Start of Transcript

Operator: Thank you for standing by. Welcome to the Bank of Queensland FY24 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 Jessica Smith, General Manager of Investor Relations and Corporate Affairs. Please go ahead.

Jessica Smith: Good morning, everyone and welcome to BOQ's Result Presentation for the full year ended 31 August 2024. Thank you for taking the time to join us today. My name is Jessica Smith and I am the General Manager of Investor Relations and Corporate Affairs. Before we begin, I would like to acknowledge the Traditional Custodians of the land on which we meet today, the Gadigal people of the Eora Nation and pay my respects to Elders past and present.

I am joined today by BOQ's Managing Director and Chief Executive Officer, Patrick Allaway, and our Chief Financial Officer, Racheal Kellaway, who will present the results. We are also joined in the room by BOQ's Executive Team. Following the briefing, there will be an opportunity for questions. I will now hand over to Patrick.

Patrick Allaway: Thank you, Jess, and a warm welcome to everyone on the call today. I also welcome our Executive Team who are with us in the room today.

Before moving to the slides, I'd like to set a bit of context. We're transforming BOQ to a simpler, specialist bank with an improved customer experience and enhanced shareholder returns.

I've previously said that transformations of this scale are difficult, take time and are particularly challenging against the current backdrop of industry headwinds.

This management team has taken the challenge. We have acknowledged our legacy and structural disadvantages, been transparent, held ourselves accountable and outlined the clear strategy to address and transform BOQ. We have navigated the Bank through two difficult years and over the past four halves have demonstrated discipline and consistent execution. We are starting to see the benefits of our transformation.

Moving onto slide 8. This year we delivered $343 million in cash earnings after tax. Against elevated competition, we took a disciplined approach to uneconomic home lending. Cost inflation continued and we continued to invest in our transformation.

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We finished the year with a stronger second half. Business lending grew 7% on an annualised basis. Retail bank income stabilised and NIM improved by two basis points and we continued disciplined cost management through the year.

We're delivering against our strategic pillars, with strong execution proof points and are now well through peak investment spend. We've strengthened our operational and financial resilience and delivered against our remedial action plans. We've further simplified our operating model and have recently increased our productivity target and announced plans to simplify our distribution channels. We've largely completed the foundational build of our end-to-end digital retail bank.

We're focusing on optimising BOQ and have commenced recycling lower return in capital to growth in higher returning target specialist segments. The customer experience has materially improved on our digital bank and through the contact centre. We're supporting our customers through this cycle of higher cash rates and sustained cost of living pressures. Our strong financial resilience has continued with our CET1 ratio at the top end of our target range. Prudent liquidity settings and continuing strong asset quality through the cycle. We have a clear pathway to deliver improved shareholder returns.

Turning to slide 9 for a summary of this year's financial performance. Statutory net profit after tax was $285 million. Cash earnings after tax of $343 million reflected lower total income from a contraction in home lending and margins.

We continue to demonstrate discipline in how we operate the business and have held cost growth at 2.9% excluding investment and amortisation. We ended the year with a CET1 ratio of 10.66%, at the top end of our range, enabling the Board's decision to pay a dividend of $0.17 per share. This is a full year payout ratio of 65.4% on cash earnings and a 5.4% yield on the year end share price. Racheal will provide further detail on the financials shortly.

Turning now to slide 10 for an overview of the retail bank. We've spoken for some time about our home lending contraction as we prioritise the economic return over growth. We are continuing this discipline and recycling lower returning home lending capital while returns are not yet sustainable. We anticipate returning to growth once we've reduced our cost to serve through digital mortgages and restructured distribution channels delivering a lower cost operating model.

While we've continued to grow home lending through our lower cost acquisition ME channel, we have paused lower returning legacy platform origination through BOQ and VMA broker channels and continue the originating through our BOQ branches.

In August we announced the strategic decision to convert all 114 owner manager branches to corporate branches which is expected to be completed by March 2025.

This decision addresses an unsustainable economic model. Structural market shifts including changing consumer habits and our complexity, it gives us the opportunity to align our branch structure with our digital and specialist banking strategy including branch consolidation and investment in business banking growth corridors. We're working with our owner managers in good faith and have now met individually with each of them.

Pleasingly, we've had a strong positive response to employment expressions of interest from both owner managers and their employees. We're working to ensure a seamless customer experience as branches convert.

The annualised cash net profit after tax impact of the conversion is expected to be broadly neutral in FY25 with an anticipated annual uplift of approximately $20 million from FY26. We expect there will be opportunities to further optimise this.

Looking at the business bank performance on slide 11.

At our first half result we said we're prioritising the business bank for quality growth in the second half. We've delivered $432 million of balance sheet growth in the half. We targeted segments where we have strong capabilities and relationships. Over half of the flow in the second half was direct. We expect proprietary flow to remain strong. We will accelerate this growth through investment in bankers and new business centres in growth corridors, particularly in Queensland where we have a competitive advantage.

We're increasing the number of bankers by approximately 70% bringing on up to 40 new bankers over the next two years, in addition to the 10 who joined in the second half of FY24. We are differentiating through our capability in targeted specialist sectors including health, professional services and agriculture with deep industry knowledge and stronger relationship coverage through smaller portfolios for our bankers.

We will continue to modernise and strengthen the business bank technology platform to further support banker effectiveness and productivity.

I will now spend some time on our $6.9 billion asset finance company on slide 12.

The finance company is a differentiated strategic asset for the Group, delivering higher returning niche product capability across asset finance, novated leasing, structured finance and insurance premium funding. Excluding the impact of the New Zealand asset finance sale, the portfolio grew 1.6% in FY24 and 4% in the second half.

Importantly, in this area of our business we have a strong competitive advantage and a lower relative cost to funding than key peers. The portfolio is well positioned for continued growth.

Turning to slide 13, our purpose of building social capital.

Key to our purpose is our support for our customers and the communities in which we operate enriching our people and our commitment to positive environment, social and governance outcomes.

We are proud to have facilitated 220,000 Australian families with their home ownership and supported the growth of 160,000 businesses. This is a difficult period for many Australians adjusting to higher interest rates and cost of living.

Supporting customers in the banking moments that matter is at the heart of our customer first approach. We've continued this support through proactive management of those converting from fixed to high variable rates, customers in hardship and more vulnerable Australians.

We know scams and fraud continue to have a devastating impact across the industry. We are part of the Australian Banking Association's Scams-Accord and have invested in new biometric technology on our digital bank which helps prevent fraud. Pleasingly this year, we prevented and recovered more customer losses from scams than ever before. This continues to be an ongoing focus.

Moving now to slide 14, transforming our culture.

Shifting our culture and enhancing our people's capabilities is an important part of transformation. This year we've defined and communicated our target state culture. We've kept it simple with three target state attributes, customer first, performance and outcomes driven and agility and speed in the way we work. We've implemented the program to support this important shift which includes developing the future state skills of our people.

We're seeing notable improvements across key indicators of our target culture including customer experience, delivery of outcomes, collaboration and accountability metrics. Pleasingly, during a time of significant change for our organisation with difficult decisions impacting our people and the owner manager branch network, our people engagement index has held steady at our recent survey in August. While we have more work to do in reaching our aspirations for engagement, we're seeing strong uplift in leadership, safety to speak up and an understanding of what needs to be done to deliver the strategy.

I will now talk to each strategic pillar in more detail.

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Turning to slide 16, strengthening BOQ.

As we progress our remedial action plans, we continue to strengthen our operational resilience and risk culture through program rQ and strengthened our compliance in anti-money laundering and counter terrorism financing through AML First.

These programs are delivering against our remediation commitments supported by constructive and transparent engagement with our regulators.

For Program rQ this half we have matured our three lines of defence model, simplified an uplift in our governance structure, improved transparency and clearly articulated the tone from the top with an improvement in our risk culture metrics.

For AML First this half we improved detection, escalation management and financial crime breaches and undertook targeted deep dive assessments. We are now more progressed with the remedial action plans. It has been opportune to review the accuracy of the provision.

We've increased the provision to deliver these programs by $11 million and this was reflected in FY24 cash earnings.

Turning to slide 17, simplifying BOQ.

As announced in August, we identified further simplification opportunities, increasing our productivity target to $250 million by FY26. This target will be delivered through operating model simplification, technology delivery, property and procurement savings and process and automation initiatives.

We're delivering further efficiency in our operating model in FY25 through FTE reduction and simplifying our distribution channels as announced in August.

The rollout of digital mortgages, ME customer migration and decommissioning of our legacy core banking platforms will deliver material productivity benefits in FY26.

We are well progressed in our corporate footprint production doubling the first half reduction to a total of 12,000 square metres. We are taking action to optimise third-party service provider spend and continue to automate processes and simplify our technology landscape. 57% of our IT assets are now on the cloud and 44 technology assets were decommissioned this year.

Turning now to slide 18 with some detail on the digital home loan.

We have now completed the foundational build of our digital banking mortgage product and originated our first digital mortgage in August of this year. This is a key delivery proof point in our transformation, digitising end to end home lending with materially improved customer

experience, reducing our cost to serve and reduced operational risks. This scalable platform will be rolled out across all three of our brands in FY25.

Customers will experience some materially improved time to yes and 24/7 management of the process on the digital banking app from application, documentation, settlement, loan variations and offset accounts. The new platform will halve our costs to originate, reduce processing time by two thirds and reduce handover points from 17 to two. We will also simplify our retail lending products from over 100 down to two.

We've delivered a product that has a compelling customer experience, is compliant by design with straight through processing and leverages data reducing reliance on manual interventions and checks. This program has digitised, strengthened and simplified and will help optimise BOQ.

Turning now to slide 19 looking at digital deposits.

With the build of the new digital retail banking platform now largely complete, our focus is shifting to migrating our customers and decommissioning heritage technology and operations.

We commenced migration of ME deposit customers with 30,000 customers migrated in August and are planning a further 90,000 by the end of this calendar year. We are seeing early signs of value emerging from our investment in digitisation with material reductions in unit costs of the digital bank and a vastly improved customer experience being observed.

We expect this to continue as the digital bank scales. We've experienced 34% customer growth with 26% of retail deposit customers and $7.2 billion in savings balances now on the digital platform. Average app store ratings are 4.4 compared to 1.4 on legacy.

We've come a long way in building our end-to-end digital bank with a proven and mature execution capability. We have a clear pathway for the decommissioning of ME legacy systems. We are now finalising the pathway for full decommissioning of BOQ heritage bank over the next few years delivering material productivity benefits beyond FY26.

Turning now to slide 20, optimising BOQ.

Successful delivery of our transformation will provide higher shareholder returns. There are four key components to achieving our revised FY26 8% ROE and 56% CTI targets.

- Firstly, delivering our upgraded $250 million productivity initiative. I've spoken to the operating model efficiencies, property and procurement savings, digital mortgages and decommissioning of ME legacy systems that will support delivery of these benefits by FY26.

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- Secondly, returning to revenue growth supported by the acceleration of our specialist business bank and finance company, margin optimisation opportunities and branch conversion commission savings.
- Thirdly, scaling the new digital banking platform, providing funding benefits and returning home lending to growth in FY26. Finally, the cash earnings benefit commencing in FY26 from the branch conversion, with further opportunity to optimise this.

Our ambition is to enhance returns beyond the FY26 targets, driven by full transformation to our target state, future state and decommissioning of the legacy bank, returning the retail bank to sustainable growth.

I'll now pass to Racheal to provide more detail in the financial results. Thank you.

Racheal Kellaway: Thank you, Patrick, and good morning everyone.

Unpacking the result in a little more detail, $343 million of cash earnings was delivered in 2024, a reduction of 24%.

Against the prior year, total income reduced 8% with net interest income down 9%, and non-interest income down 4%. Total expenses increased 6%, reflecting continued inflation and investing in our business.

Loan impairment expense materially improved this year. Statutory profit after tax of $285 million was up 130% on the prior year. We saw improving trends within the P&L in the second half with higher net interest income and stabilising cash earnings.

During the year we had two significant adjustments to statutory profit. Both have been previously disclosed and are consistent with our strategy in simplifying the business. The sale of the New Zealand asset portfolio had an after tax impact of $22 million.

This simplified our operating model as we exited a small non-core lending portfolio. In the second half, as we announced in August, we incurred $33 million after tax for restructuring.

Turning now to the key elements of the result.

The second half saw a stronger performance with total income of $805 million, up 1%. This was driven by net interest margin improving two basis points and a corresponding net interest income increase of 2%.

While average interest earning assets were slightly down in the half, we saw the positive impact of capital being allocated to business lending from housing, where we continue to see elevated

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competitive intensity. 3% growth in the business bank in the half came from our targeted sectors of healthcare, agriculture, novated leasing and diversified owner-occupied business lending.

Customer deposit balances increased 2% in the half, positively contributing to the Group's funding profile. The increase was driven by savings and investment accounts. However, pleasingly transaction accounts held stable against the prior half.

This comes after three periods of customer switching driven by higher interest rates and the repayment of the term funding facility driving competition for deposits in the market.

Unpacking margin in more detail on side 25.

NIM stabilised through the half with a modest increase to 1.57%. Asset pricing and mix was neutral. Within this, there was a four basis point tailwind as customers moved from fixed to variable rate loans.

The impact of retention discounting reduced in the period, however, was still a negative two basis points. Front to back book compression was two basis points, with equal impacts from housing and business.

Higher wholesale funding costs continued to impact margins as the term funding facility was replaced. Higher earnings on the replicating portfolio, lower liquidity levels and lower third party costs contributed six basis points to margin.

On the outlook, in the first half we expect margin to be broadly neutral in a stable cash rate environment. We anticipate lending impacts to again be broadly neutral. Mixed shift benefits from customers moving from fixed to variable rate loans will reduce in line with the maturity profile, which peaked in the first half of 2024, but was still higher than average in the second half of 24.

This will be offset by retention discounting, though we also expect this to reduce in impact. Funding costs will again be the primary headwind. However, we will see the impact moderate, and the replicating portfolio will continue to be a benefit.

Turning now to operating expenses on slide 26. Excluding investment and amortisation expense, growth was managed to low single digits, and below inflation, at 2.9%. This was achieved through $46 million of savings delivered in simplification benefits.

We continued to invest in the business through the year. As flagged at the half year results, the nature of this investment is shifting. As a consequence, there is a $37 million increase in directly expensed investment in the P&L. We saw a small reduction in amortisation driven by timing.

Looking to FY25, we are targeting broadly flat, total cost growth. We expect persistent but moderating inflation. Simplification benefits will continue in line with our upgraded target of $250 million by 2026. We will see amortisation increase with a material step up in the second half.

Investment spend has peaked, so we will see directly expensed investment spend decrease despite it being a higher proportion of total investment spend. We will also see higher costs from the expected conversion of owner managed branches in March 2025, along with corresponding revenue increases.

In FY24, we invested $257 million in the build of our digital bank, invested in transitioning to the cloud, commenced migration of deposit customers and invested in risk and compliance.

Total software intangibles increased $43 million in the period with a material step up in assets under construction. This will lead to higher amortisation in FY25, particularly through the second half with an anticipated amortisation peak in FY26 as previously indicated.

We have been heavily investing in BOQ over a number of years, including the integration of ME Bank, strengthening the Group, digitising and simplifying the business. We are now past the peak of our investment spend with FY24 down 21% on FY23.

We expect to see a material step down again in FY25, taking pressure off the consumption of capital as the material uplifting of our technology platforms has been delivered. We will continue to invest in strengthening our control environment and risk culture.

Turning now to portfolio quality.

Impairment expense for the year was $20 million or two basis points to GLA. This has been supported by strong underlying asset values with a lower collective provision expense and low specific provision activity.

While there remains a degree of uncertainty around the economic outlook, we have maintained a 45% weighting in our forward looking models to downside or severe downside economic outcomes. Our total provisions represent 39 basis points to GLAs.

Pleasingly, in the second half, we have seen both the commercial and asset finance 90 day arrears decrease. This was due to improved operational processes, which managed expired commercial facilities and a small benefit from the sale of the New Zealand asset portfolio.

While housing arrears have continued to increase as expected through the period, these have not yet translated to increased losses, with house prices remaining strong.

Turning now to funding and liquidity on slide 30.

Our financial resilience remains strong with a disciplined approach to liquidity management. We ended the period with a spot LCR of 148% and a spot NSFR of 125%.

The final $1.1 billion of the RBA's Term Funding Facility was repaid during the second half. With this now fully repaid and as we stress test our resilience, we see further opportunity to optimise funding and liquidity levels.

With improved customer ratings and more customers on our new platforms, we are seeing growth in customer deposits, providing us with a stable and diverse funding mix. Deposit funding as a percentage of total funding remains historically high at 71% and our deposit to loan ratio increased to 84%.

We ended the year with CET1 at 10.66%, at the upper end of our management target range, as we maintained flexibility through the period.

Earnings contributed 42 basis points to capital in the half and we returned 25 basis points of capital back to our shareholders. We saw a three basis point impact as we recycled capital from housing into higher margin and more capital intense business lending.

Investment consumed 10 basis points and there was an eight basis point impact from restructuring costs. We saw the benefits of securitisation largely offset by the negative impact on credit spreads widening on the liquids portfolio.

We have declared a final dividend of 17 cents, representing 65.7% of cash earnings, being paid back to our shareholders. No discount will be applied to the dividend reinvestment plan, and we will satisfy this through the on market purchase of shares.

We maintain our target capital range at 10.25% to 10.75% with a dividend payout ratio of 60% to 75% of cash earnings.

In summary, our FY24 results saw earnings impacted by a number of competitive factors and our commitment to investing in the business for the long term. Whilst we saw some positive momentum in the second half, we remain focused on disciplined execution against our strategy and strong cost management.

I will now hand over to Patrick to provide an outlook and summary.

Patrick Allaway: Thank you, Racheal.

Moving to slide 33 for Outlook. While the Australian economy is subdued and continued inflation and global uncertainty present challenges, the fundamentals remain strong. We're optimistic

about the outlook, though the strength of improvement is uncertain and geopolitical events remain volatile.

We anticipate rate cuts in the first half of next calendar year, which will support economic recovery. We are shifting revenue mix towards higher returning business banking, while we deliver our lower cost to serve retail digital bank.

We will continue to exercise discipline on our expenses. Capital will continue to remain strong, including the impact from the branch conversion.

While we expect higher for longer interest rates to increase arrears and loan impairment expense, our portfolio remains well secured and prudently provisioned.

We will continue to support our customers as they manage through higher interest rates and the continued cost of living pressures.

In summary, on slide 34.

We have a clear strategy and have demonstrated consistent and disciplined execution over the past four halves. Our investment cycle has now peaked and we're starting to see the benefits of our transformation.

This management team has navigated the bank through a difficult two years, is making bold decisions and delivering against what we said we would do. Some of these decisions, like restructuring and continuing to invest through the down cycle have impacted short-term performance, to build sustainable long-term shareholder value.

Before we move to questions, I wanted to end where I began.

Transformations of this scale are difficult, particularly so within the current challenging market conditions. Transformations also take time. We understand this requires patient trust in the management team to deliver.

We have high conviction in our strategy to build a simpler, specialist bank, delivering better outcomes for customers, and uplifting shareholder returns.

The build of our simple digital retail bank is largely complete. Focus is now shifting to customer migration, rolling out digital mortgages and decommissioning legacy systems, which will deliver both growth and productivity benefits.

The customer experience on the new platform for deposits and lending is frictionless and compelling. The new platform is scalable, with a lower cost to serve, positioning BOQ to deliver sustainable returns in a highly commoditised retail market.

Our specialist relationship bank is leveraging our competitive strengths across our business bank and finance company in serving target specialist sectors where we have strong competitive advantage and deep industry knowledge.

We will leverage Queensland heritage, strong customer relationships, new bankers and growth corridors to accelerate growth across the relationship bank.

I'd like to take this opportunity to thank our customers for choosing to bank with us, our people, for their dedication and to our shareholders for their continued support.

We're excited to be at this critical point in our transformation and are on the path to improving customer experience and shareholder returns in FY26.

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

Jessica Smith: Thank you, Patrick. We will now move to questions. To ensure all participants have an opportunity to ask questions today, we ask that you please limit your questions to two each. Operator, can we please have our first question?

Operator: Your first question comes from Brendan Sproules with Citi. Please go ahead.

Brendan Sproules: (Citi, Analyst) Good morning team, Brendan Sproules from Citi. I just have a couple of questions around the glide path to the FY26 ROE target of 8%. Given where your revenue is at the moment, you need 15% to 20% higher revenue over two years.

I just want to understand how that'll be achieved given that you still expect mortgage balances to reduce in 2025. You're anticipating stable margins. Just what business banking revenue growth are you expecting here to contribute to this target?

Patrick Allaway: So I'm not going to give a revenue forecast but just wanted to make a couple of comments. Revenues will grow. They will grow from accelerating our business banking growth and as we said, we're investing in a 70% increase in our bankers.

We start to see the impact of that in the second half of FY24. We brought on 10 additional bankers. We've hired a further six as we speak in the last month, and we will be adding to that over the next couple of years. So you should expect to see strong revenue growth coming from both the business bank and the finance company.

As Racheal said in her commentary, the conversion of the owner manager network also will uplift revenues from the second half of FY24. We disclosed the pro forma numbers to you in August, so you should expect quite a material uplift in revenues that will come from that conversion.

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We've also said that as we roll out digital mortgages and restructure our distribution channels, we will return our retail bank to growth as well and you should expect that growth in FY26.

So there are a number of factors that will contribute to revenue growth, but revenue is not the only factor driving that ROE target. We've got a significant productivity target that we announced at the end of last year and then we increased by a further $50 million in August of this year. So that $250 million productivity target is also a very important driver of driving those returns.

I think just a couple of other things to comment on, you should expect with the conversion of our branch network that in FY26 you will see an uplift in profitability.

In August, we said that would be $20 million. We do see opportunities to optimise that as well. So there are a number of levers that we have to drive improved returns in FY26 and we have high confidence in achieving that.

Brendan Sproules: (Citi, Analyst) Fantastic, thank you Patrick. My second question is just around your cost guidance today, which is obviously broadly flat. My question's around the investment spend profile that you've shown on slide 28, which indicates in dollar terms it's going to fall.

I was just wondering around the composition of that because you did have the investment spend fall this year, but the P&L impact actually was 37 million higher. Can you give us an indication of much – how the expensed investment spend will change next year and to what extent will that offset the higher amortisation that you've also flagged in this result?

Racheal Kellaway: Yes, thanks. So as you've pointed out, we've got investment spend peaking. It has peaked. We've had a reduction of 31% into FY24. We'll see a further material reduction into FY25.

We have been working towards more of a 50 / 50% capitalised and directly expensed ratio. That makes sense given the large platform assets are largely built now and we're working more towards digital enhancements and the like.

So what you'll see is investment spend down in a total sense. We will see amortisation increase particularly through the second half of FY25 and a small reduction in directly expensed investment spend in the P&L but it will not offset the increase in amortisation.

Brendan Sproules: (Citi, Analyst) Okay. Fantastic. Thank you team.

Operator: Your next question comes from Jonathan Mott with Barrenjoey, please go ahead.

Bank of Queensland Limited ABN 32 009 656 740 (BOQ) AFSL and Australian Credit Licence No 244616.

Jonathan Mott: (Barrenjoey, Analyst) Thank you. I just wanted to follow on actually from one of the questions Brendan just asked. On slide 11, you talked a lot about the pickup in business banking that you expect to come through to drive revenues to get this ROE target.

If you look at slide 11, you did see a pickup of business lending and asset finance in that second half, but I remember going back to the first half and that number was flat and you called out that there was a runoff of large loans and CRE at the same time.

I just wanted to make sure firstly that's finished. I think there was a mention that the underlying growth in the target areas was around 3%. I wasn't sure whether you were mentioning that was actually for the whole business bank or in your target markets.

Could you give us an update on in your target areas of health, agri and the SME, what growth was coming specifically in those areas that makes up the $319 million growth in second half?

Patrick Allaway: Yes, so thanks for your question, Jon. So first of all, we were very clear about the factors in the first half where we had relatively flat growth. We did restructure our business bank in the half and we did consciously run off some of our exposures as well, which were quite large.

I think what you're seeing is a much more diversified build across the sectors that we are very focused on targeting, where we feel we have a competitive edge, but also where we've got deep industry knowledge. We are also emphasising Queensland in that.

So in relation to the growth prospects for the business bank and the finance company, we said in the second half the annualised growth was 7%, we think that is sustainable, that's around about system and as we bring on more bankers, we think there's an opportunity accelerate that.

In terms of the breakdown of the actual sectors, I don't have the numbers with me, but possibly Rach can provide that.

Racheal Kellaway: Yes, I can provide a little bit more detail. So look, calling out some of the key segments that I referred to in the financial update, so we saw a 6% growth in our healthcare segment.

We did see a small runoff in CRE, so the real estate business, it's 4%, but it's actually becoming less and less of a material part of the composition of the commercial lending portfolio.

Agribusiness grew 4% and the diversified business that I spoke to as well, which is sort of owner-occupied grew just above 10%. So some really good, strong growth in that half in the targeted sectors.

Bank of Queensland Limited ABN 32 009 656 740 (BOQ) AFSL and Australian Credit Licence No 244616.

Patrick Allaway: Just to further add, just on the outlook for FY26, as we called out, margins have stabilised, we have seen a small uplift in NIM in the second half. We did call out in August that you would see margin accretion from the owner manager conversion in the second half of the year.

We also do see opportunities to optimise margin. As we are recycling capital to higher returning segments, so you will see some improvement coming from that. Business banking margins are holding in the key sectors that we're focused on. So in addition to the story that I outlined earlier to Brendan, we do see opportunities for margin optimisation as well.

Jonathan Mott: (Barrenjoey, Analyst) Do you actually mean margin expansion as you move into business banking away from housing? Is that, sorry, I just wanted to make sure, when you say optimise, you mean expand?

Patrick Allaway: That's correct. We will also – the OMB conversion is also accretive for us on them.

Jonathan Mott: (Barrenjoey, Analyst) Yes, that's a one off, but from the mix change you're expecting, of this mix change moving more into business lending away from housing, which could try and explain some of the revenue growth that you're anticipating into that 8% ROE target.

Patrick Allaway: Thanks Jon, it's a slower profile, so don't expect that to happen immediately. As that portfolio shifts, it will take time, but that will contribute.

Jonathan Mott: (Barrenjoey, Analyst) I just want to get this, so when you're saying it will take time for the OMBs to come over, it's not on the beginning of March they all convert straight away, it is a progress over time, is that correct?

Patrick Allaway: No, sorry, I was referring to the recycling of capital with the business banking growth having the impact. The owner manager conversion will be in March, FY25, so we are targeting 100% conversion in March.

Jonathan Mott: (Barrenjoey, Analyst) Great, thank you.

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

Ed Henning: (CLSA, Analyst) Thanks for taking my questions, just a couple from me. Firstly, just talking about the owner managed branches, now you've spoken to the managers, can you just talk about your thoughts on attrition there and the housing to roll through next year? You've

been kind of – the book's been going backwards by roughly 1% the last two halves, will that accelerate a little bit?

Has the attrition levels you've talked about before, that a lot of them are going to come on and work as managers and staff are going to come on, can you talk about has the attrition you're potentially going to see be better or worse or what you anticipate now after speaking to them, is the first question?

Patrick Allaway: So look we haven't seen any material change to date. What we did say in August when we announced the change, that we have taken some prudent forecasting, expecting that there may be some attrition, but we will be very focused on ensuring that this is seamless and that we will have a seamless customer transition.

Our interests are very aligned from now until March because the termination formulas under the franchise agreements look back over 12 months, which will include the period now to March, so there is no incentive for the owner managers to behave any differently to where they're behaving today.

So we certainly would expect some attrition, but also remember that we're converting these branches, we've put out expressions of interest to both our owner managers and to employees and pleasingly we've seen a significant majority of both the owner managers and a vast majority of employees applying for roles at BOQ. So there should be no material change for our customers in that transition.

Ed Henning: (CLSA, Analyst) Okay, thank you for that. Then just a second one on margin, just to clarify when you talk about broadly stable, are you saying broadly stable on a second half margin or on the full year margin?

Just within the margin, you have a nine basis point benefit from the replicating portfolio, you talk about anticipating the benefit to continue, can you just talk about the trend in that and how that will flow through for the next couple of years, as in the slowing impact of it please?

Racheal Kellaway: Yes, sure. So the comments around broadly flat margin are off the end of the second half 2024 number, so that's into the first half 2025. So that's the first part of your question.

In terms of the replicating portfolio, I mean we've been obviously managing interest rate risk for a very long time through the replicating portfolio. We're currently hedged out to five years, that's the tenor of the portfolio. It has been a benefit to us through this cycle and will continue to be a benefit. As you pointed out, the benefit will slow, but we aren't seeing that slowdown from a

margin perspective come through anytime soon, so certainly been a strong position we've taken on that.

Patrick Allaway: Just to clarify, that broadly flat outlook statement refers to the first half of FY25, not the second half. We're not forecasting or giving outlook for margin beyond that. But as we sort of said earlier, there are other value benefits coming through from branch conversion and the other things that we're doing, so it's really taking where we finished in the first half of 2024 and it's focused on the first half of 2025, but not beyond.

Ed Henning: (CLSA, Analyst) Thank you.

Operator: The next question comes from Brian Johnson with MST Marquee. Please go ahead.

Brian Johnson: (MST Marquee, Analyst) Thank you very much and very informative presentation. A few questions if I may. The first one is previously you've spoken about how the NIM is positively leveraged to rate cuts, but the replicating portfolio will do what it does, which is quite independent. Does that mean that we should be absolutely thinking that rate cuts, when they come through, are actually negative for the NIM?

Racheal Kellaway: Look I mean we have a very small balance that is unhedged that will feel the impact of our reducing interest rate cycle. We have, as I describe it, we have got the replicating portfolio in that that smooths earnings through both the upward cycle and the downward cycle, so as rates come down, that replicating will provide earnings stability for us, which is the primary reason why we do that.

In terms of relative performance, I mean our tenor is five years, which means the benefits flow through more slowly than others, but the downside risk is also less over time as well. So look, we're really comfortable with the period in which we're hedged for interest rate risk at the moment.

Brian Johnson: (MST Marquee, Analyst) So perhaps I've expressed that question poorly. Absent a dramatic move in bond rates, the replicating portfolio yield is just positive.

Racheal Kellaway: Correct.

Brian Johnson: (MST Marquee, Analyst) So it's very hard not to see that basically happening. But can I just go back? Over and above that, if the RBA comes out and cuts rates, would it be an incremental negative for the margin, as opposed to keeping rates high?

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Racheal Kellaway: So the replicating benefit will continue to provide positive margin impacts, even if interest rates come down quickly. The one exception is the unhedged component, where we'll see compression of margin on transaction accounts that aren't hedged.

Patrick Allaway: So I think we'll see compression of margin but our relative performance will be better because we've got a lower base of low-cost transaction accounts. So the funding differential with our peers will reduce.

Brian Johnson: (MST Marquee, Analyst) That's great. The replicating portfolio is kind of like an issue on the side. Just the next one, if I may and Patrick this is one thing I really don't understand. You've got a slide which shows the digital home loan coming through, which all looks very impressive, it seems to me as though you talk about how it's available through the third-party channel, we also can see that front book housing ROEs are below the cost of capital.

Can you just talk about what your pricing strategy is through the branch, through online and through the broker? Is there a differential pricing strategy coming through?

Patrick Allaway: So I might just start with giving you some context and then I'll come back to your question, Brian. So I think first of all we have said that we are going to be very disciplined in the way we allocate our capital and where we are not getting an economic return, you are seeing a contraction across the portfolio.

We are growing in ME brand, so with the exception – the exception is the ME brand. In the ME brand and digital mortgages we have not rolled out yet, so this is still on our legacy, we have a much lower acquisition cost. We're also selling PAYG, very simple low LVR with less capital weightings and so our returns are higher in the ME brand. So you will have seen that we have distinguished across our brands and are comfortable growing in the ME brand. That largely is a broker channel, but we are comfortable with the returns that we're getting from that channel.

We have paused on BOQ Broker and VMA Broker, where we are not getting economic returns and where we are booking mortgages on our legacy platform. We will obviously review that once we roll out digital mortgages over FY25. We are still pursuing mortgages through our BOQ branch network. That will become a proprietary channel for us as well, which we've obviously talked about in March, so that's the shift and the difference between our channels. There's no material pricing difference between the channels, but it's really where the respective channels sit from a cost to serve perspective.

We are not seeing the benefit of digital mortgage yet. We have written our first digital mortgage in August, we're going through a pilot friends and family testing at the moment. We will roll those

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out and look to scale towards the back end of FY25, so you will only start to see the benefits the economic benefit and the returns coming through, scaling of that, late 2025, but certainly through full 2026.

Brian Johnson: (MST Marquee, Analyst) So, Patrick, if Macquarie continued to disrupt with the different pricing paradigm, we've got Westpac and ANZ that are pricing with a different paradigm, does this actually make the 8% ROE target for FY26 vulnerable or you just make it up through mix?

Patrick Allaway: No, it doesn't. It doesn't. We have said that you should not expect mortgages to return to growth till FY26. So we're giving you a very clear indication that until we deliver our lower cost to serve digital mortgage channel, but also restructure our distribution channels to a lower cost to serve, we will not be scaling mortgages. We are comfortable that once we've delivered that, we will significantly reduce our cost to serve, which will enhance our returns.

But today you should expect us to continue to recycle capital with a continued decline on mortgage portfolio, unless you see a major change in margins over the period. Obviously we would revisit that, but as we've said in March, we think this is structural, so our whole strategy is transforming our retail bank to compete in a highly commoditised market.

Brian Johnson: (MST Marquee, Analyst) Thank you.

Operator: Your next question comes from John Storey with UBS. Please go ahead.

John Storey: (UBS, Analyst) Thanks very much and thanks for giving me a chance to ask a few questions. Patrick, maybe just on the first one, there's obviously been a lot of focus on business banking on this call, just wanted to get a sense in terms of your business banking division how much business do you actually write through commercial brokers? How do you see this channel evolving for BOQ, particularly in the context of the investment that you're making around growing your number of relationship bankers?

Patrick Allaway: Yes, so 50% of our volume, John, is through our proprietary channel. That's really, really important to us. So we've also said we're going to grow the number of bankers, so you should expect us to emphasise the proprietary channel.

Brokers are a very, very important channel for us, so we're not underestimating that. We will also leverage our broker relationships as well, but we have a very strong proprietary channel. We see this as relationship driven, in particular when we think about our heritage in Queensland and our competitive advantage in Queensland, that proprietary channel and those relationships are very strong and we will continue to leverage that.

John Storey: (UBS, Analyst) So the number that I heard was 50% of income through commercial…

Patrick Allaway: 57% is our proprietary channel, not brokers, proprietary.

John Storey: (UBS, Analyst) Okay, got you. Thanks. Racheal, maybe just a second one for you, just on the credit loss ratio, right, obviously quite a low charge that you took and just reading your commentary, sounds very similar to what we've seen for the other banks so far just in terms of asset values being a little bit higher than expected and maybe some of the inputs quite conservative in terms of how the banks have approached it.

But just cutting into your actual charge for the second half, looks like there was quite a bit release related to commercial lending. Maybe if you could give a little bit more colour or detail just around that, is that a single name exposure that's come up, procured or exposure that's been sold? Is this trend particularly I guess for then business banking commercial something that we should expect to continue?

Racheal Kellaway: Yes, so might make some broad comments first just supporting some of the points that you made there John. So we are strongly provided for, we're at 39 basis points to GLAs. Within the more broader collective provision, we have had the impact of higher arrears come in, we haven't grown the balance sheet, so that's been a driver as well and then we've obviously been supported very much by strong asset values, particularly in terms of housing.

More specifically on the question around commercial portfolio, we did see arrears come off, so that was largely driven by operational processes and I talked to that when I was describing the portfolio quality. So we've seen arrears come off in both asset finance actually and commercial lending. We have had a small number of exposures that have come out of the business as well and so that's helped.

John Storey: (UBS, Analyst) Okay and just in terms of the trend kind of going forward?

Racheal Kellaway: Yes, I mean it's hard to tell. Look our perspective at the moment is we've got a really, really strong business banking portfolio, really high quality. We know those businesses well, we've got very few large exposures, we're very mindful of concentration risk, we have been running off commercial real estate, as I pointed out before in some of those sectors that we've got some concerns around there being higher risk. So I think it's hard to be really definitive about what's going to happen in terms of commercial lending arrears, but we're really confident in the quality of the portfolio as we stand here today.

John Storey: (UBS, Analyst) Excellent, thanks guys.

Patrick Allaway: Hi John, I might just add to that as well. Obviously with rates running higher for longer, we don't expect a rate cut until the first half of next year. I think you've got to expect that LIE will lift from these really low levels across the industry and for us as well. That's not to say that there's any issue with our book. We're really comfortable with the book and the security that we have and obviously the high security percentage of the book. But you should expect that LIE will come off these levels and raise a little bit. I don't think they will go back to that normalised, to the 12% to 14%, but certainly I think you've got to expect it'll increase.

John Storey: (UBS, Analyst) Thank you.

Operator: The next question comes from Victor German with Macquarie. Please go ahead.

Victor German: (Macquarie, Analyst) Good morning and thank you. I was hoping to clarify a couple of points on your guidance if possible on slide 33. It appears that both expenses and revenue guidance includes the impact of branch consolidation, that's right, isn't it?

Patrick Allaway: That's correct, yes.

Victor German: (Macquarie, Analyst) Referring to the earlier question, I think Patrick you said that the guidance – so you basically say you anticipate stabler margins, even though that relates to FY25 out, that you are saying we should read it as first-half 2025 comment?

Patrick Allaway: That's correct, so we've given an outlook on margins for the first half of 2025. We're not brave enough to go further than that. We're optimistic but it's first half of 2025, yes.

Victor German: (Macquarie, Analyst) Okay, because I mean I would have thought that the second half, given the benefits from the branch consolidation and even, I think Racheal discussed, when rates start to fall, the impact on your unhedged deposits should be small, combining those things I would have thought you should see positive trends on margins in the second half.

Patrick Allaway: You would expect that and we are optimistic, but we're just not comfortable in making a call on margins after the first half.

Victor German: (Macquarie, Analyst) But there's nothing else to sort of call out that we should be mindful of that potentially may happen in the second half?

Patrick Allaway: Not at all, so obviously there's quite a large margin accretion that comes from the owner managed conversion. There are some tailwinds that are supportive as well, but we're just not giving an outlook statement in the second half.

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Victor German: (Macquarie, Analyst) Understood, okay. Then on costs, when you talk about let expenses, again, this includes the uplift in those branch consolidation in the second half?

Patrick Allaway: That's correct.

Racheal Kellaway: Yes.

Victor German: (Macquarie, Analyst) Maybe to the extent you can or maybe Racheal, just a little bit more colour because obviously that's a very substantial reduction of costs in the second half, given additional costs that you were planning to absorb, if you can maybe give us a little bit more context in terms of – you obviously already talked about the reduction in investment spend, but there's a little bit of an offset in amortisation expense, but also that comment that you made around the aggregate cost saves that you're planning to achieve, maybe you can contextualise some of that in terms of what you're planning to achieve in the second half with respect to that $200 million to $250 million cost saves? Productivity target.

Racheal Kellaway: Yes, it really does come down to the simplification benefits. I mean we've got $46 million of in-year P&L benefits that you can see in FY24. There will be some flow-through benefits from that. We've made the announcements around the operating model changes just recently, so those FTE reductions are happening now and so that will give us benefit through FY25 as well. We're also reviewing third-party spend and there's a clear simplification slide that sort of describes some of the areas that we're looking at in order to deliver those simplification benefits.

You've got all of the component parts right there. So broadly flat costs through the year, that will include the addition of branch costs into the second half. We've got amortisation coming up, particularly in the second half. We have overall directly expensed investment coming down a little bit but not offsetting amortisation, as you said.

Then it's really those simplification benefits that will get us back to broadly flat.

Patrick Allaway: I think the other…

Victor German: (Macquarie, Analyst) Out of the [unclear] – sorry, to interrupt but if you could maybe give us a little bit of context of what proportion you think out of the simplification benefits you'll be able to crystalise in 2025.

Racheal Kellaway: We're not giving definitive guidance on that. So we think we've been pretty bold by talking about targeting broadly flat total costs. The component parts we'll let you know as we are delivering those for the first half.

Victor German: (Macquarie, Analyst) I guess the reason I'm asking is obviously, if we're thinking that you're going to achieve those cost saves, there's obviously a remaining benefit to come in '26/'27.

Racheal Kellaway: Yes.

Victor German: (Macquarie, Analyst) So it would be useful for us to understand how much of that you already would crystalise in '25 versus ongoing benefits in future years.

Patrick Allaway: So I think the best we can help you with is if you go to page 17 of the pack, you can see a graphic demonstration as to how those cost benefits are flowing through. That's about as far as we can go but it will give you a good indication that obviously, we're seeing quite an uplift coming for FY25 and then a material uplift into FY26.

I think, also, just to re-enforce, the branch conversion we only have half the cost-base because it's only effective from March. We also did say in March when we announced that we do see consolidation opportunities as well. So there are a number of factors, but the big ones are called out on page 17.

Victor German: (Macquarie, Analyst) Thank you.

Operator: The next question comes from Andrew Triggs with J.P. Morgan. Please, go ahead.

Andrew Triggs: (J.P. Morgan, Analyst) Thanks and good morning. Racheal, maybe the first question for you just around a couple of follow-ups on outlook. So firstly on the first half '25 NIM guidance, does that assume any reduction in liquid assets, noting that the LCR as you mentioned was very high at 148%?

Then the other question on the cost guidance was what do you factor in in terms of the split of investments spend between upfront expensing and capitalised in FY25 specifically?

Racheal Kellaway: Yes. So there will be a very, very small reduction, we think. I mean, it's hard to, again, forecast exactly what's going to happen in terms of liquidity depending on market conditions and alike. There will be – I mean, I'm talking less than a basis point so very immaterial to the overall Group margin in terms of liquidity.

The real driver in terms of liquidity and other in terms of the margin through the year will be the continued benefit of the replicating portfolio which we've talked about.

In terms of the exact number, I mean, again, look, we are working towards the 50/50 as I said. We made a small impact or small benefit in terms of directly expensed investment spend this year. We are – we will be somewhere between where we are today and the 50% in FY25.

It really does depend on the exact timing of when assets start to amortise. Sorry, in terms of – sorry. The delivery of the investment of the profile, so the timing of what we're actually building in the year rather than amortisation, sorry. So, look, I think we'll be just getting closer and closer to that 50% by FY26.

Patrick Allaway: I might just add…

Andrew Triggs: (J.P. Morgan, Analyst) Okay. You've given quite specific guidance on the overall cost number that you must have the component parts.

Racheal Kellaway: Yes but I think if we start picking apart each of the component parts we'll give you everything in the end. So we've provided pretty good guidance out to FY26 in terms of that split. I have said that the directly expensed investment spend will reduce. So overall, investment spend reduced – directly expensed investment spend will reduce but it will become a bigger proportion of total investment spend.

Patrick Allaway: Just coming back to your first question on liquidity. We don't intend to hold the LCR at those sorts of levels. Obviously, we've held it high through the repayment of the term funding facility.

I think you should expect that we will look to optimise. There's certainly less demand for liquidity with our mortgage book contraction as well and the recycling of capital. So we do see an opportunity to manage that more efficiently as well.

Andrew Triggs: (J.P. Morgan, Analyst) Yes, that's exactly the point. Why wouldn't that optimisation happen in the first half of '25? Are there any reasons for that continued conservatism?

Patrick Allaway: Yes, look, we are being prudent and conservative about our outlook statements. We will manage what we can control but there's no point in us being brave today about what we're going to deliver.

I think you should take it that we're comfortable that margins have stabilised and will remain stable in FY25, but clearly, we'll be looking at all the levers we can pull to improve that outcome.

Racheal Kellaway: I might just add there, we actually have been managing down the average LCR which provides the benefit. So our average LCR through the period is down 1%. The spot is up a little bit, it's a daily spot and so we have actually been managing that. So we're not waiting to manage it we are already doing that.

Andrew Triggs: (J.P. Morgan, Analyst) Thank you. A second question, a quick one just on overall loan growth in FY25. You've obviously flagged headwinds to the mortgage book, assume that the headwinds will grow just given some of the decisions in the channels. Do you expect the overall loan book to actually experience growth or be flat or slightly down?

Noting that the home loan book is more than three times the size of the business and finance book.

Patrick Allaway: Yes, look, we're not going to give that out. Clearly, 78% of our portfolio is home lending. So you would have to see very significant business banking growth to get to a flat outcome.

I think what we're saying to you today is you should expect that the client and the home lending book and accelerated growth of the business banking book, that's probably as far as we'll go.

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

Operator: Your next question comes from Jeff Cai with Jarden. Please, go ahead.

Jeff Cai: (Jarden, Analyst) Good morning. Thank you. Just a couple of clarifications, firstly on cost. Has there been any change to the target of FY26 targets of being broadly flat to '23? So that's roughly about $960 million plus anything that you have for OMB conversions.

Patrick Allaway: Yes, look, I might make some comments and then Racheal might want to just add to that. So the material change to the FY26 numbers on FY23 is in the announcements that we August.

So we've provided an additional $50 million productivity benefit which we will deliver in FY26. We're also taking on the full annualised cost-base of the OMB network which we said, obviously, there are consolidation opportunities from that perspective as well.

So we had previously said before those announcements that you should expect a flat expanse position FY23 on FY26. I think with the changes we announced in August, you should expect very low single-digit cost growth in FY26.

Jeff Cai: (Jarden, Analyst) Versus '23.

Patrick Allaway: That's correct, yes.

Jeff Cai: (Jarden, Analyst) Okay. Great. Then just very quickly on slide 11 in terms of business lending growth, you're sort of saying 7% annualised growth going forward. Is that on the full year '24 or the second half '24?

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Patrick Allaway: So that was the second half of '24 on the annualised basis. We had business lending flat in the first half. That's not a forecast for FY25. What we're saying is we actually want to accelerate. We're growing the number of bankers, we're also investing in growth corridors.

We're very focused on Queensland and our specialist segments. So we are expecting to accelerate our growth from the second half.

Jeff Cai: (Jarden, Analyst) Great. Thank you.

Operator: The next question comes from Richard Wiles with Morgan Stanley. Please, go ahead.

Richard Wiles: (Morgan Stanley, Analyst) Good morning. I wanted to ask about the deposit book. Is the average cost of $7 billion of digital deposits higher or lower than the cost of the overall deposit portfolio and how do you expect those deposit costs to evolve?

Racheal Kellaway: So I might just step back and talk a little bit more broadly about the deposit mix and portfolio. So we obviously have a reasonably small amount of transaction accounts. Digital strategies to build our stable, retail customer deposit base, that will include savings and investments, and deposits, and transactions.

We know that customers are chasing yield, which you would expect in a higher-interest environment. We have seen transaction balances stabilise in the half which has been quite promising and again you would expect that given cash rates have stabilised.

The $7 billion that we've got on our new digital platform, there are a number of different ways in which we acquire customers some of that is through bonus interest rates. I mean, this is all very public. We aren't the top of the market in terms of our savings rates, but we are competitive.

So that mix has been a very small, again, less than a basis point, impact to margin in the period but that's been offset, actually, by some good savings discipline and pricing in other portfolios so that's why it's not showing up in our overall Group margin walk.

Then lastly, just to complete the picture, term deposits. We've seen some runoff in term deposits, again, very deliberately pricing competition in term deposits got really hot through the end of the last – the period leading up to June, which was obviously the period leading up to the final repayment across the industry of the term funding facility.

So we stepped back from term deposits. Term deposits in that period were actually more expensive than acquiring customers on to the new digital platform and into savings accounts.

Richard Wiles: (Morgan Stanley, Analyst) Racheal, maybe if I could just follow up on that. I mean, BOQ's big challenge is that it has a legacy high-cost deposit franchise. It's a competitive disadvantage versus many other players in the market, particularly the major banks.

One of the potential benefits of your digital deposit strategy is that you can lower that cost of funding and I know there are a lot of component parts there, but can you tell us whether the cost of funding of the $7 billion of digital deposits is lower than the legacy portfolio?

If it's not, then why should we be so positive about the growth that you're getting in your digital deposits if it's not lowering your cost of funding?

Patrick Allaway: Yes, look, that's a really good question. I think you've got to just look at the context that we've only launched this digital platform in the last 18 months to two years. Clearly to grow the platform we've been providing attractive rates.

We also did it during a period of the TFF refinancing. So there was heightened competition on the liability side of the balance sheet across the industry when we grew that.

I think what we can tell you is that we're seeing really strong retention rates of our transaction and savings account customers. Those that are active on the platform, retention is really good.

It's really all about customer experience and when you look at the ratings of the digital bank at 4.5 compared to our legacy bank at 1.5, we have high conviction that this is the best way for the bank to fund itself going forward and that over time as this matures and as it scales we will broaden our base of low-cost transaction accounts and savings accounts on the platform.

Richard Wiles: (Morgan Stanley, Analyst) Okay. Thanks, Patrick. Then the second question I wanted to ask was just about the OMB conversion. Media reports have suggested that some of the owner managers are considering legal action.

Can you give us any update on whether you expect that to be the case and can you tell us whether you're confident that the upfront cost of the OMB conversion that you flagged in August is unlikely to increase?

Patrick Allaway: Yes. I'd think I would first like to acknowledge this has been a very difficult decision for owner managers and you would expect that some of those that are very unhappy with the decision.

We have received a Notice of Dispute. I think that's not unexpected. You would expect in these situations where you have – are making a major change to our structure, that some are going to be not comfortable with that.

What I can say to you is that we're working in good faith and very constructively with our owner managers to comply with the terms of our franchise agreement and the franchise code. This is the right decision for BOQ. We said that we have a very complex distribution structure. That distribution structure does not serve us or the owner managers well in this structurally challenged highly commoditised market and so as our customers shift to our digital channel and to digital channels across the industry, we're looking to take out complexity, but most importantly we're building a more sustainable model for the Bank.

It's in the best interest of all of our shareholders from that perspective. So, we will work through constructively with our owner managers from now until March and obviously we will provide an update at the half year in relation to the conversion.

Richard Wiles: (Morgan Stanley, Analyst) Okay, thanks for that update, Patrick.

Operator: Your next question comes from Matt Dunger with Bank of America. Please go ahead.

Matt Dunger: (Bank of America, Analyst) Yes, thank you Patrick and Racheal. Just wondering if I could ask about the CET1 ratio and you've called out a 30 basis point impact previously from the branch conversions. Are you able to talk through some of your capital planning considerations? Are there avenues for capital generation we should consider particularly as you move into more risk weighted asset intensive business lending?

Racheal Kellaway: Yes, so I mean we have been calling out that we will be managing capital within the target range, so that's 10.25% to 10.75%. We expect to operate within that range including the, you know, we've called out the circa 30 basis points of capital impact from the owner manager conversion. There's obviously the generation of earnings that will support capital. There'll be a dividend paid out.

I mean in terms of higher capital-intensive business lending our strategy here is around recycling the balance sheet and so housing lending runoff effectively from a capital perspective will support the growth into the business lending portfolio. So, sort of minimal impacts on capital if you think about the RWA impact overall.

Matt Dunger: (Bank of America, Analyst) Great, thank you and just a follow up on that. If I could ask about the restructuring of following the conversions that you've talked about. You've taken the below the line costs of $33 million. That appears to be what you called out previously. Shall we expect any addition below the lines coming through in FY25?

Racheal Kellaway: Look, I mean the one will be the owner manager impacts and so the – and we did disclose this in August but just as a reminder. There's an upfront capital impact of about

30 basis points. That's effectively the cash payments to owner managers. What happens then is you book an intangible asset on the balance sheet that will unwind over time and so that unwind we will be putting below the line. That will start through FY25, so from March onwards, but outside of that no plans at this point.

Matt Dunger: (Bank of America, Analyst) Thank you.

Operator: Your last question comes from Christian Mazza with Jefferies. Please go ahead.

Christian Mazza: (Jefferies, Analyst) Morning team, can you hear me okay?

Racheal Kellaway: Yes.

Patrick Allaway: Yes, thank you.

Christian Mazza: (Jefferies, Analyst) Cheers. I just have one quick question. On page 96 of your Annual Report there's a breakdown of the movement in impaired assets. In second half 2024 you show realisations of $41 million. Are you able to split them out between write offs and cures?

Racheal Kellaway: Sure, we can do that. I can take that offline with you this afternoon if you like.

Christian Mazza: (Jefferies, Analyst) Oh awesome, thank you.

Operator: There are no further questions at this time. I will now hand back to Jessica for closing remarks.

Jessica Smith: Thank you again for joining today's call. If you have any further questions, please reach out to the BOQ Investor Relations Team and we look forward to connecting with many of you over the coming days. Thank you.

End of Transcript