

MARKET UPDATE: INITIATIVES TO DELIVER A SIMPLER, SPECIALIST BANK

Thursday, 22 August 2024, Brisbane: Bank of Queensland Limited (**BOQ**) today announces key initiatives to progress its transformation to a simpler, specialist bank.

As announced at the 2024 half year results, the Group has been examining additional pathways to reduce complexity across the business and support the transition to digital banking, as part of a strategy to improve shareholder returns and enhance customer experience.

Significant progress to date in strengthening the business and delivering on the digital transformation has BOQ well positioned to further progress on its simplification and optimisation pillars. The initiatives detailed today will streamline distribution channels, focus growth into the business bank, where BOQ has a competitive advantage, and progress the Group's simplification program.

Progress on digital transformation has enabled a review of branch strategy

BOQ continues to make progress on its digital transformation, with 25% of retail customers¹ on the new digital platform and the successful migration of initial pilot cohorts of ME customers onto the digital bank. The program remains on track, with full ME migration for deposit only customers expected to be finalised through FY25. The first phase of BOQ's digital mortgage roll out is progressing to plan. Digitisation will continue to enhance customer experience and reduce cost to serve.

The significant progress made in BOQ's digital transformation has enabled BOQ to now simplify its retail distribution channels. BOQ will convert all 114 of its Owner Managed Branch network to corporate branches. This decision will:

- Return full ownership of the branch network to the Group,
- Align the branch footprint with our digital and relationship banking model, with consolidation opportunities as our customers continue to shift to digital channels,
- Reduce origination, compliance and head office support costs; and
- Enable Group investment through the branch network into business bank growth corridors.

BOQ has today notified Owner Managers of the decision and the conversion is expected to be completed in March 2025.

While the Group acknowledges that customers are increasingly choosing to transact digitally, BOQ is committed to maintaining an appropriate physical presence in key markets, recognising that branches remain an important part of the banking experience for some customers.

Financial impact of conversion

BOQ expects the cost of the conversion to be in the range of \$115m – \$125m pre-tax and this cost will amortise over approximately four years, commencing second half of FY25, and will be reflected as a non-cash item.

¹As at 31 July 2024. Includes deposit and credit card customers.

At conversion date, the annualised net cash profit after tax is expected to be broadly neutral and the capital impact is expected to be approximately 30bps. Commencing FY26, the annual net cash profit after tax benefit will be approximately \$20m. The Group anticipates opportunity to enhance this benefit in future years.

The table in Appendix 1 provides further financial detail.

Supporting growth in our business bank

The Group is leveraging its strength in the business bank and finance company to accelerate growth with a material investment in additional business banker roles. This investment has commenced with ten specialist bankers joining the Group this half.

These specialist roles will focus on identifying opportunities and delivering growth across targeted industry sectors including health, professional services and agriculture. Our unique finance company capabilities will support our customers and brokers across equipment finance, insurance premium funding, dealer finance and novated leasing.

The investment will expand the Group's service capabilities and customer reach, and support BOQ's strategy to broaden the revenue mix towards specialist, high-value market segments. This strategy will focus on targeted growth corridors across the country with an increased emphasis and investment on leveraging BOQ's 150-year heritage and competitive advantage in supporting Queensland businesses.

This initiative will support the shift of portfolio balance sheet mix, recycling capital from lower returning assets to higher returning specialist segments across the Group's business bank and finance company.

Simplification program update and FY26 targets

The Group has identified further opportunities to streamline its operating model as part of its ongoing transformation. Progress in delivering on simplification and digitisation strategic pillars will enable further productivity gains with the reduction of up to 400 FTE roles across the business.

The Group acknowledges these decisions impact on team members. BOQ is working closely with those affected, offering redundancies or redeployment opportunities. The Group expects to recognise a restructuring charge of \$25m – \$35m post tax, that will impact FY24 statutory net profit after tax.

This initiative will deliver an annualised saving of approximately \$50 million, in addition to BOQ's previously stated simplification target of \$200 million cost savings by FY26.

Since the 2022 strategy and financial targets were set, ongoing industry wide margin compression and elevated cost inflation have impacted returns. Given these material changes, BOQ has restated its previously disclosed FY26 targets to a Return on Equity of 8.0% and Cost to Income ratio of 56%².

BOQ has been operating at the top end of its CET1 management target range of 10.25 – 10.75%. There is no change to the CET1 target range or the target dividend payout ratio of 60 – 75% of cash earnings as a result of the initiatives announced today.

² BOQ previously announced targets were ROE >9.25% and CTI <50% by FY26.

Managing Director & Chief Executive Officer Patrick Allaway said:

"We have long recognised the need to address legacy complexity and structural challenges to change the way we do business. Through the initiatives announced today, we are taking a significant step forward in delivering a simpler, specialist BOQ. We are committed to providing a compelling customer proposition and improving shareholder returns, and these initiatives support those goals."

"Our heritage retail banking operating model that has served us well in the past, is no longer sustainable in its current state in a lower returning environment."

"The conversion of our branch network will provide flexibility in our product distribution and improve our ability to optimise margins. It represents a substantial change for our Owner Managers, many of whom have long tenures with BOQ. We acknowledge, with immense gratitude, their important contribution to the 150-year history of BOQ and will work closely with them to ensure a smooth transition over the coming months."

"The further simplification of our operating model and management structure will improve productivity and reduce operational risk. This will understandably be a difficult period for our people across the organisation and we are committed to supporting everyone through this process."

As part of the sharper focus on improving shareholder returns and driving growth, BOQ continues to evaluate further potential strategic initiatives while delivering against its four strategic pillars of *Strengthen, Simplify, Digitise and Optimise*.

BOQ has scheduled a market briefing Thursday 22 August 2024 at 10.30am AEST, where Managing Director and Chief Executive Officer Patrick Allaway will speak to the initiatives outlined in this announcement.

A live audio webcast of the briefing will be available through the following link: <https://edge.media-server.com/mmc/p/88q526nb>

Participants wishing to ask questions during the briefing can register through the following link: <https://register.vevent.com/register/BI21f24716f72c401a82f8db69c0e06a2f>

BOQ will be announcing its 2024 Full Year Financial Results on Wednesday 16 October 2024.

ENDS

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

Appendix 1 – Financial impact of conversion

FY24 pro forma financial impact of conversion (pre-tax)	
Net interest income ¹	+\$125m
Non-interest income ¹	+\$3m
Operating expenses ²	+\$110m to \$120m

¹The pro forma income represents the actual owner manager commissions incurred in FY24, excluding deferred acquisition costs.

²The pro forma operating expenses represent the estimated cost of running the owner manager network.

³At conversion date, the capital impact to the Group is expected to be approximately 30bps.