24 cents per share on 17 November 2022, representing a 64.7% cash payout ratio for the half.

Cash earnings per share increased 5% to 78.4cps for the year. The uplift was the result of higher underlying profit and the benefit of a full year of ME earnings.

Cash return on average equity (ROE) increased 20bps to 8.4% for FY22 driven by positive jaws and a focus on capital optimisation in the period.

Cash return on tangible equity (ROTE) increased 40bps to 10.6% for the year driven by higher earnings during the period and a focus on capital optimisation.

CET1 at 9.57%, was 11bps lower than 1H22, but remains above the target range of 9.0 – 9.5%[4]. The solid capital position has enabled us to grow the business and invest in our transformation during the period.

Housing Loan growth momentum continued, with $4.4bn of growth in the year across all brands. ME returned to growth during the year and the Group delivered housing growth of 1.0x system for the year.

Business Loan growth of $1.2bn with strong growth in SME lending over the year. Small and medium business lending grew at 1.5x system[5], whilst Corporate grew at 0.6x system. The Asset Finance business achieved growth in the core equipment finance business, offset by declines in other areas due to COVID and supply chain issues.

Customer deposit growth continued with $4bn of balance growth over the year. The deposit to loan ratio was 74% at the end of the period and BOQ's customer deposits totalled $60.5bn.

Net Promoter Score[6] Overall Retail NPS was ranked 3rd for BOQ. Mortgage NPS ranked 4th and Business NPS was also ranked 4th in the period.

Outlook[7]

Australia remains relatively well placed for continued economic recovery, with low unemployment, high level of built up household saving, strong business order books, robust growth in capex spending plans and high terms of trade. However, uncertainty remains given elevated inflation, rising interest rates, weakening global economy, geopolitical tensions and supply chain and labour disruptions.

BOQ remains focussed on achieving quality, sustainable, profitable growth. Growth across all brands in FY22 provides a revenue tailwind moving in to FY23. We have positive NIM momentum, with tailwinds from rising interest rates partly offset by headwinds from rising funding costs. Inflation and the costs of the new digital bank create near term headwinds for expenses, however, these will be partly offset by ongoing benefits from the integration and productivity programs.

The integration of ME is well progressed and we continue to execute against our strategic transformation roadmap. We have a clear pathway to the inclusion of ME on the digital bank platform and a plan to launch the new ME digital transaction and savings product and migrate existing ME deposit customers by the end of calendar 2023.

BOQ is committed to an integrated plan to strengthen our financial and operating resilience and risk culture, complemented by our overall investment in the transformation program.

There is ongoing economic uncertainty as we move into FY23 and we will continue to maintain a prudent approach to provisioning as a result. We have a strong capital position and intend to operate with CET1 above the target range of 9.0 - 9.5%[4]. Our dividend payout ratio target range is 60-75% of cash earnings.

Note: All cash P&L and CTI FY21 comparative periods are on a pro forma basis. Other metrics are consistent with previously reported numbers for FY21.

1. Compared to the Audited Financial Statements for FY21. Statutory NPAT has decreased 8% on a pro forma basis.
2. Business lending comprises commercial lending and asset finance.
3. The dividend will be fully franked and the dividend reinvestment plan will operate with a 1.5% discount
4. Following payment of the FY22 final dividend in November 2022, CET1 is expected to fall below 9.5%, before increasing to above 9.5% by the end of 1H23. We will re-assess our CET1 target once the final impacts of APRA's changes to RWAs and capital calibration are understood.
5. System growth represents the latest available RBA data as at July 2022. RBA figures include both business lending and asset finance balance growth. The RBA definition of SME will not directly correlate to the BOQ internal definition.
6. RFi XPRT Report August 2022. Consumer NPS refers to Main Financial Institution (MFI). DBM Atlas Report August 2022. SME NPS refers to Any Financial Relationship and businesses under $40m turnover.
7. Subject to no material change in market conditions

Investor briefing

BOQ's results webcast will be held today at 10:30am AEDT. The webcast address is https://edge.media-server.com/mmc/p/uhaim3j3

Participants wishing to join the conference call can register by navigating to https://s1.c-conf.com/diamondpass/10025734-bwzgq1.html. Please note that registered participants will receive their dial in number upon registration.

ENDS

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