BOQ 2021 Half Year Results Announcement

Thursday, 15 April 2021

Speakers: George Frazis, Managing Director and Chief Executive Officer
Ewen Stafford, Chief Financial Officer Chief Operating Officer
Cherie Bell, General Manager Investor Relations

Transcript:

Operator: Thank you for standing by. Welcome to the Bank of Queensland half-year results presentation. 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 Cherie Bell. Please go ahead.

Cherie Bell: Good morning, everyone. Welcome to BOQ's first-half results presentation for 2021. Before we begin, I would like to acknowledge the traditional custodians of the land upon which we meet today, the Gadigal People of the Eora Nation and recognise elders, past, present and emerging.

I would like to thank you for joining us for today's audio webcast. Joining me today is George Frazis, our Managing Director and CEO, Ewen Stafford, our Chief Financial Officer and Chief Operating Officer and members of BOQ's Executive Team and Senior Management. I will now hand over to George to provide an overview of the financial results and an update on our progress against our strategy.

George Frazis: Thanks, Cherie. Good morning, everyone, and thank you for joining us. As Cherie mentioned, I'm very pleased to be joined by members of the Executive Committee and Senior Management, who've been integral in the execution of our strategy and in the delivery of these financial results.

Turning now to an overview of the half on slide 6. Today we are reporting yet another strong performance and you can see the continued momentum of BOQ Group, demonstrated by an uplift in statutory profit and cash earnings. These results are the third consecutive half of improved performance and reflect a sharp focus on our strategic priorities and the disciplined operational execution of our transformation plan.

Our statutory net profit has increased 66% and our cash net profit is up 9%, compared to the prior corresponding period. Our Home Buying Transformation Program has resulted in the Group continuing to achieve growth in housing loans, with a 1.6x system growth in the half and just under

$1 billion net in new housing loans, which is almost double the growth in the first half of FY20. NIM has also increased 1.95%.

As mentioned, we remain firmly focused on the execution of our strategy and our digital transformation is on track. Last month, we launched the first stage of the new Virgin Money Digital Bank and during the half we announced the acquisition of ME Bank. Our asset quality remains sound and we have balance sheet strength to support business growth with a CET1 ratio of 10.03%.

As a result of this strong performance, the Board has determined to pay an interim dividend of $0.17 per share, inclusive of the new shares issued through the capital raising. This represents a 66% payout ratio.

Turning now to the results in more detail on slide 7. Statutory net profit after tax increased to $154 million and we saw an improvement on cash earnings after tax of $165 million. There was an uplift in cash return on average equity to 7.8%. As mentioned, Common Equity Tier 1 remains strong at 10.03% and our cash earnings per share increased to $0.343 per share.

The drivers of the half-year results, are outlined on slide 8, and Ewen will take us through these in more detail shortly. Total lending grew by more than $1 billion in the half, combined with NIM growth through the period. This resulted in a 6% increase in net interest income, compared to first-half '20 and a 2% increase from second-half '20.

Pleasingly, given the focus on margin management, NIM increased by 3 basis points from the second half, an increase by 6 basis points, compared to the prior corresponding period. The cost-to-income ratio again improved slightly to 53.8% in the half, driven by the favourable income result and the positive jaws.

The loan impairment expense of $24 million was in line with historical impairment levels, which is a good outcome and we will remain prudently provisioned to cover any potential life-time losses arising from COVID-19.

Turning now to lending and deposit growth on slide 9. Customer deposits lifted by $1.062 billion in the half, which enabled the deposit-to-loan ratio to be maintained at 74%, while further reducing our reliance on term deposits. Lending growth momentum has accelerated in the half, with lending GLAs increasing by $1.065 billion in the period. Housing growth of $997 million was 1.6x system. Business bank lending increased by $91 million, against a contracting system.

On the housing book, Virgin Money Australia and BOQ Specialist again delivered growth. I'm extremely pleased that the BOQ Retail brand has delivered $310 million of housing growth in the half, compared to contraction in the prior periods. This is the result of our focus on improving the customer

experience, reducing our time to conditional yes and increasing productivity across both the proprietary and broker channels.

In the Commercial portfolio, we experienced a slight recovery in growth post-COVID, by focusing on our niche segments. There's more work to do and we are working closely with our SME customers as the economy recovers, to support them and to drive further growth through this channel.

Diving a little deeper into the divisional performance on slide 10, both businesses have delivered a solid performance for the half. At the 2020 full-year results, I spoke to you about our priority to fix the Retail Bank. We've made good progress on this during FY20. This has accelerated into the first half. I'm pleased to report today, the BOQ Retail Bank has delivered a significant turnaround in housing loan growth of $795 million in the half. Pleasingly, we have seen continued momentum with house loan growth accelerating.

Increased branch and broker productivity has resulted in a significant increase in application volumes and importantly we've maintained our time-to-yes standard, despite the material volume increase. As mentioned earlier, our focus on the customer remains at the core of our transformation. Customer satisfaction continues to track positively. This is reflected in the higher NPS scores.

In line with industry, lending growth through BOQ Business remains subdued in first half '21 and we supported our customers for the impacts of COVID on their businesses. We continue to focus on our core Commercial, SME and Agribusiness segments, and our niche segment focus is working. Deposit growth through BOQ Business increased to $611 million in the half, supporting the ongoing asset growth across our business.

You can see our transformation is on track on slide 11. Our Executive Team has been firmly focused on execution. Momentum is building and delivering growth, while we closely manage margin and deliver productivity improvements. The result is positive jaws when compared to the previous two halves. We are now in the second year of our productivity program, with these efficiencies enabling us to invest in new initiatives and drive growth.

The successful execution of our digital transformation remains a key priority, with a number of core transformation programs completed or well underway. As I mentioned earlier, the Virgin Money Digital Bank went live last month. I'll go into more detail on that on the next slide. Importantly, this creates the platform for the BOQ Retail Bank and the ME Bank integration, post completion.

We have also continued to develop our intelligent data platform and our Open Banking capability during the half. Finally, we have a strong balance sheet and capital position, ensuring the ongoing stability of the Bank and providing us with a capacity to support growth and investment.

Diving into a little more detail on our digital bank progress on slide 12, the first phase of the Virgin Money Digital Bank launched in March. For the first time, Virgin Money now offers, through a leading mobile banking app, a transaction account and two saving accounts, plus a fully-integrated credit card offering, which is a significant enhancement to the customer experience.

These products are fully digital and delivered efficiently at scale, giving the digital origination the transaction processes. The new Virgin Money Reward Program has also launched, which has been designed to reward and recognise customers for the way in which they bank. Virgin Money Rewards is seamlessly integrated within the app's interface and has gone live, with around 100 earn and redeem partners, which will continue to grow over time.

The digital bank represents one of the largest production deployments in BOQ Group's history. Its successful execution is testament to our people and world class partners. It is a market-leading technology solution, API-first in design and has been developed as a cloud-based, scalable solution, with an evergreen upgrade path, providing our customers with the latest in innovation.

This is a foundational investment for BOQ Group and provides us with a strategic pathway for the Retail Bank's migration to the digital platform. Leveraging common data architecture for Virgin Money, BOQ and ME Bank going forward, will enable us to have a common core retail banking platform for all three brands.

Phase 2 of the Virgin Money Digital Bank is already underway, which will include home loans and expanded deposit and loyalty offerings and Open Banking capability. Along with the migration of the BOQ Retail brand onto the platform, we expect to add ME Bank to the roadmap, post completion of the acquisition.

Turning to the acquisition of ME Bank on slide 13. As I outlined on 22 February, the acquisition of ME Bank was driven by strong strategic and financial logic, and we successfully completed the capital raising during March. Our integration planning is well progressed and the regulatory approvals process is underway.

The acquisition of ME Bank delivers material scale, broadly doubling the size of our Retail Bank, increasing our customer numbers to almost 1.5 million and increasing our Retail net profit contribution to greater than 50%. This gives us a platform for growth that is more capital efficient. As we have said before, we are becoming a compelling alternative to the big banks.

ME Bank is a well-loved and highly complementary brand, with aligned values. Each of our brands have differentiated customer targets, with minimal overlap. Importantly, the acquisition will result in the diversification of our geographic footprint along the East Coast.

From a financial perspective, in the first year the acquisition is expected to be low double-digit to mid-teens cash EPS accretive and more than 100 basis points cash ROE accretive, including full run-rate synergies. We expect to deliver around pre-tax synergies of $70 million to $80 million by year three, driven by the alignment of our operating models and a common core banking platform.

The pathway to a cloud-based common Retail banking platform enables us to leverage the capital investment envelope across a broader base, and importantly leverages Termenos's ongoing global innovation, through continuous cloud upgrades, to deliver best-in-class customer experiences.

Before I hand over to Ewen, I would once again like to recognise the strength and execution excellence of our Management Team. I would like to thank them and all of our people for their tireless efforts in delivering these very strong first-half results, through some difficult circumstances. Over to you, Ewen.

Ewen Stafford: Thank you, George. Good morning, everyone. Turning firstly to the Group's financial performance on slide 16. As George mentioned, we are continuing to build momentum and have delivered another half of strong growth. Starting with total income of $569 million, which is up 5%, or $28 million on PCP and 3% on the second-half FY20.

The 5% increase was the result of a 6%, or $29 million increase in net interest income, driven by ongoing growth in the balance sheet and good margin management. Non-interest income was broadly flat on PCP and up $5 million, compared to the second-half '20, as a result of the expiry of fee waivers provided to support customers during COVID-19 and a one-off benefit on the card support portfolio.

Operating expenses increased 4%, or $12 million, compared to PCP, to support strong growth in business volumes and increased project OpEx. Pleasingly, this performance has driven an underlying profit uplift of 6% PCP, or $16 million and 3% sequentially. We have focused the business on delivering positive jaws and we have achieved 1% jaws in the half, when compared to both comparative periods.

Loan impairment expenses have decreased during the half to $24 million. Cash earnings increased to $165 million, an uplift of $14 million or 9%, compared to the first half '20.

The combination of this strong financial performance and ongoing capital management has led to an improvement in cash ROE to 7.8% for the half.

Moving to non-cash earnings on slide 17. Statutory net profit increased $61 million or 66%, compared to PCP, to $154 million for the half. There were two notable non-cash post-tax items in the period. Firstly, a $6 million expense relating to finalisation of the employee pay and entitlements review. Secondly, $3 million of transaction costs relating to the ME Bank acquisition.

Looking to the second half of FY21, and as advised on 14 October 2020, we expect the loss on disposal of St Andrews to impact statutory profit by approximately $27 million to $30 million post-tax. Further, and to reiterate comments made then, there will be minimal cash earnings and CET1 capital impacts from the disposal.

Turning to net interest margin on slide 18. NIM has increased 3 basis points in the half to 1.95%. Stepping through the walk. Asset pricing and mix resulted in an adverse impact of 5 basis points. Within this, there was a 3 basis point benefit arising from the November '20 repricing activity and other NIM movements. This was more than offset by the continued front to back book drag of 5 basis points on housing, a further 1 basis point in relation to commercial loans.

We saw a further 2 basis point reduction from increased flows into lower margin fixed rate housing lending. Funding costs had a favourable impact of 13 basis points. We actively managed retail and treasury deposits over the half to optimise margin, which had a favourable impact of 10 basis points. We also saw a 2 basis point benefit from a changing mix, away from higher cost term deposits. Further, there was a 1 basis point benefit from the term funding facility in the half.

We continued to benefit from hedging costs which improved NIM by 2 basis points. There was an adverse impact of 4 basis points relating to lower returns on the replicating portfolio, and uninvested free funding and low cost deposits. There was a further 3 basis point adverse impact from higher liquidity levels.

Looking forward, and excluding any impacts from the ME Bank acquisition. In the second half '21 we expect NIM to be broadly flat. Within this, benefits are expected from customer deposits, and also from wholesale funding as we further draw down on the TFF. These positive dynamics will mitigate the headwinds from ongoing front to back book pressures, the current market shift towards lower margin fixed rate products, and the impact of the lower cash rate environment, and also higher third-party costs.

This will result in NIM being positive in full year '21. We intend to continue to actively compete in the market while managing the volume margin trade-off to ensure sustainable and profitable growth.

Turning now to slide 19. Non-interest income at $57 million was broadly flat to PCP, and up $5 million sequentially. In this half there was an increase in fees following the removal of waivers offered to customers during COVID-19 through the second half '20, and a $3 million one-off incentive payment from the cards portfolio. We expect non-interest income in the second half to be consistent with the first half, excluding the cards incentive payment.

Moving to operating expenses on slide 20. Expenses increased $12 million or 4%, versus PCP, and $6 million or 2% sequentially, to $306 million for the half. The key drivers of the expense uplift for the half were increased spend on strategic initiatives, including a further $6 million on VMA, and $3 million on other key digital projects, and $3 million relating to increased lending volumes.

We are now in year two of the three-year productivity program, which delivered a further $13 million in savings in the half, and offset inflation and other cost growth. This takes the total of productivity benefits to $43 million to date. The cost to income ratio was reduced by 50 basis points versus PCP, down to 53.8%. Looking to the second half '21, we expect the productivity program to deliver a further $17 million in savings, and for operating expenses to be broadly flat with the first half.

Looking now at the capital investment program on slide 21. As we have previously disclosed, the digital transformation roadmap has been designed to provide flexibility to dial up and dial down as required. In this half, investment of $37 million is lower when compared to prior period, due to our focus on delivering phase 1 of the digital bank. Secondly, there are a number of major projects in mobilisation and discovery phase.

The amortisation charge for the period was $17 million, which we expect to increase to circa $24 million in the second half '21 now that the Virgin Money Australia Digital Bank asset is in use.

Turning to the execution of our transformation roadmap on slide 22. As mentioned, our key focus this half has been the delivery of the first major phase of the end-to-end cloud based retail bank. This has set the foundation for phase 2 of the VMA program, which will broaden the available solutions to customers to include home lending and an expanded deposit and loyalty offering. Critically, this has delivered the strategic foundation for the BOQ retail brand digital bank migration, and the ME Bank integration.

During the half we have built out the broker portal, which provides brokers with online tools for accreditation, training, credit policies and pricing. Together with the home buying transformation program and ongoing process and product simplification, this has made us easier to do business with and enhanced our customer, banker and broker experience.

We have also completed phase 1 of the Microsoft Azure-based data platform. An important foundation for both the open banking program, and enhancing our data capabilities. The first few phases of the open banking product streams were delivered during the half. Additionally, we also continued to invest in our risk and regulatory programs.

This half's strong delivery has been enabled by the continuing uplift in our execution capability. Importantly, during the half we have further strengthened our assurance, project mobilisation and

benefits realisation capabilities. This focused effort to uplift our execution capability has been supported by the deployment of a new integrated project portfolio management tool, and has us well placed ahead of the ME Bank integration.

Turning now to provisions and loan impairment expenses on slide 23. In line with our trading update on 22 February, the loan impairment expenses reduced to $24 million for the half, representing 10 basis points of gross loans and advances. The collective provision balance remained steady in the half, reducing by $4 million to $271 million. We believe this is prudent, recognising the uncertain timeframes to achieve national vaccination coverage, along with any impact from the end of JobKeeper support.

Specific provisions of $103 million were $9 million higher than PCP. Increases in both the retail and commercial portfolios were partially offset by reduced provisions in asset finance, due to a strong agricultural season. Impaired assets also remained steady in the half at $194 million. This included a large agribusiness facility returning to performing status, whilst a number of new smaller impairments were recognised in both the retail and commercial portfolios.

Moving to slide 24. In line with the improving economic trends we have seen both 30 day and 90 day arrears improve during the first half across all portfolios. It is important to note that these arrears numbers include the vast majority of customers that have exited banking relief, but have not yet been able to return to performing status.

We continued to work with our customers who require ongoing support. Pleasingly, 95% of housing loans and 97% of SME loans which are on banking relief packages have returned to performing. Housing arrears reduced slightly from second half '20 as employment conditions improved. That said, both 30 day and 90 day housing arrears remain slightly elevated compared to PCP.

Commercial arrears have also improved during the half, with the 90 day arrears benefiting from the recovery of our BOQ Specialist customers has the healthcare sector rebounds. Asset finance arrears have remained stable over the half, supported by a strong agricultural season.

Moving onto our funding and liquidity position on slide 25. BOQ remains strongly positioned. During the half we have grown customer deposits by $1.1 billion, which has maintained our deposit to loan ratio at 74%. We have increased lower cost savings and investment and transaction account balances by $1.5 billion, allowing us to decrease our reliance on higher cost term deposits by $800 million.

The launch of the Virgin Money digital deposit products are expected to provide further growth in savings and transaction deposit balances. As at 28 February we have drawn down $1.2 billion through

the term funding facility, leaving an additional $800 million of capacity. The reported LCR is 182%, or 142% excluding the contractual capital raise inflows. We have a net stable funding ratio of 118%.

Moving to capital on slide 26. George has already flagged that we are in a strong capital position with a CET1 ratio of 10.03%. To be clear, this does not include any benefit from the recent capital raising. Underlying capital generation added 28 basis points to CET1 in the half, driven by strong revenue growth and as a result of a relatively lower FY20 dividend paid in this half.

Ongoing net capital investment, in line with our transformation strategy, resulted in a decrease of 6 basis points. Unpacking the positive 6 basis points impact from other items. CET1 benefited from an increase in reserves and lower tax - deferred tax assets, which were partly offset by increased off balance sheet RWAs due to a change in contract terms for certain SME customers. Also an increase in capitalised loan origination costs.

The CET1 ratio of 10.03% sees BOQ in a strong position to support future growth, ongoing transformation investment and ME Bank integration costs.

I will now pass back to George for some closing remarks.

George Frazis: Thanks Ewen. I'm really pleased with the financial performance we have delivered during the first half, and the ongoing momentum we are seeing in the business. We have supported our customers, people and communities while continuing to grow our business and deliver against our strategy

Our lending momentum continues to accelerate whilst we also balance margins and costs. We are executing on our strategy, delivering against the digital transformation roadmap and completing the first phase of our digital bank program. We have a strong balance sheet and capital position and our asset quality remains sound. The acquisition of ME Bank was announced and we have successfully completed the $1.35 billion capital raising.

In closing, the economic environment is currently more positive and showing encouraging signs of ongoing improvement. Australia is relatively well placed for economic recovery with less likelihood of negative impact on unemployment and house prices given the success of government stimulus. The national COVID-19 vaccine rollout will enable the economy to open further and build confidence. In line with our strategy to focus on distinctive brands serving attractive niche customer segments, we expect to complete the acquisition of ME Bank and the divestment of St Andrews in the second half.

We reaffirmed the FY21 outlook of around 1% positive jaws, with above system growth in lending, NIM positive and broadly flat half on half and cost growth of 3%. We remain absolutely committed to

delivering long-term shareholder value through sustainable, profitable growth and attractive returns. We are targeting a dividend payout ratio of 60% to 75% of cash earnings.

Thank you all very much for our time this morning. With that, I'll hand back to Cherie and open it up to questions.

Cherie Bell: Thanks George. We will now go to the line for questions. If I can ask you to limit your questions to two per person, please. Thank you, operator.

Operator: Thank you. If you wish to ask a question please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star two. If you are on a speakerphone, please pick up the handset to ask your question. Your first question comes from Andrew Triggs from J.P. Morgan. Please go ahead.

Andrew Triggs (J.P. Morgan, Analyst): Thank you and good morning. George, just interested in firstly your thoughts on how much further you think you can take out of deposit rates. I note that TD rates for BOQ is still somewhat above your peers, which is largely always been the case, but just interested in how much room you think you have to go there. Just as a related point to that, do you need to run any sort of different funding settings in the lead-up to the ME Bank acquisition?

George Frazis: Thanks Andrew, I'll start off on touching on both questions and then hand over to Ewen to provide more detail. Starting point is that we have been actually very conservative in terms of how we've priced deposits. That's enabled us to have a deposit-to-loan ratio of 74% and as you've seen, we've had very strong asset growth. In terms of our outlook on the second half margin, we have taken into account some more upside in deposits and there's probably more after that second half.

On the funding settings with ME Bank, obviously we've got to wait for the completion before we provide any further detail on the ME Bank acquisition. There was quite a detailed DD, from our perspective there is upside in terms of the funding profile at ME Bank, but there's probably no more that we could add than what we did at the capital raising. But on that note, I'll hand over to Ewen.

Ewen Stafford: Yes, thanks George. We're obviously continuing to balance between customer outcomes, margin outcomes and just keeping an eye on where we sit competitively. Having said that, we definitely feel, to your specific question, we definitely feel there's further scope and in fact last week we reduced deposit rates a further 15 basis points. In terms of that scope for the second half, that's been included in that NIM outlook statement that both George and I provided.

I think importantly, over the medium to longer term, we see significant opportunities to continue to enhance our mix, grow transaction accounts and obviously the digital strategy will really help that and the VMA announcement today are a really important part of that.

To your question about settings heading into the completion of the ME transaction, we feel we're in a really strong position at the moment from a funding, liquidity and capital perspective. So we're not deliberately adjusting any settings in the lead up to that, we feel we go in, in a strong position and opportunity, as I said, to continue to build out those lower cost deposits.

Andrew Triggs (J.P. Morgan, Analyst): Thank you. Can I just ask a second question, just on broker flow or broker share of new originations? Slide 39 has the, I think it's stock which has risen from 21% of the book in the broker channel to 23% this half, do you have the number for the flow during the half, please?

George Frazis: Andrew, the flow of brokers increased to around about 35%. I mean as you can see from that number, at the market level it's probably closer to 60%, so this is still a channel that we've got quite a bit of opportunity for further growth. As you know, the broker channel for us is really important. We've made a huge amount of improvements in terms of how we deal with brokers and we've also extended to broker networks that we're operating with. So we see this as a potential going forward in terms of growth.

Andrew Triggs (J.P. Morgan, Analyst): Thanks George.

Operator: Thank you. Your next question comes from Brian Johnson from Jefferies. Please go ahead.

Brian Johnson (Jefferies, Analyst): Good morning gents and congratulations on a great result. Just if we have a look at slide 36, just going back to the previous question, a lot of the narrative today is about basically you've done an amazing job in collecting home loans, which you have, it's much improved. But when we actually have a look at the result, it's just hard not to conclude from slide 36 that it's entirely driven by basically the repricing down of the deposits.

When we look at the contraction on the housing side, it's pretty steep. So this is really about the repricing of the deposits. George, do you get to a point where basically it's not appropriate to continue to discount at the level that we're seeing in the housing book?

The second one is that when I go to the slides at the back end, there's a slide which shows the maturity profile and we've seen the term funding facility probably doesn't work as well for major banks as it does for regional banks for a whole lot of reasons. But when we have a look at it in the second half of 2024, we see a pretty chunky re-fi bulge building. Could I just get some comments on how you manage that? So that's slide 50.

George Frazis: Right. I might let Ewen deal to the slide 50 one, but just let me just touch on your first question and Ewen might want to add to that as well. I mean, Brian, one of the key capabilities we've built up in the Bank which was really important and we did this early on, was our pricing capability

and as you know, success in retail banking is all about how well you make those margin and volume trade-offs on a daily and a weekly basis. I have to say, I'm really pleased with how we've been able to manage growth and margin.

There's no doubt it's a competitive environment. As we said, there is some further upside in deposits and what we've managed to do is make sure that we're not leading on asset pricing because basically the way we've achieved that growth in mortgages is really fundamental changes in our time to yes and being able to maintain a really leading service level, whilst, as you know, we've gone from three halves being in negative growth in mortgages to now growing at 1.6x. So we've been able to actually scale up our business and keep service levels high, which means that it's not all about price. But I'll let Ewen add to both of your questions.

Ewen Stafford: Brian, just on the term funding facility and as mentioned, we do have more to draw down in the order of $800 million and we are being careful and thoughtful and drawing that down in very orderly amounts and obviously with an eye to those maturity profiles that you referenced.

So the sort of $600 million, $800 million drawdowns, that's a standard refinancing maturity profile for us. We don't see any issues with that and there are a number of tools we have in the kitbag to cover that and to refinance, all the way from our covered bonds, we'll have increased capacity with the ME acquisition, the senior unsecured and through our securitisation programs. So your point is taken, but we are very conscious of that and drawing down in a very orderly fashion.

Brian Johnson (Jefferies, Analyst): Okay and George, going back, I asked that question about the slide, the average balance sheet slide, so I just want to get my head around and perhaps I didn't express this clearly, but we've seen the yield on basically your gross loans and advances and interest rates were, I don't know, 10 basis points lower, but it's gone from 3.62% down to 3.35%. Shall we expect that to continue? I suppose that's the other way I should ask the question, is it the same margin map going forward where you do a lot better on deposits, but we see the housing side of it really continue to be smashed?

George Frazis: Yes, all right. Actually I'll get Rachael, Brian, I'll get Rachael just to provide a bit more colour on that, who is our Deputy CFO.

Brian Johnson (Jefferies, Analyst): Thank you.

Rachael Kellaway: Hi Brian. Just a couple of things going on obviously within the housing portfolio within the period and there are obviously question marks as to whether those things continue. The first being the implications of the front-to-back book reprice, which we've talked about in the context of impact on margin. Within that, interestingly, is this customer switching that is occurring between

variable to fixed. Your question around outlook really depends on – and you're making this point – is where is competition going to continue and are we going to continue to see that really aggressive pricing from a fixed rate perspective particularly.

George Frazis: Brian, just to add to Rachael's comments, I mean the way we look at growth is to maximise revenue, so we're not about going after just asset growth. So our objective has been if we take on the fixed perspective, to be just under market in terms of volumes and to be just over market in terms of what we're getting margin on that. You've probably just seen a most recent change on the four-year fixed rate, we went from 1.99% and increased that to 2.29%, so this is all about making sure that we're getting that maximising revenue objective right.

Then the other key thing that we manage to do is positive jaws, so they're kind of the two key levers in terms of how we've been able to deliver these results half on half for the last three halves.

Brian Johnson (Jefferies, Analyst): Thank you very much.

Operator: Thank you. Your next question comes from Andrew Lyons from Goldman Sachs. Please go ahead.

Andrew Lyons (Goldman Sachs, Analyst): Thanks and good morning. Just two questions for me, firstly on expenses, you said you're expecting expenses to be broadly flat in the second half of this year, supported by $17 million of additional productivity. I was hoping you could maybe give some thought on expenses into FY21 which will be the third year of the productivity program. Can you perhaps just provide a bit of an update on what your productivity expectations are in FY21 and whether you think they will be sufficient to deliver flat expenses in that year?

Then just a second question, just around how you're thinking about business lending growth into the second half and then into FY21, I think at the time of the ME Bank acquisition you said you expected business lending to be down a bit in the half, but you've had some, albeit small, amounts of growth in the half. Is momentum in that business a little bit better than what you thought? I'd just be keen to get your thoughts on that.

George Frazis: Yes, thanks Andrew. Maybe I'll touch on your second question and then hand over to Ewen for the expense question. I will have to say, Andrew, we've been very pleased with the green shoots we're seeing in the small business space. There's a couple of things that have benefited that. If we think about housing growth and we normally consider the benefits that housing growth has on people that own houses, but the other key benefit is on small businesses because it does create confidence, people are more willing to spend and we're just starting to see that.

Importantly, small businesses do use their housing to effectively support the growth in their businesses, but what we've seen is there has been a number of sectors that have done well through this and our niche segment focus is paying off.

Just to give you an example of that, agri has gone really strongly and so has construction. It's not just those industries, then it's all the supporting services that support those two industries. As you know, we provide both traditional business lending but we're also quite strong on providing leasing for tools of trade, so that's enabled us to see those green shoots.

My sense is that we will continue to see a steady increase in our portfolio because of its segment focus. It will depend on the vaccine rollout because that will open up the economy further and increase confidence, but we are confident that that will occur in some time. Ewen.

Ewen Stafford: Yes, thanks George and Andrew, just on expenses. I think where I would start the conversation on that and particularly with an eye to the more medium term which I think was the essence of your question, is that we're really setting the business for positive jaws. That's the first point and as well as the transformation agenda it is also a growth agenda and so we will, as we get to the end of this year, we will provide an outlook statement with the full year results but it will be a balance against that.

Having said all of that, the productivity program is critical to us and we are committed to a third year which will deliver the full $90 million that we committed to at the strategy day last year. What we're starting to see and anticipating through the second half and into 2022, we're starting to see benefits of simplified product offering starting to come through. There are benefits of automation and productivity in the middle offers, the more strategic side of the supply chain review and particularly as it relates into the technology areas and some of our key partners there and we will continue to look at our branch composition as well and conversions from corporate to owner managed also will help deliver benefits.

So, it's a critical part of the agenda certainly as we move into FY22, but we will provide that outlook statement as we get to the full year and look at balancing that against the revenue growth aspirations.

Andrew Lyons (Goldman Sachs, Analyst): So extending the question I guess to jaws, would you be willing to say whether you can improve - you are targeting 1% for this year. Do you think with all the productivity coming through you can do better next year or is 1% a good starting point?

George Frazis: Andrew, I mean obviously we can't provide an outlook beyond this year. I think the thing to think through is if you look at our digital transformation which is more where will we be in let's say three years' time when we've got all of our retail brands on a cloud based common platform,

I mean that's a real game changer for us. Basically, what we're saying is the retail bank is digital from front to back with really competitive and innovative digital services at the front end for customers. That really then transforms our cost structure, but we do have to go through that period.

Obviously, managing through that we've done that quite carefully because effectively you're building while you still have the old, but we will continue doing that carefully and we are really excited about where we will be let's say in three years' time.

Ewen Stafford: Yes, that's right and Andrew, the only other thing I would add to George's answer for medium term, obviously the ME Bank integration as well provides us with another opportunity just to sit back and assess the operating model of the combined business as well. So, we are very conscious to make the most of that opportunity right across the organisation.

Andrew Lyons (Goldman Sachs, Analyst): That's great. Thanks George, thanks Ewen.

Operator: Thank you. Your next question comes from Richard Wiles from Morgan Stanley. Please go ahead.

Richard Wiles (Morgan Stanley, Analyst): Good morning. I have a couple of questions. Firstly, slide 9 includes composition of growth in housing and it shows that BOQ Retail had a strong half but Virgin and BOQ Specialist slowed. Can you explain why Virgin's growth seems to have stalled and what you think drives the overall growth from here?

George Frazis: Thanks Richard. The starting point is you're right. We are really pleased about the turnaround of the Retail Blue brand. That was fundamental in terms of fixing the Retail Bank. Virgin Money actually has continued to grow quite strongly. In fact, if you look at where we're at in terms of exit rates on Virgin, they are approaching back to their strong levels so we're really pleased with how that brand is going and the additional launch of the digital bank for Virgin and particularly once we get home loans onto that over the next 12 months or so, is going to be really exciting.

On BOQ Specialist, as you know the medical profession, we've got really sound customers in that sector, but they were impacted by COVID, so we had to see through and support those customers through COVID. Now that is - we're starting to see growth return on the housing side in BOQ Specialist. We are still quite cautious on commercial, but as I said, we are really comfortable with that portfolio, very comfortable with the customers and it's just going to take a bit more time for them to recover.

Richard Wiles (Morgan Stanley, Analyst): Okay, thank you and just my second question George. You talked about housing growth at 1.6x in the half just gone, 1.6x system. We can all see the improvement that is coming through in the system growth rates. Is that growth rate versus system around about 1.5

times the level that you are targeting or do you actually have ambitions to grow even more strongly relative to system?

George Frazis: Richard, our growth rate is accelerating from that 1.6x. I do want to stress, the way we manage the business is optimising revenue. Obviously, we want to assist as many customers into their homes but it is about revenue optimisation and also ensuring that we are scaling up the middle office to support that growth. We are very comfortable with what we have put in place. The current run rate is above 1.6x. We don't have a specific number we target. It is all about optimising revenue.

Richard Wiles (Morgan Stanley, Analyst): Okay, thanks George.

Operator: Thank you. Your next question comes from Brendan Sproules from Citi. Please go ahead.

Brendan Sproules (Citi, Analyst): Good morning George and team. I just have a couple of questions. Firstly, on the NIMS and particularly the movement in the funding costs. Obviously, it has been a big swing movement in the interest margin from period to period. Can you discuss what sort of latent values you have in this deposit book now, noticing the mixed shift has continued towards transaction accounts and to savings and investments and away from term deposits which I imagine are cheaper deposits.

Also, you have mentioned that you have continued to pull down some of your absolute deposit rates. Can we expect to see a similar impact for the second half NIM on that funding cost? Then I have a second question on loan provisioning please.

George Frazis: Yes, thanks Brendan. As already mentioned, in our outlook for the half we have taken into account some more improvements on deposit pricing but I will hand over to Ewen to give you a bit more colour.

Ewen Stafford: Yes, Brendan, I think as we look into the second half, we are seeing an outlook very similar to what we just delivered, what we have just delivered in the first half. There's definitely funding tailwinds coming through. As I mentioned earlier, we just repriced the TD book and we are also expecting further upside on the wholesale funding and just a little more benefit coming through from the term funding facility in the second half than we experienced in the first half. So, to your specific question, I think the first half outcome is a good indication of what to expect in the second.

Brendan Sproules (Citi, Analyst): Just a question on loan provisioning if I could. I mean we have seen a couple of the larger banks start to write back their collective provisions that they built up during the COVID period. Now, your paired assets and other asset quality indicators it seems reasonably strong, so what sort of indicators should we look for that may give rise to maybe reducing some of those elevated collective provisions over the next six to 12 months?

George Frazis: Thanks Brendan. Again, I'll start off and then maybe hand over to Adam to give you a bit more colour. The starting point would be we are really pleased with how the economy is recovering. We think the recovery is sustainable, but there are still uncertainties around the COVID vaccine rollout. We have no doubt, if you think about how well the governments have managed this in the past, we have no doubt National Cabinet will do a good job to ensure the vaccine is rolled out, but that's still an uncertainty, so we have been cautious in terms of our provisioning.

We have absolutely no concerns in terms of the underlying asset quality. In fact, we are extremely pleased with how well our SMEs have gone back to performing and also our housing customers. The fact that house prices are going up also provides encouraging buffers for our customers. This is something we will probably be looking at at a quarterly basis to assess when and if and how much we release the provision, but at this stage we are comfortable being quite conservative in terms of our provisioning to date. Adam, I don't know if there was - I've probably covered everything you might have wanted to say but…

Adam McAnalen: Yes, you have George. The only other points I would add is that two major milestones have just passed with the expiry of banking relief as well as the JobKeeper package only concluding at the end of March. They are two significant support packages that really did a great job during COVID that we now just need to see how that unwinds out of the system and of course just stability around borders are other milestones that we will look at over the next half.

Brendan Sproules (Citi, Analyst): Thank you.

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

Ed Henning (CLSA, Analyst): Thanks for taking my questions. Can you just touch on how you guys think about using the TFF with fixed rates and therefore an easy ability to reprice once it rolls off? Also then just going back to some questions on the growth in the housing lending. If we look forward, can we expect the majority of the growth in the next little while to come through that broker channel with your improvements there?

George Frazis: Thanks, Ed. What I might do is touch on the second one and hand over to Ewen for the TFF discussion. The starting point for housing is obviously we're very pleased with the housing growth. As I said, we kind of optimised revenue so we're very comfortable with the growth and margin and also the cost outcome that's associated with that.

One of the critical things we've done is the time to yes and also, we've reset effectively the remuneration model for our owner/manager channel, which has been a big positive in terms of how we've performed in housing. The positive - and the unusual thing about our housing growth is that it

actually started with a turnaround in our owner/manager and corporate branches, as opposed to driven by brokers.

That continues to improve and then now it's gone into positive territory and our objective would be over time to get back to system. As you said, broker has accelerated; still only represents 35% of our flow so we would like that to increase and that will continue.

Once we're able to put mortgages on the new digital platform, then it opens up a whole new channel for us that we haven't tapped into. Effectively, we'll be growing across all of our channels and just ensuring whilst we're growing that we're optimising revenue. So, I'll hand over to…

Ewen Stafford: Thanks, George. I might start on this one and see if there's anything Tim would like to add more in terms of the nuts and bolts of managing the roll-off of the fixed book. But I think the important point Ed is, we're really deploying that TFF for growth right across our portfolio and to Brian's question earlier, we're also drawing - being careful in terms of how we draw it down with an eye to the refinancing implications three years down the track.

We have a further $800 million to come and we will take the full amount of that by 30 June and as mentioned, just to reiterate, we're also starting to see those benefits come through in the margin and increasingly so in - expected in the second half margin. Tim, I don't know if there is anything else you would add?

Tim Ledingham: Ewen, probably the only thing I'd add is obviously the TFF flows into a natural hedge for fixed rate, so it does assist but assists through lower cost of funds coming through the portfolio. It does help us manage the rollover of fixed rate housing loans in those buckets. But I guess we actually do convert all of our fixed rates back into floating rate as we're managing it. So, it really is - one of the drivers is just the lower cost of runs.

Ewen Stafford: Yes. Thanks, Tim.

Ed Henning (CLSA, Analyst): No, that's helpful, thank you.

Ewen Stafford: Thanks, Ed.

Operator: Thank you. Your next question comes from Azib Khan from Morgans Financial. Please go ahead.

Azib Khan (Morgans Financial, Analyst): Thank you very much. George, there's been a lot of talk about your home loan growth and the improvement there and it has been very commendable. My question is, whilst you are increasing your borrowing growth, there has been some slippage in your time to yes from one day to two days in - through your branch network, through the branch channel.

Is this slippage purely due to the larger volumes that you're now processing and if so, should we expect more slippage if borrowings increase from here? Because you have pointed out that you will look to continue to accelerate your home loan growth from here.

George Frazis: Yes, thanks Azib and as you correctly state, one of the key drivers of our performance was effectively to have a leading time to yes, so we'll be in the - my estimate is probably in the top three in terms of that performance. What we've done as we've grown is we've been really conscious of the need to scale up our middle office, and I'll get Ewen to talk to that in more detail and we're really pleased with how we've been able to do that.

So, that slippage from one to two days still is leading - a leading market position in the top three or so, so we're pleased with that and that continues to be a very compelling service level for our customers through all channels. We'll continue - as I said, momentum has increased, the service levels are being maintained at that level but I'll pass over to Ewen.

Ewen Stafford: Azib, just a few comments on the productivity and efficiency within the middle office. The macro point and where I'd start is that we are seeing the additional cost that we're investing in to support growth, so the $3 million in this half, it is coming on at a lower cost to income ratio, so that's a really positive place to start from.

Then more specifically, the productivity agenda is really critical. We're definitely starting to see benefits coming from greater utilisation of automation and artificial intelligence. We've partnered with a - the local Brisbane company around assessment of loan applications. We've automated verification around income information in the context of responsible lending obligations and there's also a proof of concept underway to really combine AI and open banking to really help enable and also get more productivity into digital mortgage assessment.

It's an ongoing journey for us and then as we get more into the medium term, the benefits will start to come through from this core banking system re-platform for the retail bank and straight through processing, so we're really excited and looking forward to that, as well.

George Frazis: Azib, as you can see from Ewen, the 'time to yes' for us is an ongoing focus and really important for both the customer service, productivity and also growth.

Azib Khan (Morgans Financial, Analyst): Just a quick follow up on that, George and Ewen, thanks for that response. So can we expect the scaling up to be complete by the end of year three of the productivity program, or do you anticipate the need to continue to scale it up beyond that period and just one slightly different question, can you also tell us what your current 'time to yes' is in the broker channel?

Ewen Stafford: I'll answer the first one. I mean the job is never done is what I would say Azib in terms of ongoing push for productivity and I think there will be the work we are doing at the moment around automation and artificial intelligence, robotics will continue to - a big part of this is the ongoing simplification of the product, of the product offering and really streamlining ongoing process simplification and capability uplift.

As mentioned, as we get further into year three and beyond, so it won't certainly all be done, but we are really starting to see the benefits of the investment in the technology starting to come through. I might just get Craig to add a couple of comments on that.

Craig Ryman: Yes, hi Azib, Craig Ryman. Just in terms of our transformation pathway, what we're doing is effectively building the new digital bank that we will leverage first at Virgin and then into the BOQ brand. As we stand that new capability up, we will start to write our new business onto that platform and that will happen within the three years. It will happen within years - the next 12 months - 12 to 18 months.

So you will progressively see a more automated end to end solution around lending, as well as our asset processes progressively come on for new business and the back end of that transformation ultimately will look to the migration of our existing book onto the new platform as well.

So in addition to the work that Ewen talked about, we will see our new business writing as those products get enabled on the platform progressively take up the new volumes that we will secure.

George Frazis: Azib just to answer the broker question, the thing to note is (1) we have had significant and good growth through the broker channel. The NPS of our broker channel continues to improve, so we are really pleased about that. The turnaround times in terms of conditional ‘time to yes’ is around three days in our understanding is that that's market-leading and we are getting a really good response from our broker channel.

Azib Khan (Morgans Financial, Analyst): Thank you very much.

Operator: Thank you. Your next question comes from Josh Freeman from Macquarie. Please go ahead.

Josh Freeman (Macquarie, Analyst): Good morning. Congratulations on the results. Just a couple of quick questions from me. So the first question is just on the BOQ Blue retail brand. So if I recall correctly and I could be wrong, but the BOQ retail brand has actually returned to growth for the first time since first half '16. I know you guys have spent a lot of time here talking about sort of the overarching housing trends but are you able to expand on what you think really drove that growth specifically in the BOQ Blue brand?

Then the second question is with the respect of your provisions, so your provisional level remains relatively conservative from a collective provision to credit risk weighted asset ratio. Given the improving economic outcomes, just on a longer-term, I'm just interested in how we should consider the correct level of provisioning. Is FY19 that level? Or have accounting standards really changed that?

George Frazis: Thanks, Josh and I'll start off and then a combination of Ewen and Adam in terms of the provisions. As you state correctly, we're just really pleased with how the BOQ Blue brand has turned around and as I've already stated, a key driver of that was really our owner/managers and our corporate branches.

The two key things that enabled that was (1) is we established the new revenue sharing model with our owner/managers which aligns our two incentives towards profitable and sustainable quality growth. Then the other critical thing that actually enabled us to grow in all channels was the time to conditional, yes. So they are the two key things that drove that.

I'll have some - I'm just really excited about our owner/manager channel; this is a channel that we want to grow going forward. What we've got is small business owners and communities that average about 11 years, so they're very, very connected in their communities and that assists both home loans and small business. Just to mention, this is a real differentiator for us in terms of being connected - really connected to those communities which is hard for anyone else to replicate.

So on that, I will hand over to Ewen to give you some commentary on the provisions.

Ewen Stafford: Thanks, George. Hi, Josh. I think it's been commented on already, we really feel now is an appropriate time to remain prudently provisioned. So notwithstanding we are really happy with the portfolio quality and the impairment and arrears position. We do feel it's appropriate just to remain prudently provisioned. There is still a little bit – there's just that uncertainty and there is still a bit to play out.

In terms of - I think it's a bit early under AASB9 to really make a definitive statement about an underlying or normalised level of provisioning. I think there's just - you know, it's a relatively new – it then got tested in the middle of a global pandemic which we weren't expecting.

It's very much a forward-looking provision, and the other factor is our asset mix is changing and we're changing that organically and inorganically, and that will have a real impact as well. I don't know, Adam, is there...

Adam McAnalen: No, I think you've covered it, Ewen.

Ewen Stafford: Thanks, Josh.

Josh Freeman (Macquarie, Analyst): Thank you.

Operator: Thank you. Your next question comes from Nathan Zaia from Morningstar. Please go ahead.

Nathan Zaia (Morningstar, Analyst): Morning. I had two questions, the first one on housing arrears, where they were sitting end of February. Has there been a material change since given loan deferrals have come to an end now? The second one, I was just keen to hear your thoughts on where you feel BOQ ranks in terms of functionality and features with mobile banking apps. All the banks are making investments around budgeting tools and buy now/payer later. George, do you think that's going to be something that differentiates banks or it's just going to be a nice to have and won't really drive customer choice?

George Frazis: Thanks, Nathan. What I'll do is I'll cover over both fairly quickly and then hand over to Greg to talk about some of the great features and how we're thinking about the digital bank and the launch of the new digital bank with Virgin Money Australia. Just on housing arrears, we're not seeing any uptick on housing arrears. They're still a little elevated from historical levels but we're seeing just a gradual improvement on those, so we're comfortable with where that's at.

As you know, the important thing around that is one, what is happening to unemployment, so we're really pleased with how employment is recovering; and the second thing is house prices are strong, so again our customers have got quite substantial equity in their homes, which is great to see.

On the functionality and mobile banking, there's absolutely no doubt in my mind what's going to be critical is number one, how good you are in mobile banking, and number two, how connected and personal your banking is to the customer segments you focus on. Our absolute focus is to be one of the most connected banks with our customers both from a personal perspective - and I just talked about how our owner-managers is a real differentiator, and then the other key element is how we connect with our customers digitally.

What is going to be really important on that is how we develop our data capability, and again I'm really pleased with how we've progressed on that. Then the other key element to note is we're quite different from many other banks in the sense that we're going all in with a cloud-based system, which will be API'd and open banking, which means we can continue to add services for the customer segments that we target.

We then leverage global players in terms of their innovation. That's how we're able to make sure we're providing the most innovative services to our customers on an ongoing basis and enables us to compete with the majors and in fact, re-define banking in Australia. On that, I will hand over to Greg, and you might cover off loyalty and things like that.

Greg Boyle: Yes, certainly. Thanks, George. I think George has covered a lot of the points, but just to reinforce what we're deploying is truly differentiated market-leading technologies, it's API-first design and it has been developed as a cloud-based scalable solution with a continuous upgrade path which does mean we will be able to continuously offer our customers the latest innovations.

What the research showed and what we have implemented is a proposition that is data-driven, allows a connected and personal experience with financial fitness at the heart of it for our customers, and importantly, at the core of our proposition is state-of-the-art technology and loyalty proposition, which means we'll be able to provide ongoing value for our customers through the lifecycle of that. To start, we'd be able to have over 100 reward partners and that will continue to evolve, but importantly, it is differentiated, and we'll continue to be able to implement the latest in innovation for our customers.

Nathan Zaia (Morningstar, Analyst): Okay, thank you.

George Frazis: Thanks, Nathan.

Operator: Thank you. Your next question comes from Matthew Wilson from Evans & Partners. Please go ahead.

Matthew Wilson (E&P, Analyst): Good morning, team. I had two questions if I may. Firstly, on digitalisation. Once you are fully digital, where do you see the unit cost of originating a mortgage ultimately falling to and where are you today?

George Frazis: Thanks, Matthew. We probably haven't disclosed that information. I think probably two things to note: Ewen's comment on effectively the cost-to-income ratio of the middle office improving even before we get to that end state. But you're right in the sense that as we effectively execute on this digital transformation and when we get to the end state where all our three retail brands are on a common cloud-based platform with mortgages being part of that, that's an absolute game-changer for us.

Matthew Wilson (E&P, Analyst): When we think about and talk about this with the major banks, they're originating a mortgage at around $2000, $3000 a unit cost. Are you at that level today? Then when you think about the opportunity with pure digital banks globally, they're more around $100 to $200 unit cost.

George Frazis: Matthew, the way we run the business is through targeting positive jaws, and effectively through that a big part of it is our productivity program and also our digital transformation. The difference I would say in terms of where let's say the majors are and many other players versus where we will be is that we're not fixing the old. We have the choice to effectively build a new fully

digital bank that's at scale with three very compelling and loved brands. That is very unique, and you're right, when we execute on that, let's say in three years' time, that does fundamentally change our cost profile.

Matthew Wilson (E&P, Analyst): Yes, okay. That's good. Thank you. Then one final question. Just on slide 13 where you talk about ME Bank, there was a footnote historically that referred to the exclusion of the ME Bank capital, no distributions from the EPS calculation. Have you revised that calculation?

George Frazis: No. There's been no change.

Matthew Wilson (E&P, Analyst): So you are still excluding the $13 million in capital notes that are paid to those holders from your EPS calculations?

George Frazis: That's the interest.

Ewen Stafford: Yes. Yes, we are.

Matthew Wilson (E&P, Analyst): Okay. Thank you.

George Frazis: Thanks, Matthew.

Operator: Thank you. Your next question comes from Brett Le Mesurier from Velocity Trade. Please go ahead.

Brett Le Mesurier (Velocity Trade, Analyst): Thank very much. Your wholesale funding costs fell by only 5 basis points from the second half '20 to first half '21, according to the average balance sheet, which is a very small reduction based on what happens in average bill rates over the period, and I thought you said that you swapped any fixed rate into floating. Could you explain why there is only a 5 basis points reduction in wholesale funding costs during the period?

George Frazis: Thanks, Brett. I'll hand over to Ewen, I'll start and then I'm sure Tim will have something to add. Look, I think it's a fair observation. We have seen that average come down in the first half, but I think the key point we are absolutely expecting that will now start accelerating. In terms of impact on NIM, what was 1 basis point in the first half will be 3 basis points in the second half, so we're really starting to see that accelerate.

Brett Le Mesurier (Velocity Trade, Analyst): What is the actual funding cost at the moment on your new wholesale funding?

George Frazis: Tim, did you want to pick that up in terms of what you're expecting with some of the refinancing in the second half?

Tim Ledingham: Yes. On say five-year as a benchmark, it's somewhere around the high 50s to low 60s basis points above three-month bill.

Brett Le Mesurier (Velocity Trade, Analyst): All right. So, the actual - so the average you had in first half '21, the average interest rate is 2.1% and you're heading to an average of around 60 to 70 basis points. Is that correct?

Tim Ledingham: That's on a five-year point. Obviously, we don't fund everything at the one duration, but it's a combination of durations. Part of the reason that we haven't had the drop in wholesale funding is obviously we've got $1.1 billion of retail deposit growth through, which covered a lot of the GLA growth. Then we early on drew down on the TFF, and we issued a covered bond in May, '21 May - sorry, May '20 - and we haven't had the need to actually issue a lot in the wholesale market since. We do have some maturities that are coming up and obviously we have the TFF to draw down by the end of June.

Brett Le Mesurier (Velocity Trade, Analyst): But five years would be a fair average for your wholesale funding, what you're targeting, right? Across a broad range of maturities, five would be about the middle, wouldn't it?

Tim Ledingham: Three to five is about the middle.

Brett Le Mesurier (Velocity Trade, Analyst): Okay, great. Thanks very much.

George Frazis: Thanks, Brett.

Cherie Bell: Thanks, ladies and gentlemen. That concludes the Q&A session this morning. I'll just pass to George for some closing remarks.

George Frazis: Thanks, Cherie and thanks, everyone, for joining us this morning. We really do appreciate your time. Hopefully, we'll be able to see you face-to-face at some time.

As you can see, this has been a big six months for BOQ. We're really pleased with the results and the progress we've made on the digital transformation. We've got another big six months ahead of us. The way we've managed this business is to each six months improve our performance as we deliver on the financials and also show real progress in terms of our digital transformation. Once again, thank you and stay safe.

Operator: Thank you. That does conclude our conference for today. Thank you for participating. You may now disconnect.

END OF TRANSCRIPT