ASX RELEASE

BOQ GROUP

Wednesday, 11 October 2023

FY23 FINANCIAL RESULTS

BOQ delivers $450m cash earnings after tax; strong capital and liquidity positions and considerable progress on transformation; 21cps 2H23 dividend declared

Statutory net profit after tax[1]	Cash earnings after tax[1]	Net interest margin[1]	Housing loan growth[1]	Business loan growth[2]
$124m	$450m	1.69%	($0.7bn)	$0.6bn
▼70% from FY22	▼8% from FY22	▼2bps from FY22	▼1% from FY22	▲4% from FY22
2H23 dividend per ordinary share[3]	**Cash earnings per ordinary share**	**Cash operating expenses**	**Cash return on av. equity (ROE)[1]**	**Common equity tier 1 (CET1) ratio**
21c	68.4c	$1,010m	7.3%	10.91%
41c FY23 dividend	▼10% from FY22	▲8% from FY22	▼90bps from FY22	▲20bps from 1H23

Bank of Queensland Limited (**BOQ**) today reported statutory net profit after tax of $124 million for the full year period ended 31 August 2023 (**FY23**). This result included material one-off items after tax: a $200 million impairment of goodwill, $57 million of ME integration costs, a $42 million provision for the Group's Remedial Action Plans and $35 million in restructuring costs incurred as part of the Group's simplification program.

Cash earnings after tax was $450 million. Total income grew 5% from the previous year. This was partly offset by an 8% increase in expenses and a return to a more normalised level of loan impairment expense. This result was reflective of industry margin headwinds from heightened competition across both lending and deposits, inflation and investment in our risk capability, customer experience and digital transformation.

Our increased financial resilience and higher liquidity allowed us to navigate the period, including repaying approximately 60%[4] of our term funding facility (TFF), and provided strength and buffers through the cycle.

As pressures on the mortgage market persisted through the year, management made a decision to moderate growth where economic returns could not be achieved, resulting in a contraction of the mortgage lending portfolio. Pleasingly, the Group achieved $3.1bn growth in retail deposits, which provided a lower cost and more diversified funding source and shows evidence of early success in our digital deposits franchise. BOQ continues to hold a diversified portfolio of assets across retail and business banking. As capital deployment was focused on growth in lending to small and medium-sized businesses, BOQ business banking total income grew 14% in FY23, with a 450bps reduction in the Business Bank cost-to-income ratio.

Our portfolio quality remains well secured and sound with prudent provisioning and forward-looking overlays considering the uncertain economic climate. Our strong capital position underpins the Board's decision to pay a final fully franked dividend of 21 cents per share, representing 71% of reported 2H23 cash earnings (total FY23 cash payout ratio of 60%).

Continued investment in the transformation of the bank is delivering considerable progress. Our four strategic pillars - ***strengthen, simplify, digitise*** and ***optimise*** - provide a comprehensive and integrated transformation roadmap. Our strengthen strategic pillar is committed to our risk program and embracing our two Court Enforceable Undertakings. Our simplification program is targeting cost productivity benefits of $200 million over the next three years. Our digital transformation program is on track with all three retail brands on the new digital platform.

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Managing Director & Chief Executive Officer Patrick Allaway said:

"We recognise that this has been a difficult year for our shareholders and take accountability for the operational risk failings that led to the two Court Enforceable Undertakings.

Our results reflect the market cycle and the business in transformation. We continue to invest through the cycle and traded some performance in FY23 for medium and long-term benefits.

We have high conviction in our strategy and a clear roadmap in place to deliver a stronger, simpler, digitally enabled, low-cost bank with exceptional customer experience. We are committed to addressing our challenges head on, and our transformation is progressing at pace with key milestones achieved in FY23.

We are managing what we can control in current market conditions, positioning BOQ for recovery and growth when the cycle turns."

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FY23 RESULTS SUMMARY

- **Statutory NPAT** for FY23 was $124m, a 70% decrease on FY22, impacted by large one-off items including an impairment of goodwill, ME Bank integration costs, Remedial Action Plans provision and restructuring costs.
- **Cash NPAT** for FY23 was $450m, an 8% decline on FY22, driven by higher operating costs and a higher loan impairment expense.
- **Total income** of $1,742m increased 5% from FY22, driven by higher net interest income and higher asset balances.
- **Net interest income** of $1,600m increased by 6% from FY22, driven by an 8% growth in average interest earning assets, partly offset by the 2bps decline in NIM.
- **Non-interest income** of $142m decreased 7% from FY22. The result reflects a more stable position, with the nonrecurrence of one-off items reported in FY22, partially offset by a reclassification in 1H23.
- **Net interest margin** was 1.69% for FY23, a 2bps decrease on FY22[1], driven by competition for lending and higher funding costs across the industry.
- **Operating expenses** of $1,010m increased 8% reflecting inflation including wage inflation and ongoing investment in technology.
- **Loan impairment expense** of $71m increased by $58m on FY22 and represents 9 bps to gross loans and advances. The increase represents a normalisation of charges from a low base and is mainly driven by an increase in collective provisions reflecting continued uncertainty from cost-of-living pressures, rising interest rates and an observed decline in house prices from peak levels in 2022.
- **Cost to income ratio** of 58% increased 150bps compared to FY22. This was due to the increase in operating expenses driven by inflationary pressures and the ongoing investment in technology.
- **2H23 dividend** BOQ has determined to pay a final 2H23 fully franked dividend of 21 cps, representing 71% of reported 2H23 cash earnings.

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- **Cash earnings per share** decreased 10% to 68.4cps due to lower cash earnings driven by an increase in operating expenses and the normalisation of loan impairment expenses.

- **Cash return on average equity (ROE)** decreased 90bps to 7.3% during FY23, due to lower cash earnings driven by an increase in operating expenses and the normalisation of loan impairment expenses.

- **Cash return on tangible equity (ROTE)** declined 120bps from FY22 to 9%. The primary driver was lower earnings due to the normalisation of loan impairment expenses and an increase in operating expenses.

- **CET1** increased 134bps from FY22. This was due to capital generated from earnings net of dividends and lower risk weighted assets, in addition to a 120bps benefit from the implementation of Basel III on 1 January 2023 which was partially offset by a 16bps decrease due to the $50m capital overlay as required by APRA.

- **Housing loan contraction** of $682m in the period was reflective of the prudent capital deployment decisions and the prioritisation of economic return over volume growth in a highly competitive market.

- **Business loan growth** momentum continued, with growth primarily achieved in the key focus areas of SME across healthcare, agriculture and equipment finance. Growth for the period was $627m.

- **Customer deposit growth** continued with an additional $6.1bn or 10% on FY22 reflecting the Group's strategy to increase stable sources of funding and support the refinancing of TFF maturities and replacement of the committed liquidity facility.

- **Net Promoter Score**[5] BOQ was ranked 4th for Retail NPS in FY23. BOQ Mortgage NPS ranked joint 3rd and SME NPS ranked joint 5th for the period.

OUTLOOK[6]

The Australian economy has remained resilient, supported by low unemployment and strong cash savings. We anticipate increasing risk into FY24 due to the elevated cost of living, lagged impact and sustained higher interest rates. We will continue to support our customers through this challenging economic cycle. We anticipate continued revenue and margin pressure to continue in FY24 from slower credit growth and competition.

We anticipate that mortgage pricing will need to adjust at some point to provide returns above banks' cost of capital. Heightened deposit competition is expected to remain across the industry through the refinancing of the TFF. Inflationary pressures will be partially offset by our simplification program and we anticipate low single digit cost growth to our underlying cost base, plus investment spend and amortisation as we continue to invest.

BOQ has a strong capital position and expects CET1 to remain comfortably within the target range of 10.25 to 10.75%. Our dividend payout ratio target range is 60-75% of cash earnings[7].

In summary, BOQ is in a strong financial position to continue to support our customers and people and deliver on our strategic transformation priorities to strengthen, simplify, digitise and optimise BOQ. We are committed to our risk remediation programs with both APRA and AUSTRAC.

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1. FY22 comparatives have been restated to reflect the FY22 prior period weighted average life adjustment. Further detail has been provided in BOQ's FY23 Annual Report and its disclosure to the ASX dated 29 September 2023.
2. Business lending comprises commercial lending and asset finance.
3. The dividend will be fully franked and the dividend reinvestment plan will operate with no discount.
4. Includes repayment of September 2023 maturity post balance date
5. RFi Global Report August 2023. Retail and Mortgage NPS ranking refers to Main Financial Institution (MFI) based on six-month rolling average of responses. SME NPS refers to Any Financial Relationship (AFR) for businesses under $40m turnover based on a twelve-month rolling average of responses.
6. Subject to no material change in market conditions.
7. The amount of any dividend 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.

INVESTOR BRIEFING

BOQ's results webcast will be held today at 10:00am AEDT. The webcast address is https://edge.media-server.com/mmc/p/bmds79tn.

Participants wishing to join the conference call can register by navigating to https://s1.c-conf.com/diamondpass/10033534-9ohc0z.html.

ENDS

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

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