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Jessica Smith: Good morning and thank you for joining BOQ's market update. My name is Jessica Smith and I'm the General Manager for Investor Relations and Corporate Affairs at BOQ.

I would firstly like to acknowledge the traditional custodians of the land on which we meet today, the Gadigal people of the Eora Nation. I pay my respects to elders past and present.

Our CEO, Patrick Allaway will discuss on the call today, the strategic announcements we have made to the ASX this morning. Also in the room is our CFO, Racheal Kellaway, Group Executive Retail Banking, Greg Boyle and Group Executive Business Bank, Chris Screen. Following Patrick's address, there will be time for questions. Given the proximity to our financial results, we will limit questions and discussion today to those topics in the release only, and we will not discuss our upcoming financial results.

I ask that you please consider this in your questions. I'll now hand over to Patrick.

Patrick Allaway: Thank you Jess, and good morning, everyone. Thank you for taking the time to join us today.

Today, BOQ has announced some key strategic decisions, which will progress our transformation to a simpler, specialist, higher returning bank. These changes represent a decisive step towards addressing our challenges in a bold, proactive way, and will put BOQ on a sustainable path.

As you know, recent market shifts to increasingly commoditised and lower returning retail banking have been more exacerbated for BOQ. At our half-year result, I said we would be seeking to address margin compression and cost inflation through considering additional pathways to enhance shareholder returns.

We've announced three initiatives today to fundamentally change the way we operate, reduce our cost to serve and optimise return on capital.

Firstly, we're converting our Owner Managed branch network to corporate branches and ceasing the franchise model.

Secondly, we're shifting our portfolio mix recycling capital to higher returning segments and leveraging our existing competitive advantage in business banking, through accelerating the growth of our specialist business bank and finance company.

Finally, we've commenced execution this week of additional productivity initiatives to increase our previously announced $200 million simplification program to $250 million.

The strong progress we've made against our strategic pillars to strengthen, simplify, digitise, and optimise have enabled these announcements today. These initiatives will enhance returns with less reliance on margin recovery, allow scale at a lower cost and uplift our customer's experience. I will go through each of them now in more detail.

Firstly, changes to our branch operating structure. We recognise that our heritage retail banking operating model, that has served us well in the past, is no longer sustainable in its current state, in a low returning environment.

The significant progress made in BOQ's digital transformation is enabling BOQ to now simplify our retail distribution channels. Converting our 114 Owner Manager branches to corporate branches is a material change in the structure of our business and a further step towards transitioning to a simple low cost to serve digital retail bank.

This was a difficult decision, and we acknowledge with immense gratitude, the important contribution of the Owner Manager network to BOQ. We'll be working closely with our Owner Managers to support them through this process and ensure a seamless customer experience as branches convert, which we expect to complete by March 2025. Through this conversion, there'll be employment opportunities for owner managers and their staff.

The conversion of our branch network, going forward will provide

- greater flexibility in how we distribute our products, aligning our footprint with our digital and relationship banking model, allowing for potential consolidation as customer preferences continue to shift to digital channels.
- it will reduce origination compliance and head office support costs and provide the opportunity for any future margin optimisation initiatives.
- Finally, it will enable group investment through the branch network, adding business bankers in growth corridors for our target specialist segments.

We expect the cost of conversion will be in the range of $115 to $125 million, which will be incurred in the second half of FY25. The capital impact on the Group is expected to be approximately 30 basis points, with the conversion cost being amortised over four years commencing in the second half of FY25. We are expecting an annual net cash profit after tax benefit of $20 million from FY26, with further opportunity to optimise this performance going forward.

This is the right decision in transferring BOQ to a lower cost, agile, digitally-focused retail bank. With the decision to convert our branches, we can continue to leverage the growth of our digital bank and simplify our operating model.

Satisfaction with BOQ's digital bank continues to increase as more customers embrace the enhanced experience on the digital platform. App store ratings[1] recorded further improvement with 4.5 for my BOQ, 4.5 for ME Go, and 4.3 for Virgin Money Australia.

[1]Ratings as at 21 August 2024

We now have over 260 thousand customers on the new digital banking platform and 6.9 billion in deposits. 25% of retail customers[2] are now served on BOQ's digital bank. Migration of ME customers to the digital bank has commenced, with full migration to be completed through FY25, as planned. We're also in the process of finalising the migration pathway for BOQ customers, which will materially improve customer experience and provide significant cost saving to the Group.

The rollout of digital mortgages remains on track and will include a digital direct approach to the market in the second half of FY25.

Moving now to the business bank, we're pivoting our revenue mix towards leveraging the strength of our higher returning business bank and finance company. We've recently bought on ten new bankers, and will make a material investment in additional bankers over the next two years to drive growth in specialist segments, where we have an existing competitive advantage and strong relationships.

These bankers will be focused on target industry sectors, including health, professional services, hospitality and agriculture, supported by our unique finance company offering across equipment finance, insurance premium funding, dealer finance and novated leasing.

The investment will be directed to growth corridors across the country, particularly focused on leveraging our 150-year heritage and competitive advantage in supporting Queensland businesses. We will place a number of our bankers in our newly converted regional centres across these growth corridors.

This shift, and investment, will expand the Group's service capabilities and customer reach, recycle capital from lower returning assets, to specialist high-value market segments.

We note the competition in business banking is increasing. We are of the view that more defensive business relationship banking, combined with our specialist sector competitive strengths and finance company capability, will support sustainable margins.

Thirdly, on simplification. As we have progressed our productivity program throughout the half, we have identified that there is more we can do in simplifying our operating model and management structure. We know that customers are increasingly engaging with us through our digital channels, and we have had some large digitisation projects coming to a close, which has enabled this reduction. We're continuing to identify additional cost-saving opportunities to deliver more sustainable returns, ensuring that BOQ can continue to provide a viable and valuable banking alternative to Australians.

We have made the difficult decisions to commence the reduction of 400 roles. These changes are separate to the branch conversion.

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[2]As at 31 July 2024. Includes deposit and credit card customers.

We're working closely with team members that have been impacted, providing the appropriate support through this process.

A restructuring charge of $25 to $35 million will be reflected in the FY24 financial statements. This will deliver an additional $50 million in annual benefits, to our existing $200 million simplification program, by FY26.

Finally, I will close with some comments on our FY26 targets.

I have been transparent with the market about BOQ's challenges and the significant industry margin erosion since these targets were set. The management team are acutely aware that our legacy complexity and relative higher cost of funding in the increased interest rate environment has exacerbated industry headwinds for BOQ, and our recent return on equity and cost to income levels are not sustainable.

The assumptions which underpinned the targets, which were set in 2022, have materially changed. The industry has experienced significant margin compression and elevated inflation, which has impacted returns.

Today we're announcing that we are restating our FY26 targets to an ROE of 8% and a CTI of 56% in FY26.

Our announcement today is evidence of management's commitment to making the decisions that are needed to improve shareholder returns, by repositioning BOQ to compete at a lower cost to serve, in a more commoditised market and leverage our competitive strengths.

We have not taken these decisions lightly. They're the right decisions to support the sustainability of the bank for our customers, people and shareholders. We will continue to focus on controlling what we can control.

We have a strong, well-secured portfolio, robust financial resilience, and are well-progressed on delivering an end-to-end retail digital bank, and growing our specialist business bank, with a compelling customer proposition.

I will now hand to Jess for questions. Thank you.

Jessica Smith: Thank you, Patrick. We will now be taking questions. So that everyone on the call has the opportunity to ask questions, we will limit to two questions each. I kindly remind you that we will not be answering questions regarding our FY24 financial result today. Operator, can we please have the first question?

Operator: Our first question comes from John Storey with UBS. Your line is open.

John Storey: (UBS, Analyst) Thanks very much and good morning, Patrick. Congratulations on the announcement this morning in terms of simplifying the Group. I think, first question I would have just on the cost targets, I think certainly we are getting a lot of incoming questions on this. If you go and have a look at the OMB's operated cost of income ratio in terms of the data that you provided at 85%, 56% FY26 in terms of the pro forma’s where you're at, at the moment, 70%. With the investment that you've outlined in terms of business banking, maybe if you could just give us a little bit more colour and help us to try and bridge from the circa 70% where you are at the moment, to the 56% and the timeline that you've given, that would be my first question.

Then the second question I would have is really just around some of your initiatives with regards to the deposit funding within the business banking division. Obviously, you’re doubling down in terms of your efforts there, but one of the deficiencies I think that you yourselves have called out is really just deposit funding within the division. Maybe if you could just give us some of your thoughts and what yourself and the Board have thought about trying to close that relative funding gap within business banking. Thanks.

Patrick Allaway: Yeah. Thanks for your question, John. I think firstly on the CTI, obviously there's two drivers of that. What we have said today is that we're investing significantly in our business bank and we will accelerate the revenue growth being driven from the business bank and higher returns in that segment. In addition to that, we are taking further productivity initiatives, in addition to the 200 million we announced at the end of FY23. When you look at our cost base, we had previously said that FY26 costs would be flat on FY23 and including amortisation expense, propex and inflation. You should expect that that cost base will now come down. based on the announcement that we've set today.

We're not going to give you a forecast, obviously and a roadmap to get to our CTI targets, but what we're saying to you today is that we are simplifying and digitising our retail bank, which is lowering our cost to serve. The initiatives that we've announced today with respect to the OMB conversion as well, will provide us with further opportunity to reduce our costs and drive margin. We are accelerating the growth in our business bank where we have a competitive advantage in specialised sectors.

On the deposit funding, we think that's a really big opportunity for us. Clearly a payments platform for the business bank is a key initiative as we think about investment for the business bank going forward, and we're working through that, but we see that as a large opportunity to continue to fund the growth of the bank.

John Storey: (UBS, Analyst) Great. Thanks very much.

Operator: Thank you. Our next question comes from Jonathan Mott with Barrenjoey. Your line is open.

Jonathan Mott: (Barrenjoey, Analyst) Thank you, Patrick. I've got a question on closing the Owner Managed branches and it's kind of disappointing in a way, given for 25 years, this has really been a point of differentiation for BOQ. For many people it's a tough day. You're saying this is going to be done by 2025 and I just wanted to get a feel for the process because it is going to have an impact on many people and many customers. If we look at it, I assume that there's a clause in the contract that allows you to buy back the OMBs, but the economics don't look fantastic. It looks like it's around a million dollars per branch.

Then I wanted to get a feel for if there's a non-compete clause because I'm sure a lot of the small business owners who run these Owner Managed branches are going to be disappointed, you'd have to presume many of them are going to go and become mortgage brokers and compete directly against you. Is there a non-compete clause to stop the OMB owners just going off and becoming brokers? Finally, what are your assumptions for customer attrition? Because a lot of customers have been loyal to the local owner manager for many, many years, and you'd have to assume some of them are going to be disappointed. What are your assumptions around customer attrition for both mortgages and deposits in the OMB Network?

Patrick Allaway: Thanks for your question, Jon. There's lots of questions and then I'll try and cover them all if I don't maybe you can just give me a little prompt at the end. Look, I first want to start by saying this is a really difficult decision and a big decision for the bank. The Owner Managers have served us very well since 2002, and this has been a unique proposition for BOQ. Markets have shifted on us and that shift has accelerated. The two big drivers for that is our customers are choosing to move to digital channels, and we're seeing that as a major consumer trend across the industry, but also, we've seen significant margin compression, and so the sustainability of the model, if margins don't recover, is very questionable in the current environment.

The Owner Manager channel is one of our more expensive origination channels, and as we look at driving margin, we recognise that the returns that we are getting through that channel are not sustainable. We are making very difficult decisions. In the days of rivers of gold when margins were higher, it was a very sustainable channel for us, but markets have shifted on us very quickly. I think that's one just comment I'd like to make.

In terms of the economics of the model there are many reasons as to why we're doing this, it's not just the economics, but the model is driving a $20 million net profit after tax in FY26.

We do believe that we will be able to optimise that over time, so we will be taking on the cost base of the Owner Manager model. We see an opportunity to run that more efficiently and that would be an important opportunity for us to optimise returns.

In addition to that, on the revenue line as you will see in the pro forma, we pay out about $125 million in FY24 going forward. This will be margin accretive for us as those revenues come back on net interest line as well.

The economics are strong and from a compliance and control perspective as the regulatory environment changes, we're unable to pass those costs onto the Owner Manager Network. This will enable us to manage our compliance obligations going forward as well.

There are many strategic reasons to do this. We have said consistently that we are moving our retail bank to a lower cost to serve digital bank and that in a highly commoditised lower margin retail market, unfortunately, the current operating model and structure is not sustainable for us.

In terms of non-compete, we are offering employment opportunities to our Owner Managers and to employees within that group. We do believe that many will convert to join BOQ, but clearly, we have strong customer relationships. The customer service levels will remain seamless as we transform this network over the next six months to BOQ.

Jonathan Mott: (Barrenjoey, Analyst) Okay. Thank you. Just a final part on that was, in your own assumptions to get to the 8% return on equity, what customer attrition assumptions have you assumed, or have you assumed that the customer - that the business continues to grow just in a corporate structure?

Patrick Allaway: Jon, I'm not going to go into that today, but what I can tell you is we have assumed some runoff of our deposit books and mortgage books across that network. We've taken a fairly conservative approach in relation to that. I think what I would also say to you, we are putting more bankers into key growth corridors to grow in sectors where we can compete and win and in sectors where we're getting higher margins, particularly in Queensland.

We are going to be making a significant investment in Queensland. We see that as a material offset to the change and improving our return on equity as well as we recycle capital into high returning sectors.

Jonathan Mott: (Barrenjoey, Analyst) Thank you.

Operator: Thank you. Our next question comes from Matt Dunger with Bank of America. Your line is open.

Matt Dunger: (Bank of America, Analyst) Yes. Thank you for taking my questions, Patrick. On the OMB profitability, is it fair to assume there's a distribution of profitability across the branches? What will the new footprint look like? How long's the tail of unprofitable branches? Is it 20, 30%?

Patrick Allaway: Matt, thanks for your question. I'm not going to comment on that. I don't think it's appropriate for me to talk about specific branches. Really what we're saying to you today is this is a material shift in the way we operate to address structural changes in the marketplace, and this will drive improved returns for BOQ.

Matt Dunger: (Bank of America, Analyst) Thanks, Patrick. Just a follow up if I could, on the amortisation period of four years, are you able to give us a sense as to what determines that?

Patrick Allaway: Look, that's based on assumptions that we've made today. That might change a little bit, but I don't think there'll be material changes to that. It is an accounting treatment as to how we're going to allocate the amortisation of the cost.

Operator: Thank you. Our next question comes from Brian Johnson with MST. Your line is open.

Brian Johnson: (MST, Analyst) Patrick. Well done on addressing the elephant in the room, which I think must be very hard for a CEO to do. I had a few questions if I may. The first one is 8%, you're doing about 5% at the moment, and there's risk to get there, but I just wanted to flag to how you'd respond to the fact that 8% probably doesn't equal your cost of capital.

At the moment, we've got bonds sitting sub four, put on 5% equity risk premium, think about some beta, you don't come to eight. Do you think eight is good enough, or ultimately, does this still suggest that you need some dramatic actions over and above this?

Patrick Allaway: Brian, this is a '26 target that was set in 2022. We will be driving the transformation of the bank going forward. We are very ambitious about what we'd like to achieve in our return on equity, and so 8% is a starting point for us in FY26.

What we have said in the past is, in time, we will decommission our whole heritage bank, that will drive a material productivity uplift for the organisation. We are also looking to really leverage the strength of our business bank and finance company and to grow that, accelerate the growth of that entity.

FY26 is not far away now, the initiatives that we've announced today support the delivery of those numbers based on the assumptions that we've made today and what we know about the market today, but we are very ambitious to continue to grow those returns and achieve high returns for our shareholders.

Brian Johnson: (MST, Analyst) The second one, Patrick, is a weird accounting question. Below the line, you take this big expense, okay, so it's expense below the line in the March '25 period. Then you're talking about amortising it, but you've already expensed it. Could I just clarify that you're taking it below the line, it hits the capital then. By amortising you're talking about when you're physically paying out the cash, could you just explain that?

Patrick Allaway: The capital charge is upfront, and we're saying approximately 30 basis points. That cost will be amortised over a four-year period on the balance sheet. From an earnings profile perspective, you should expect below the line adjustment amortised over four years.

Brian Johnson: (MST, Analyst) Sorry, that's saying that you're booking it twice. You're saying that you're expensing it upfront and yet you're amortising it over the time. You don't need to expense it twice, surely.

Patrick Allaway: Yeah, Brian, with respect, we're not expensing it upfront. We're taking the capital charge upfront, that will be released over the four-year period from an expense perspective and a P&L perspective, which is different to the capital charge, you will see the statutory profits impacted on an amortised basis over the four-year period.

Brian Johnson: (MST, Analyst) Fantastic. Thank you. Thank you, Patrick.

Operator: Thank you. Our next question comes from Ed Henning with CLSA. Your line is open.

Ed Henning: (CLSA, Analyst) Thank you. I've got a couple of questions. Firstly, just in the near term you think about the Owner Managed branches and just talk about the revenue risk going through this transition period and your actual growth and your credit. What's going to drive them to continue to push loans if they're not going to get the full economic benefit until this transition goes through. Then that one's the first one. I'll go onto the second one afterwards.

Patrick Allaway: Thanks for that, Ed. The current franchise agreement which we have with the Owner Managers very much aligns then with us over the next six months. The performance of that network over the next six months will be important in determining their final payout as we go to March '25. They are very aligned with our interest from that perspective. Once we take control over the network, we will be able to control revenues going forward from then and how we deal with customers and what we do.

In addition to that, we will be employing many of them into the network to support the network going forward. I also just wanted to say that part of this is a growth story that we are investing very heavily in part of that network in business growth corridors across the country, but particularly in Queensland.

We see a very large revenue growth opportunity for us across our business bank and finance company in growth corridors, and we will be investing bankers into those centres, which we're currently unable to do at present.

Ed Henning: (CLSA, Analyst) Sorry, do they currently get any trail commissions obviously on their book and stuff or that's what you're just going to pay out essentially at the end, the value of their book?

Patrick Allaway: Yeah, so look, we have a pre-prescribed formula as part of this conversion and that is determined by the size of their book and other factors that will be finalised at the end of the first half of the financial year in FY25.

Ed Henning: (CLSA, Analyst) With the staff that they employ, you don't have to give redundancy or anything to them, that would be then on the owner managed branches themselves?

Patrick Allaway: That is correct.

Ed Henning: (CLSA, Analyst) They do not take the job. Yeah. Okay. Then last one just on the growth side, can you just talk a little bit about their, obviously pushing more business bankers in their - can you talk about your risk tolerance and are you happy to potentially increase that a little bit to try and grow that book even further to stimulate growth?

Patrick Allaway: Yeah, so at the half year we did discuss some changes that we made, in credit and risk appetite in the first half of FY24. That is enabling the growth of our business bank. Going forward, we continue to review our risk settings and our appetite, as most of this book is secured, but we will continue to review risk adjusted returns and we'll make appropriate decisions as we continue to grow.

Ed Henning: (CLSA, Analyst) Okay. Thank you, Patrick.

Operator: Thank you. Our next question comes from Brendan Sproules with Citi. Your line is open.

Brendan Sproules: (Citi, Analyst) Good morning, Patrick, thanks for taking questions. I also have a question around the business bank and the initiatives that you've described in this release as being material.

I do note if you've hired 10 bankers, I was wondering if you can give an indication as to how material is 10 bankers to the current operations. Then secondly, how quickly can this process really deliver revenue and earnings growth noting the last two or three periods you've seen declining revenue and flat lending growth up until at least the end of the first half.

Patrick Allaway: Yeah, so look, Brendan, I'll give an update of the business bank performance at the full year results. I don't think it's appropriate for me to comment on the second half at this stage or the outlook, but we are highly confident that the addition of the bankers that we have bought on are driving strong pipelines and we are confident that we can grow in the specialist segments where we actually can differentiate, compete and win but particularly leveraging our Queensland advantage.

We will be allocating more capital to Queensland. We'll be investing people in Queensland, and we're very excited about the growth opportunity that gives us.

Brendan Sproules: (Citi, Analyst) Thank you.

Operator: Our next question comes from Andrew Triggs with J.P. Morgan. Your line is open.

Andrew Triggs: (J.P. Morgan, Analyst) Thank you. Good morning, Patrick. My first question just on the change in the OMB strategy. I mean, for a long time you've been de-emphasising the corporate channel and priority of the OMB network. The argument there has been that the corporate channels are far less productive than the OMB. What's changed there? Because to me this looks like a cost decision rather than a franchise and revenue decision.

Patrick Allaway: Yeah, so Andrew, I don't think we've de-emphasised the corporate channel going forward. What we have said is that our core model, and it has been since 2002, was an Owner Manager model and we were very committed to that model.

We have said that our customers are increasingly shifting to digital channels. We have also said that the model in terms of margin compression that we've seen through more commoditised retail markets is requiring us to move to a low cost to serve, and the model is expensive for us going forward. In addition to that, we've got increased compliance costs.

They are material changes that basically have been persistent over the last 18 months or so. We've taken the view that the margin compression is not recovering and a model that's served us very well in the past is not sustainable for us going forward.

Andrew Triggs: (J.P. Morgan, Analyst) Sorry, Patrick, I meant that, in recent years you've de-emphasised corporate in favour of OMB branches. You can see the mix has shifted quite dramatically over the last three years. My question is really, what has changed on your confidence of productivity within the corporate branches? Because clearly that was behind the decision to shrink the corporate branch network over the last three to five years?

Patrick Allaway: That's correct. Look, I think that strategy was commenced about three years ago in a very different margin environment from where it was today. We've seen a significant shift in margins and in a low returning market this is a high cost to serve channel for us, so I think that's a significant change.

I think the other important aspect of this is as we think about our portfolio and where we are getting returns in our portfolio across our balance sheet, we are shifting our portfolio mix to emphasise the strength of our business bank and leveraging the strength of our business bank and finance company.

A corporate model enables us to invest in those channels in growth corridors and regions where we do see big opportunities. That's a material shift as well because we have recognised over the last couple of years that return on equity is not sustainable, and so we are making decisions today (1) to fundamentally change the way we operate to lower our cost to serve, but (2) to shift our portfolio to higher returning assets and segments where we have a competitive advantage and can compete and win.

Andrew Triggs: (J.P. Morgan, Analyst) Just on the size of the network, as the OMBs are converted to corporate branches, will the overall size of the network continue to decline, do you think?

Patrick Allaway: Look, customers are increasingly choosing to interact digitally with us, so you should expect future consolidation of the network. We will evaluate that over time.

Andrew Triggs: (J.P. Morgan, Analyst) Thanks, Patrick. Just maybe second question around the FTE reductions flagged, there's very little detail provided on where they'll be coming from, can you give us a bit more context? They're very large numbers, so where are they coming from and what's the net impact because the previous 250 odd heads that you took out didn't really drop through to the bottom line given addition of staff or heads in in other areas.

Patrick Allaway: Yeah. Thanks for that question, Andrew. Look, I just wanted to start by saying these are very difficult decisions for our people, we recognise that, and we don't make these decisions lightly and we will support our people through this process.

It's important that we structure our organisation to ensure the sustainability of the bank for our customers, people and shareholders. I just wanted to emphasise that point that we are considering the impact on our people, and these are very difficult decisions that we're making.

In terms of where they're coming from, as I said earlier many of our big technology projects are now past the peak investment stage, and many have been delivered. There are people coming out of technology from that perspective, but as we continue to digitise and simplify our retail bank operations, you are seeing people come out of retail banking, but also that digitisation and efficiency and automation is driving people out of operations as well. Those are the three key areas in the bank.

I think, what I would like to emphasise though is whilst there are people coming out from those sectors, we are investing in the business as well in the business bank, we are also shaping the skills and capability of our people to ensure that we are future fit for our future state operating model.

You would've seen in the first half, which we called out, but at the end of last year there were about 220 roles that came out. We have reinvested in parts of our business, in particular our contact centre as we continue to digitise the business and provide customer support from the contact centre. We've invested in some of our projects, which I said these are now starting to come off and we've invested in the business bank as well, but there will be a net reduction in people in FY25 as a result of these decisions.

Andrew Triggs: (J.P. Morgan, Analyst) Thank you.

Operator: Thank you. Our next question comes from Azib Khan with E&P. Your line is open.

Azib Khan: (E&P, Analyst) Thank you very much. Patrick, I go back to the FY26 targets you laid out in April as part of the interim results, you had mentioned back then that you were targeting FTE reduction greater than 400 by FY26. Today you've announced 400, but if I reconcile that with what was said in April, does that mean there's more to come or has there been a revision in plans there?

Patrick Allaway: Look, as we've said, we've added to our productivity initiative, Azib, so thank you for the question. We, earlier, at the end of FY23 announced a $200 million productivity program which included an additional greater than 400 people, which we have previously announced to come out by FY26.

As we continue to decommission our heritage legacy systems, you would expect that we can drive more efficiency through the organisation. As part of our digitisation program, but also our simplification program, you would expect that we will continue to drive efficiency through our operating model, to ensure that we're future fit. The announcements that we've made today are in addition to the $200 million productivity program that we made and the comments that we made at the half of this year.

Azib Khan: (E&P, Analyst) Sorry, just to be clear on that, Patrick, so the 400 announced today is in addition to the greater than 400 announced previously?

Patrick Allaway: It's an additional productivity initiative reflecting the environment we're currently operating in. As we continue to migrate customers of our legacy platforms and deliver digital mortgages, we expect that there will be more efficiencies through FY25 into '26.

Azib Khan: (E&P, Analyst) Okay. Just another question if I may, you've mentioned you'll be looking to recycle capital away from lower returning segments to the higher returning business banking segments.

Does that comment specifically apply to just within the business bank or reallocation of capital within the business bank, or does that also refer to allocating capital away from home lending to business lending?

Patrick Allaway: Look, you would've seen over the last results that we have had runoff in our mortgage book, and we've said we have no interest in writing business below our cost of capital. We are seeing the opportunity to recycle that capital into growth segments that are giving us appropriate returns and higher returns in segments where we can compete and win.

The announcement we've made today is accelerating the growth of our business bank and finance company, so we will continue to look for opportunities to recycle low returning capital on our balance sheet to higher returning segments whilst ensuring that we still have the appropriate balance within our risk appetite on the balance sheet.

Azib Khan: (E&P, Analyst) Thank you.

Operator: Thank you. Our next question comes from Richard Wiles with Morgan Stanley. Your line is open.

Richard Wiles: (Morgan Stanley, Analyst) Good morning, Patrick. Couple of questions. Firstly, on the Owner Manager conversion you've outlined that you won't have to pay the commissions going forward, and you've also outlined that the OMBs are a higher cost network. I'm wondering if you could tell us about the gross revenues of the OMBs. Are they higher or is it a more productive network than your corporate branches from a gross revenue perspective?

Patrick Allaway: Richard, you would've seen in our recent results that our retail bank has been in decline. That's across the channels. We did call out at the half year that the only part of the retail bank that was growing was ME Bank through our broker channel and ME because that was a lower cost to serve. This channel has been in decline.

We see an opportunity to optimise the channel to return it to growth in key sectors through the addition of business bankers into key growth corridors. This gives us the opportunity to take direct control over where we want to grow, how we want to allocate our capital and segments where we are not getting appropriate returns on our capital. This is an important focus for us, on ensuring that we can drive margin improvement in a very, very difficult operating environment.

Richard Wiles: (Morgan Stanley, Analyst) Okay. My second question relates to the current trends. I understand you want to limit questions to today's announcement, so I won't ask you about specific trends, but it is five months into the current half, it's four months since you've spoken publicly to the market.

You've chosen the timing of today's announcement, and I think if you don't comment on the current trading performance, then investors will quite rightly assume that your cash profit is tracking towards the consensus estimate, that's about 325 million for the full year. Is it right for investors to assume, because you're not commenting on it that you are comfortable with consensus?

Patrick Allaway: Richard, I won't speculate on what investors are assuming, but what I will say is that we're not going to give an update on FY24 guidance today. If we did have anything to disclose, we would disclose it. Obviously, we've got continuous disclosure obligations, but I will leave that to you in relation to your assumptions.

Richard Wiles: (Morgan Stanley, Analyst) Okay, thank you, Patrick.

Operator: Thank you. The last question today comes from Matthew Wilson with Jefferies. Your line is open.

Matthew Wilson: (Jefferies, Analyst) Yeah. Good morning, Patrick and team, Matthew Wilson, Jefferies. Can you hear me okay?

Patrick Allaway: I can hear you well, thanks Matthew.

Matthew Wilson: (Jefferies, Analyst) Thanks. Why are you choosing to characterise the transaction as non-cash, presumably you're going to pay a cheque out to each of these entrepreneurs that have run the Owner Manager branches, and will there be a dispute process with respect to valuation? I also have a second question.

Patrick Allaway: Yes. Thanks, Matthew. We're not saying it's non-cash, there will be a cash outflow, what we're saying is this is an acquisition so we are treating the acquisition cost below the line. It's not part of our cash earnings, that basically reflect our underlying earnings, so that's the only difference. It does impact cash, but it's a one-off below the line cost treated as an acquisition. Sorry, what was your second question, Matthew?

Matthew Wilson: (Jefferies, Analyst) Will there be a dispute process with respect to valuation? I imagine some of the entrepreneurs will have a different view of valuation than you do as is customary in a market practice.

Patrick Allaway: We've got a very clear formula in our franchise agreements, so we don't anticipate any disputes in relation to that. We will be complying with our contractual obligations and operating appropriately to support our Owner Managers through this difficult process for them.

Matthew Wilson: (Jefferies, Analyst) Okay. Then secondly you talk about your business bank and pivoting towards it, could you give the market colour on what do you think your competitive advantages are in the business bank? You mentioned the word competitive advantage a couple of times in the release. What actually are they?

Patrick Allaway: Look, there's a couple. First of all, we have a very unique finance company. Many of our peers do not have a finance company, so that enables us to cross-sell the capability of that finance company into the businesses that we're serving.

Those margins are higher in the finance company as well, and so we think that's a strong differentiation for us that we will continue to grow. In terms of our business bank itself, as you know we specialise in sectors, and we've got outstanding bankers who provide significant value in the sectors that we specialise in.

Our bankers are not generalists, they're industry experts, and we're adding significant value to our customers in those segments and in many of those segments we dominate and for a small bank that's quite unique, so that's important.

I think the third one just to call out is our Queensland heritage. We celebrate our 150-year anniversary this year in Queensland. We have a very strong competitive strength in Queensland with longstanding Queensland customers, and we intend to leverage that and take advantage of that.

Matthew Wilson: (Jefferies, Analyst) Just a follow up on the finance company, you don't have any real competitors because they've all closed down their finance companies for various reasons, why do you think your view of the economics of a finance company differs to that of the major bank peers, Macquarie and others?

Patrick Allaway: Look, they were not scale opportunities for those other banks. We're a small bank, the finance company is a material contributor to our profits and earnings, and it's a very important part of our customer service proposition. It also provides us with an opportunity to compete against many who have a higher cost of capital than us, which is quite unique, and so we see it as a very important part of our customer proposition.

Matthew Wilson: (Jefferies, Analyst) If I could try my luck just finally on one more. You talk about the acquisition in pre-tax terms. Can you talk about the taxation implications of the corporatisation? I would've thought it's a capital transaction, not an expense.

Patrick Allaway: Yeah, it's a capital transaction, but I'm not going to go into tax details, but you can basically assume tax rates that would be appropriate for BOQ.

Matthew Wilson: (Jefferies, Analyst) It shouldn't be tax deductible, no?

Patrick Allaway: I'm going to pass to Racheal on that question.

Racheal Kellaway: Hi there. The capital outlay up front is the cash payment to our Owner Managers and that's the 30 basis points of capital that we've called out, that's not the accounting treatment, that's the capital treatment.

From an accounting perspective, as Patrick has called out, this is an acquisition, so it creates an intangible asset. As that acquisition unwinds and amortises through the P&L, the normal corporate tax rate is applied to that, and so there is a tax effect as it unwinds.

Patrick Allaway: Thanks, Rachel.

Matthew Wilson: (Jefferies, Analyst) Okay. Thank you.

Operator: Thank you. At this time, I'd like to turn the call back over to Jessica Smith for closing remarks.

Jessica Smith: Thank you, and thank you, Patrick. Thanks to everybody on the call and for your questions. That brings us to the end of today's briefing, and we thank you again for joining us this morning.

End of Transcript