BOQ

INVESTOR INFORMATION

2017 HALF YEAR RESULTS

INCORPORATING THE REQUIREMENTS OF APPENDIX 4D

BOQ

BOQ FINANCE

BOQ SPECIALIST

St Andrew's AUSTRALIA

Virgin money

BOQ GROUP - 2017 HALF YEAR RESULTS

ASX APPENDIX 4D

For the half year period ended 28 February 2017

Results for announcement to the market [(1)]

				$m
Revenues from ordinary activities [(2)]	Down	5%	to	532
Profit from ordinary activities after tax attributable to members [(2)]	Down	6%	to	161
Profit for the year attributable to members [(2)]	Down	6%	to	161

Dividends	Record Date	Amounts per security
Interim ordinary dividend - fully franked (cents per share)	21 April 2017	38
First half 2017 Convertible Preference Shares - fully franked (cents per share)	30 March 2017	249

(1) Rule 4.2A.3. Refer to Appendix 5.1 for the cross reference index for ASX Appendix 4D.

(2) On prior corresponding period (six months ended 29 February 2016).

BOQ GROUP - 2017 HALF YEAR RESULTS

1. HIGHLIGHTS & STRATEGY

1.1 DISCLOSURE CONSIDERATIONS

Future performance

This document contains certain 'forward looking statements' about BOQ's business and operations, market conditions, results of operations, and financial condition, capital adequacy and risk management practices which reflect BOQ's views held as at the date of this document.

Forward looking statements can generally be identified by the use of forward looking words such as 'anticipate', 'believe', 'expect', 'project', 'forecast', 'estimate', 'likely', 'intend', 'should', 'will', 'could', 'may', 'target', 'plan' and other similar expressions.

Forward looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of BOQ and which may cause actual results to differ materially from those expressed or implied in such statements. Readers are cautioned not to place undue reliance on any forward looking statements. Actual results or performance may vary from those expressed in, or implied by, any forward looking statements.

Rounding

In accordance with applicable financial reporting regulations, amounts in this report have been rounded off to the nearest one million dollars, unless otherwise stated. Any discrepancies between total and sums of components in tables contained in this report are due to rounding.

Note on Statutory Profit and Cash Earnings

Statutory Profit is prepared in accordance with the *Corporations Act 2001* and the Australian Accounting Standards, which comply with International Financial Reporting Standards ('IFRS'). Cash Earnings is a non-Accounting Standards measure commonly used in the banking industry and assists in presenting a clear view of the Bank's underlying earnings. Refer to Section 5.2 of the Appendices for the Reconciliation of Statutory Profit to Cash Earnings.

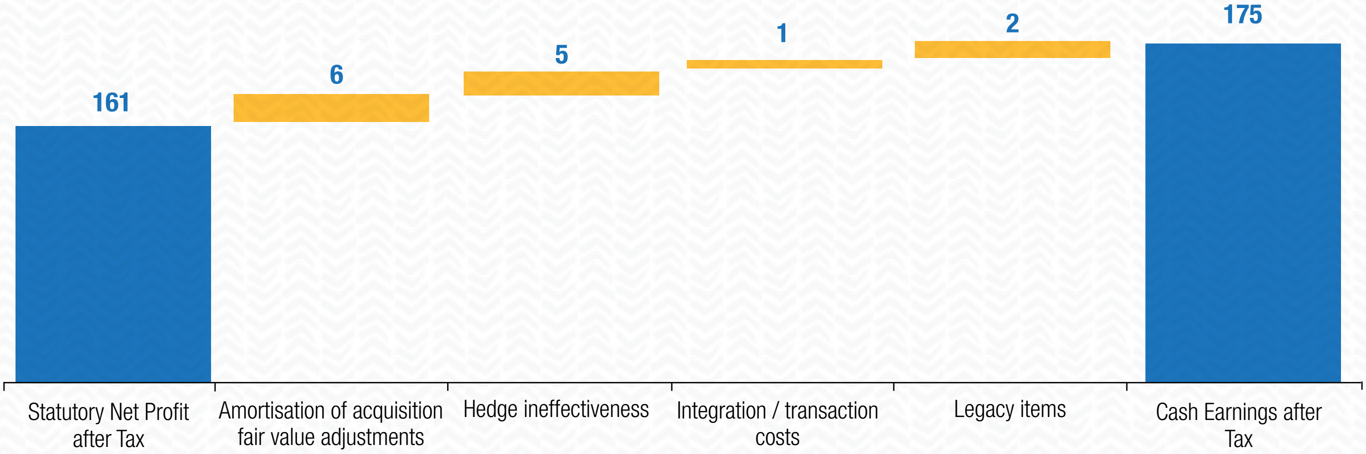
The items excluded from Cash Earnings are consistent with the prior period (Refer to the Reconciliation of Statutory Profit to Cash Earnings chart below). Integration costs relate to the acquisition of BOQF Cashflow Finance Pty Ltd (formerly known as Centrepoint Alliance Premium Funding Pty Ltd).

Hedge ineffectiveness represents earnings volatility from hedges that are ineffective under the application of IAS 39 *Financial Instruments* and create a timing difference in reported profit, where these hedges remain economically effective.

Figures disclosed in this report are on a Cash Earnings basis unless stated as Statutory Profit basis. Unless otherwise stated, all financial comparisons in this document refer to the prior half (to 31 August 2016) and the prior corresponding half (to 29 February 2016).

These non-statutory measures have not been subject to review or audit.

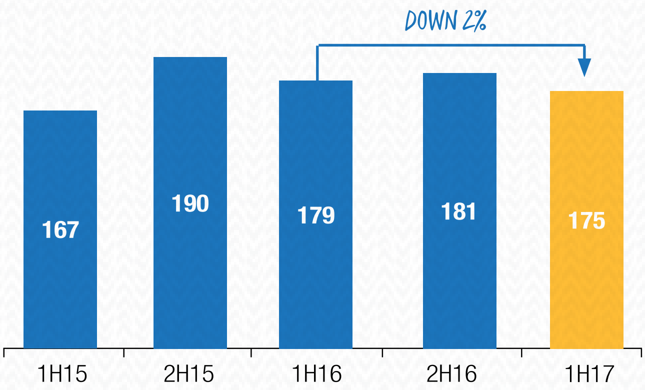
RECONCILIATION OF STATUTORY PROFIT TO CASH EARNINGS ($M)



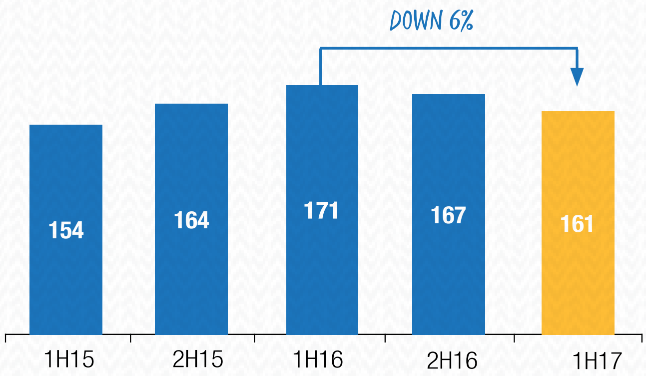
BOQ GROUP - 2017 HALF YEAR RESULTS

1.2 GROUP HIGHLIGHTS

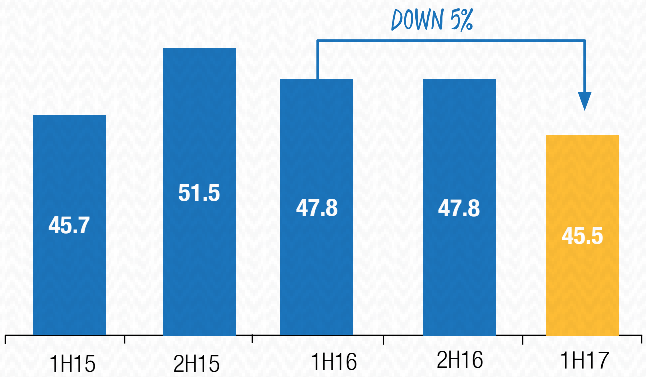
Cash Earnings after Tax ($m)



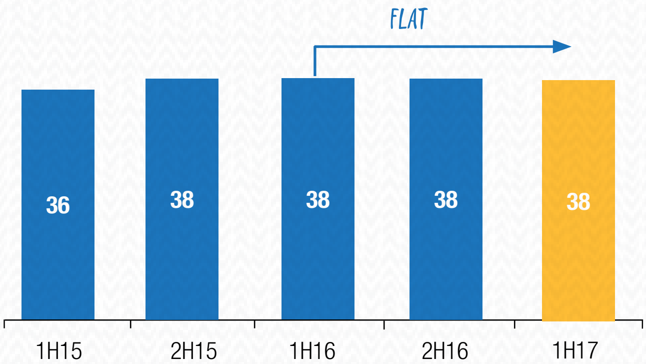
Statutory Profit after Tax ($m)



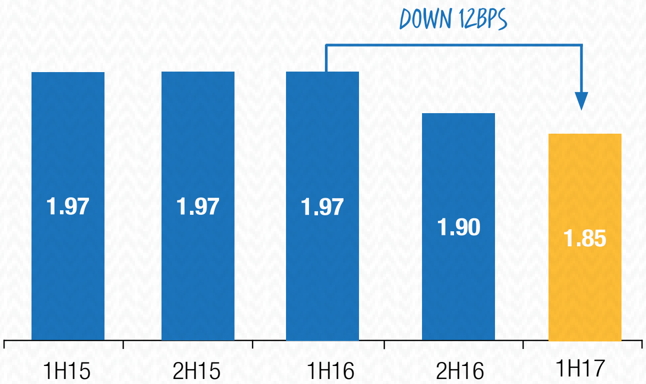
Cash Basic Earnings per Share ('EPS') (cents)



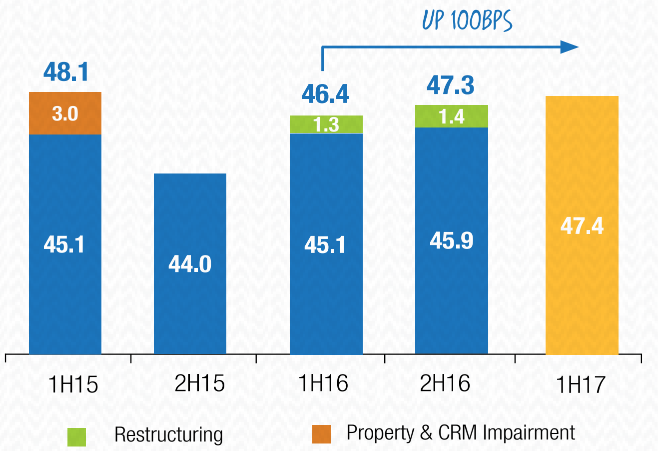
Dividends per Share (cents)



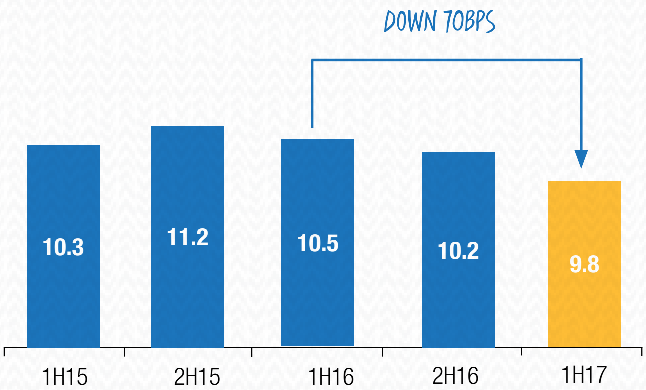
Cash Net Interest Margin ('NIM') (%)



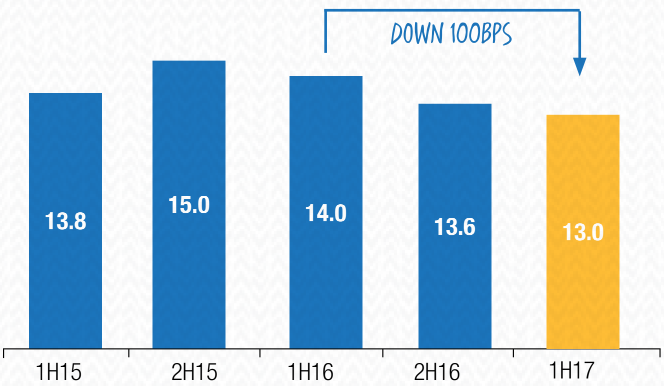
Cash Cost to Income (%)



Cash Return on Average Equity ('ROE') (%)



Cash Return on Average Tangible Equity ('ROTE') (%)



1.2 GROUP HIGHLIGHTS (CONTINUED)

CASH EARNINGS AFTER TAX $175 million Decreased 2% on the prior corresponding period and 3% on the prior half.	**CASH NET INTEREST MARGIN** 1.85% Down 5bps due to competition, funding costs and a lower yield curve. Positive second half outlook.	**OPERATING EXPENSES** $252 million 2% reduction in underlying expenses on the prior half. Fully delivered targets of 2016 Operating Model change.
LOAN IMPAIRMENT EXPENSE $27 million Down 1bp to 13bps of lending from the piror half and 4bps reduction on the prior corresponding period.	**DEPOSIT TO LENDING RATIO** 71% Increase of 3% from 68% over the half.	**COMMON EQUITY TIER 1** 9.29% Strong capital position with an increase of 29bps in the half from organic capital generation.

BOQ has delivered a first half result with Cash Earnings after Tax of $175 million, representing a 2% decrease on the prior corresponding half year and Statutory Net Profit after Tax of $161 million, a decrease of 6% on the prior corresponding period. The main contributors to reduced earnings are the revenue challenges experienced in the mortgage and term deposit markets, and the impacts of a low interest rate environment.

Strong contribution from the niche business segments, BOQ Specialist and BOQ Finance, delivered growth and improved business mix. The Virgin Money mortgage product was launched in May 2016 providing another channel for BOQ to attract a different customer cohort through digital and broker channels. The Virgin Money mortgage product is gaining traction with both customers and mortgage brokers, with application volumes building steadily over the half.

Net Interest Margin was down 5bps for the half. Mortgage repricing in August 2016 and January 2017 was more than offset by a rapid increase in funding costs and a reduction in the return on capital and low costs deposits due to the low interest rate environment.

Further improvement in asset quality was experienced across the lending portfolio in the half. This is evident in the commercial portfolio performance with no new impaired assets greater than $5 million recognised during the period. Loan impairment expense has reduced 13% on the prior half to $27 million, equivalent to 13bps of gross loans and advances. Arrears have demonstrated improving seasonally adjusted trends across all portfolios.

Organisational operating model changes introduced in 2016 have resulted in a reduction in operating expenses by 5% on the prior half or 2% adjusted for non-recurring Operating Model costs in 2016. The objectives of the $15 million investment announced in February 2016 have been delivered. The benefits achieved through the initiatives rolled out to date have enabled BOQ to absorb increases in amortisation expense and expand the Virgin Money mortgage offering. The momentum gained through these initial operating model and digitisation programs will be extended to deliver further transformational change across BOQ. This includes the establishment of a centralised mortgage hub, a key component in customer fulfilment and efficiency.

Lending growth contracted over the half by 1% (annualised) as competition intensified in key markets. Margin and credit quality were prioritised over growth in the first half against a backdrop of changing funding conditions and intense price competition. There was a significant improvement in the deposit to loan ratio, increasing 3% to 71% from the prior half.

BOQ continues to maintain a resilient balance sheet supported by a very strong capital position. The Common Equity Tier 1 ('CET1') ratio increased 29bps over the half to 9.29%, benefiting from the lower level of risk weighted asset growth. BOQ is well placed for future balance sheet growth and the outcome of impending regulatory changes.

The Board has determined to pay an interim dividend of 38 cents per share, fully franked, maintaining the dividend level of the prior periods.

1.3 STRATEGY

BOQ is a full service financial institution, listed on the Australian Securities Exchange ('ASX'), regulated by the Australian Prudential Regulation Authority ('APRA') as an authorised deposit-taking institution ('ADI'). It is ranked among the top 100 companies by market capitalisation on the ASX.

BOQ was established in 1874 and was the first Permanent Building Society in Queensland. Today it has evolved into a national bank with a network of retail branches, brokers and brands spanning every state and territory in Australia.

BOQ aspires to build a differentiated position in the Australian financial services sector by demonstrating to customers that "It's Possible to Love a Bank." BOQ's corporate strategy is to focus on niche customer segments that value a more intimate banking relationship beyond what they receive from the major banks. Importantly, BOQ's strategic focus plays to its competitive strengths as a regional bank which provides customers with personalised relationship management, passionate customer service, focused products and solutions, and nimble decision-making. BOQ's vision is supported by it four strategic pillars: (i) **Customer in Charge** (ii) **Grow the Right Way** (iii) **There's Always a Better Way**, and (iv) **Loved Like No Other**.

'Customer in Charge' is about continuing to expand the source of originations through growth in the mortgage broker market as well as improvements to digital, online and call centre channels to enable customers to interact with BOQ when and how they want. In the past half year, accredited brokers rose to more than 6,000 across the BOQ and VMA brands, with broker settlements contributing 15% of housing loan originations over the half and accelerating improvements to geographic diversification outside of Queensland. BOQ's digital channels continue to drive lead referrals and contributed to growth. BOQ has seen strong uptake of its banking app and VMA is on track to launch a new credit card mobile app in financial year 2017. Both BOQ and VMA will launch new customer facing websites over this calendar year to improve the customer experience and provide opportunities to grow customers and improve customer uptake of products and services.

The successful build out of the Virgin Money business continues. Application volumes for Virgin Money's Reward Me Home Loan are well ahead of plan, contributing $211 million of loan growth since its launch in May 2016. The Virgin Money credit card continues to grow above system levels and a new Virgin Super offering was launched in December 2016 in partnership with Mercer.

To **'Grow the Right Way'** and achieve the right balance of return for risk taken, BOQ has continued to diversify its balance sheet by pursuing niche segments in BOQ Specialist, SME Business Banking and BOQ Finance. Business mix changes, reflecting a core focus on credit quality, continue to be evident across the Retail portfolio.

In the Retail network, 62% of Owner Managed Branches have transitioned to the new commission model which is based upon a balanced scorecard approach. The new scorecard balances lending, deposits, cross sales and compliance components which better align the interests of Owner Managers and the Bank. The new scorecard and commission model forms the basis of a new standardised franchise agreement which is being rolled out on a progressive basis as existing agreements expire.

'There's Always a Better Way' is the pursuit of operational efficiency. BOQ continues its focus on improving processes and systems to reduce the turnaround time on compliant retail and business lending applications. Implementation of BOQ's new digitised mortgage origination platform over the past 12 months has been completed with approximately 70% of mortgage applications to be covered by the new streamlined process delivering faster time to 'yes' for customers.

'Loved Like No Other' is about living the brand promise to prove it's possible to love a bank. Over the past 12 months BOQ has continued to invest in its leadership and talent to create a highly performing and engaged workplace. Progress has been made towards the goal of 50% gender diversity in senior management by 2020. Conduct and culture remain a high priority with tailored ethics training rolled out across the Bank.

Through continued focus on its four strategic pillars, BOQ aims to deliver robust and sustainable financial performance, consistent growth in returns to shareholders and superior service to customers and the wider community.

2. GROUP PERFORMANCE ANALYSIS

2.1 INCOME STATEMENT & KEY METRICS

	Half Year Performance				
$ million	**Feb-17**	Aug-16	Feb-16	Feb 17 vs Aug 16	Feb 17 vs Feb 16
Net Interest Income	**452**	470	467	(4%)	(3%)
Non-Interest Income	**80**	88	85	(9%)	(6%)
Total Income	**532**	558	552	(5%)	(4%)
Operating Expenses	**(252)**	(264)	(256)	(5%)	(2%)
Underlying Profit	**280**	294	296	(5%)	(5%)
Loan Impairment Expense	**(27)**	(31)	(36)	(13%)	(25%)
Profit before Tax	**253**	263	260	(4%)	(3%)
Income Tax Expense	**(78)**	(82)	(81)	(5%)	(4%)
Cash Earnings after Tax	**175**	181	179	(3%)	(2%)
Statutory Net Profit after Tax	**161**	167	171	(4%)	(6%)

		Half Year Performance				
Key Metrics		**Feb-17**	Aug-16	Feb-16	Feb 17 vs Aug 16	Feb 17 vs Feb 16
Shareholder Returns						
Share Price	($)	**11.85**	10.55	10.55	12%	12%
Market Capitalisation	($ million)	**4,590**	4,020	3,969	14%	16%
Dividends per share (fully franked)	(cents)	**38**	38	38	-	-
Dividend yield	(%)	**6.47**	7.16	7.24	(69bps)	(77bps)
Grossed-up dividend yield (including franking)	(%)	**9.24**	10.24	10.35	(100bps)	(111bps)
Cash Earnings basis						
Basic EPS	(cents)	**45.5**	47.8	47.8	(5%)	(5%)
Diluted EPS	(cents)	**43.7**	45.4	45.6	(4%)	(4%)
Dividend payout ratio	(%)	**84.1**	80.0	79.9	410bps	420bps
Statutory basis						
Basic EPS	(cents)	**41.8**	44.2	45.7	(5%)	(8%)
Diluted EPS	(cents)	**40.3**	42.1	43.7	(4%)	(8%)
Dividend payout ratio	(%)	**91.4**	86.7	83.6	470bps	780bps

2.1 INCOME STATEMENT & KEY METRICS (CONTINUED)

Key Metrics		Half Year Performance Feb-17	Aug-16	Feb-16	Feb 17 vs Aug 16	Feb 17 vs Feb 16
Profitability and efficiency measures						
Cash Earnings basis						
Net Profit After Tax	($ million)	**175**	181	179	(3%)	(2%)
Underlying Profit (1)	($ million)	**280**	294	296	(5%)	(5%)
Net Interest Margin	(%)	**1.85**	1.90	1.97	(5bps)	(12bps)
Cost to Income Ratio	(%)	**47.4**	47.3	46.4	10bps	100bps
Loan Impairment Expense to Gross Loans and Advances ('GLA')	(bps)	**13**	14	17	(1bp)	(4bps)
Return on Average Equity	(%)	**9.8**	10.2	10.5	(40bps)	(70bps)
Return on Average Tangible Equity (2)	(%)	**13.0**	13.6	14.0	(60bps)	(100bps)
Statutory basis						
Net Profit After Tax	($ million)	**161**	167	171	(4%)	(6%)
Underlying Profit (1)	($ million)	**261**	276	287	(5%)	(9%)
Net Interest Margin	(%)	**1.85**	1.90	1.97	(5bps)	(12bps)
Cost to Income Ratio	(%)	**50.9**	50.0	48.8	90bps	210bps
Loan Impairment Expense to GLA	(bps)	**13**	14	17	(1bp)	(4bps)
Return on Average Equity	(%)	**9.0**	9.5	10.0	(50bps)	(100bps)
Return on Average Tangible Equity (2)	(%)	**11.9**	12.6	13.4	(70bps)	(150bps)
Asset Quality						
30 days past due ('dpd') Arrears	($ million)	**468**	461	562	2%	(17%)
90 dpd Arrears	($ million)	**217**	234	255	(7%)	(15%)
Impaired Assets	($ million)	**210**	232	240	(9%)	(13%)
Specific Provisions to Impaired Assets	(%)	**54.7**	50.1	48.8	460bps	590bps
Collective Provisions to Risk Weighted Assets	(%)	**0.49**	0.50	0.54	(1bp)	(5bps)
Capital						
Common Equity Tier 1 Ratio	(%)	**9.29**	9.00	8.80	29bps	49bps
Total Capital Adequacy Ratio	(%)	**12.57**	12.29	12.45	28bps	12bps
Risk Weighted Assets ('RWA')	($ million)	**28,014**	28,054	27,467	-	2%

(1) Profit before loan impairment expense and tax.

(2) Based on after tax earnings applied to average shareholders' equity (excluding preference shares and treasury shares) less goodwill and identifiable intangible assets (customer related intangibles/ brands and computer software).

2.2 NET INTEREST INCOME

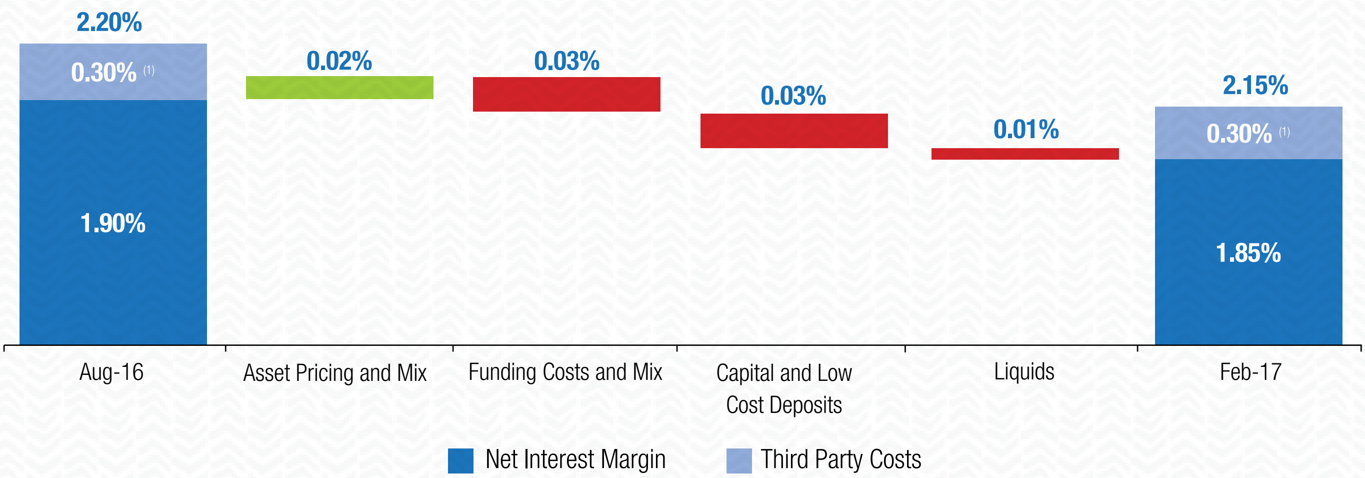
$ million	Half Year Performance Feb-17	Aug-16	Feb-16	Feb 17 vs Aug 16	Feb 17 vs Feb 16
Net Interest Income	**452**	470	467	(4%)	(3%)
Average Interest Earning Assets	**49,237**	49,353	47,506	-	4%
Net Interest Margin	**1.85%**	1.90%	1.97%	(5bps)	(12bps)

Net Interest Income reduced by $18 million over the prior half reflecting a 3.8% decrease. This was a result of a decline in average gross loans over the half of 0.8%, a 5bps fall in Net Interest Margin, as well as a 1.6% reduction due to a lower day count.

Net Interest Margin compression in the half is largely attributable to the heightened competition that has prevailed in lending and deposit markets and the ongoing impact of a record low interest rate environment. The introduction of longer dated 12 month and greater term deposit specials post the August 2016 RBA rate cut added further pressure on already increasing funding costs. Term deposit portfolio spreads peaked late in the calendar year.

Repricing of lending rates in August 2016 and January 2017 supported Net Interest Margin in the period with additional flow-on benefits expected in the second half. Significant retraction in industry pricing levels in the term deposit market from the peak in late 2016 is also expected to support margin improvement in the second half.

NET INTEREST MARGIN - MOVEMENT AUGUST 2016 TO FEBRUARY 2017



(1) Third party costs mainly represent commissions to Owner Managers and brokers.

Underlying movements within the NIM included the following:

Asset Pricing & Mix: Repricing actions during the half contributed positively to NIM by 6bps. Front to back book repricing and retention repricing had a 4bps contractionary effect.

Funding & Hedging Costs: Funding cost impacts reduced NIM by 3bps. The increased competition for term deposits, which intensified from May 2016 and peaked in November 2016, increased average funding costs and resulted in the majority of the impact in this element of the margin movement for the period. There was also some impact from wholesale funding costs, with hedging costs remaining relatively stable compared to the prior half.

Capital and Low Cost Deposits: The lower interest rate environment reduced the returns on BOQ's $4.9 billion replicating portfolio (covering BOQ's capital and low cost deposits) causing a 3bps reduction in NIM over the half. This trend is expected to continue in the second half with an additional 2 basis points of negative impact expected, after which the earnings profile is expected to neutralise, based upon future interest rates matching implied by the current interest rate curve.

Liquids: Lower than expected loan growth resulted in an increased average liquidity level which had a negative denominator impact on NIM of 1bp.

2.3 NON-INTEREST INCOME

$ million	Half Year Performance Feb-17	Aug-16	Feb-16	Feb 17 vs Aug 16	Feb 17 vs Feb 16
Banking Income	**46**	50	49	(8%)	(6%)
Insurance Income	**11**	11	15	-	(27%)
Other Income	**18**	17	13	6%	38%
Trading Income	**5**	10	8	(50%)	(38%)
Total Non-Interest Income	**80**	88	85	(9%)	(6%)

Non-Interest income of $80 million for the first half of 2017 was $5 million or 6% lower than the prior corresponding period and $8 million or 9% below the last half. Banking income was $4 million lower than the prior half. The continuing customer preference for lower fee products remains evident. In the current half, changes to the structure of the Bank's outsourced ATM fleet reduced income by $3 million compared to the prior half and reduced expenses by a similar amount.

Other Income for the half increased $1 million against the prior half. Continued strength in equipment sales realisations from the BOQ Finance portfolio contributed $7 million to the result, albeit slightly down from the prior period. The white-label product distribution performance of Virgin Money (Australia), which is included in other income, delivered strong credit card acquisition and portfolio performance (15% portfolio growth vs. System <1%) and when combined with disciplined expense management, resulted in a $2 million increase in other income compared to the prior half.

Trading Income reduced by $5 million against the prior half after several periods of above expectation performance.

The St Andrew's insurance contribution is discussed in detail in Section 2.4 below.

2.4 INSURANCE OVERVIEW

$ million	Half Year Performance Feb-17	Aug-16	Feb-16	Feb 17 vs Aug 16	Feb 17 vs Feb 16
Gross Written Premium (net of refunds)	**35**	32	30	9%	17%
Net Earned Premium	**34**	35	35	(3%)	(3%)
Underwriting Result	**8**	9	12	(11%)	(33%)
Other Insurance Income	**2**	2	2	-	-
Total Income	**10**	11	14	(9%)	(29%)
Consolidation Adjustment	**1**	-	1	-	-
Group Insurance Result	**11**	11	15	-	(27%)

St Andrew's Insurance contributed $11 million to Non-Interest Income, consistent with the prior half and largely in line with expectations.

Gross Written Premiums increased 9% from the August half due to continuing growth in the volume of regular premium policies, in particular from wholesale partnerships. Net Earned Premiums decreased 3% from recent periods due to an increase in reinsurance coverage and associated reinsurance premiums.

The changing business mix to an increasing proportion of wholesale lines and a decreasing proportion of single premium business has seen the earnings profile declining in recent periods. This trend is now flattening out. The insurance market is undergoing significant industry change and heightened regulatory requirements create uncertainty to the outlook.

2.5 OPERATING EXPENSES

$ million	Half Year Performance Feb-17	Aug-16	Feb-16	Feb 17 vs Aug 16	Feb 17 vs Feb 16
Employee Expenses	**126**	127	126	(1%)	-
Occupancy Expenses	**21**	21	22	-	(5%)
General Expenses	**39**	48	50	(19%)	(22%)
IT Expenses	**55**	50	42	10%	31%
Other Expenses	**11**	10	9	10%	22%
Operating Model	**-**	8	7	(100%)	(100%)
Total Operating Expenses (1)	**252**	264	256	(5%)	(2%)
Cost to Income Ratio	**47.4%**	47.3%	46.4%	10bps	100bps
Cost to Income Ratio (excluding one-off costs) (2)	**47.4%**	45.9%	45.1%	150bps	230bps
Number of Employees ('FTE') (1)	**1,953**	1,959	1,990	-	(2%)

(1) FTE numbers and Operating Expenses exclude Virgin Money (Australia) as the net result is included in Non-Interest Income.

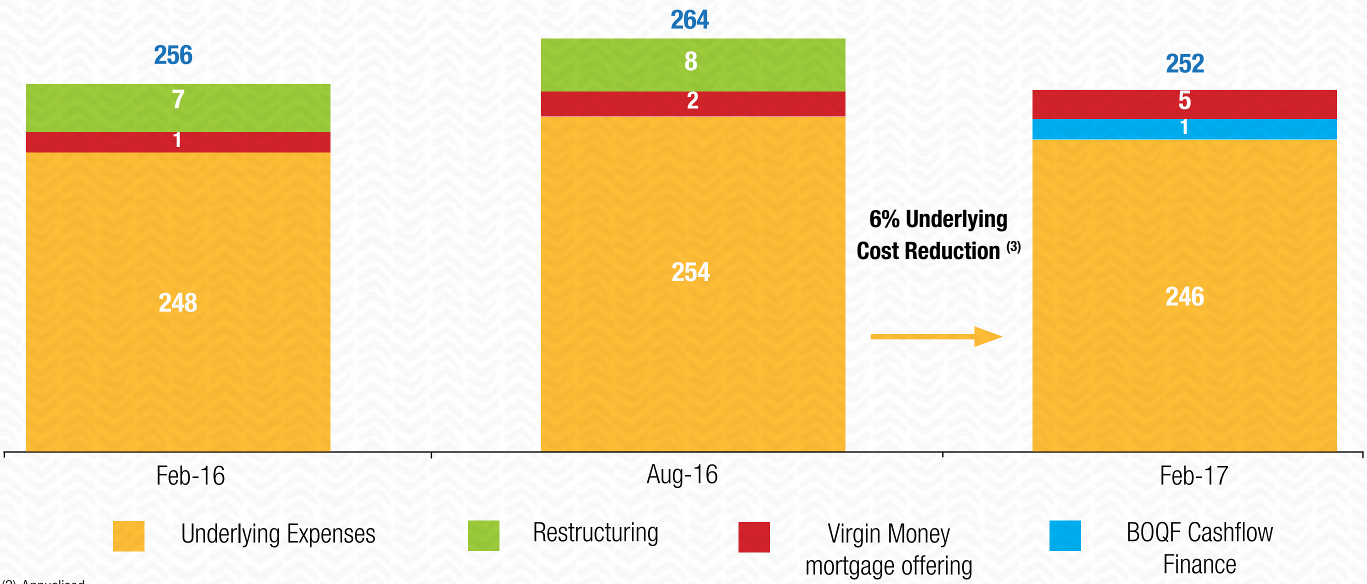
(2) One-off costs are related to restructuring ($15 million) in FY16.

Operating Expenses exclude costs relating to the white-label product distribution activities of Virgin Money (Australia), where the net result has been consolidated in Non-Interest Income. Total expenses for the third party distribution activities of Virgin Money (Australia) were $7 million for the half to February 2017, which is consistent with the prior corresponding period. A reconciliation of Cash Earnings to Statutory Profit is set out in Section 5.2 (b).

Operating Expenses have decreased 5% (2% adjusted for non-recurring Operating Model costs) on the prior period to $252 million. In 2016, BOQ announced a program to reshape its operating model and organisational structure through a number of productivity initiatives. The $15 million investment announced in 2016 has achieved the planned 100% payback within 12 months. The realisation of benefits associated with the Operating Model changes implemented through 2016 and this half have enabled the Group to invest in the expansion of the Virgin Money mortgage offering without any uplift in the operating expense profile. Further initiatives are underway such as the establishment of a mortgage hub that will progressively become the centre of excellence for all mortgage processing across the Group.

General expenses for the half benefited by $3 million compared to the prior half, relating to changes to the structure of the Bank's outstourced ATM fleet, with a commensurate reduction experienced in Non-Interest income.

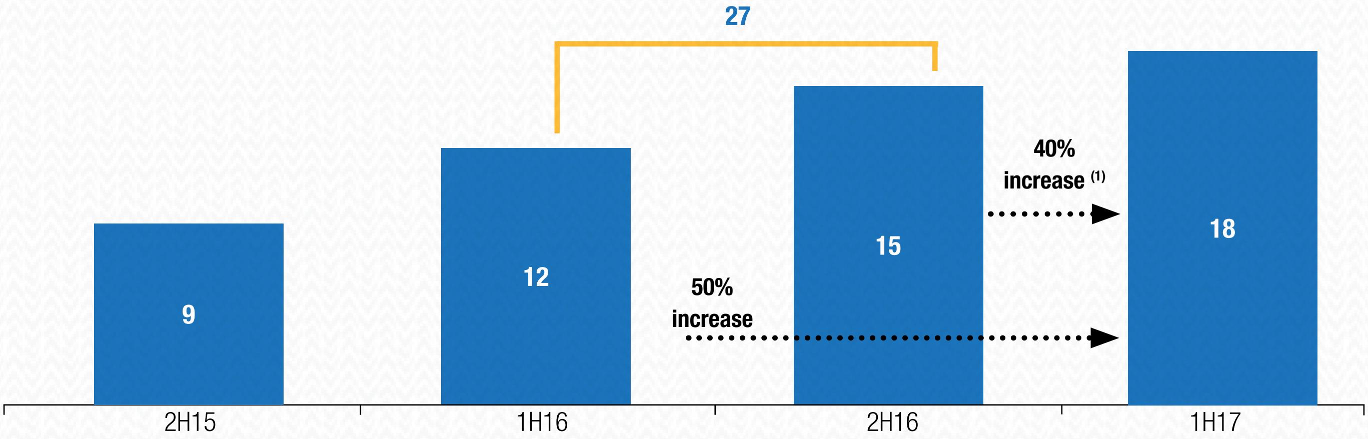
The first half result includes an uplift of $5 million in IT costs. This is the result of investment in BOQ's digitisation program and delivery of key strategic initiatives. The uplift is included within the existing expense profile.



(3) Annualised.

2.5 OPERATING EXPENSES (CONTINUED)

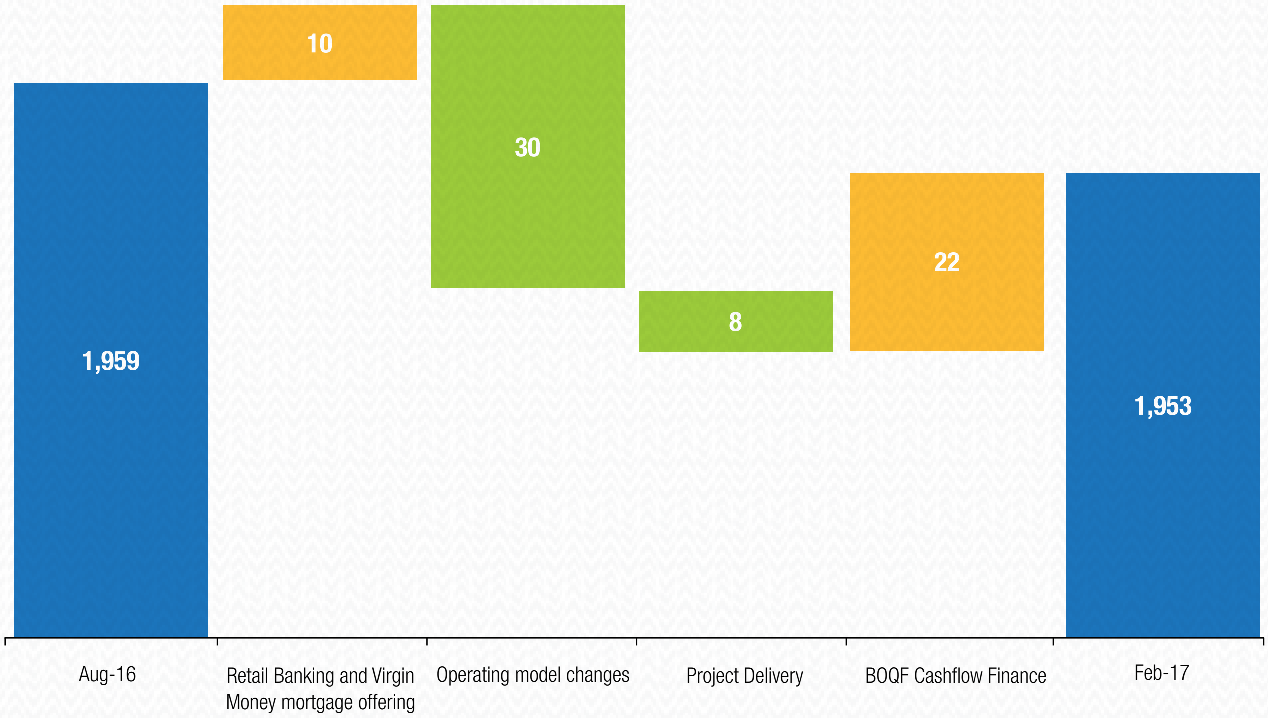
Amortisation Profile ($m)



(1) Annualised.

BOQ FTE 1H17 V 2H16

Total employee numbers have remained flat in the first half. The acquisition of BOQF Cashflow Finance and the continued investment in the expansion of the Virgin Money mortgage offering has resulted in an increase in employees in these divisions. Efficiencies derived from the extension of the organisational operating model reshaping (commenced in 2016) has allowed for the expansion in these market segments without any net increase of employees across the Group.



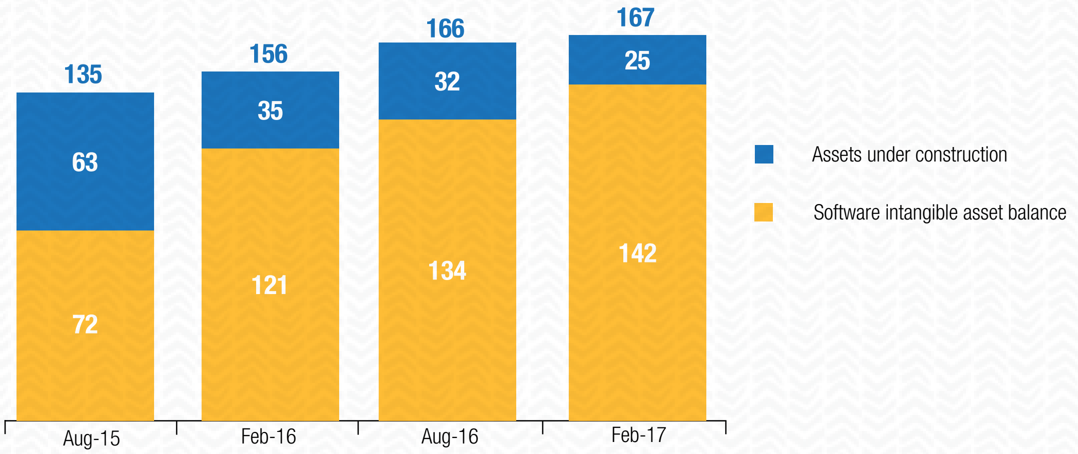
2.6 CAPITALISED INVESTMENT

Investment in the Group's transformation continued in the first half, with a number of key initiatives being delivered. The most significant of these was the release of a major extension to the Retail Lending Origination platform which increased coverage from 30% to 70% of all mortgage applications. The completion of this investment, along with the 2016 second half delivery of the Virgin Money Home Loan and the Commercial Lending Origination Environment ('CLOE'), has delivered notable improvements in "time to yes". Other key initiatives completed included e-statements - enabling online customers to go paperless and reducing BOQ's paper and mailing costs – and a new digital Application Programming interface ('API') gateway which will make it easier and faster for BOQ and its partners to develop new mobile capabilities in the future.

Further investment is continuing to improve customer experience, efficiency, and enable new digital capabilities. As part of the Group's strategy to invest in niche businesses, the initiative to progressively transform the leasing platform for BOQ Finance from more than 20 separate systems into a single market-leading system went live for novated leases in November 2016. This will be progressively rolled out to the rest of the leasing business over the course of the 2017 financial year. New investments in digital have commenced to deliver a new web experience platform and mobile platform that will support a digital offering bank-wide.

This level of investment in digitising the Bank is evident in the increased carrying value of intangible assets over the past two years to $167 million. Assets under construction has decreased as the Group delivers on its major investments. The rate of growth in the carrying value of IT intangible assets is slowing as the annual amortisation charge converges towards the current level of annual investment spend.

CARRYING VALUE OF INTANGIBLE ASSETS ($M)



2.7 LENDING

Loan growth moderated over the first half due to heightened competition in key markets. BOQ continued to prioritise margin and asset quality over asset growth, with an emphasis on deposit gathering and improving deposit mix. The strategy of targeting niche customer segments is delivering results with BOQ Specialist, BOQ Finance and niche segments in BOQ Commercial, all contributing solid growth momentum. The new Virgin Money mortgage offering delivered strong growth over the half with the portfolio building to over $200 million and has continued to grow its mortgage applications pipeline.

BOQ continues to maintain prudent pricing and credit risk disciplines, along with robust origination validation requirements. This is evidenced in the strong portfolio credit quality metrics. (refer Section 3.1 Asset Quality).

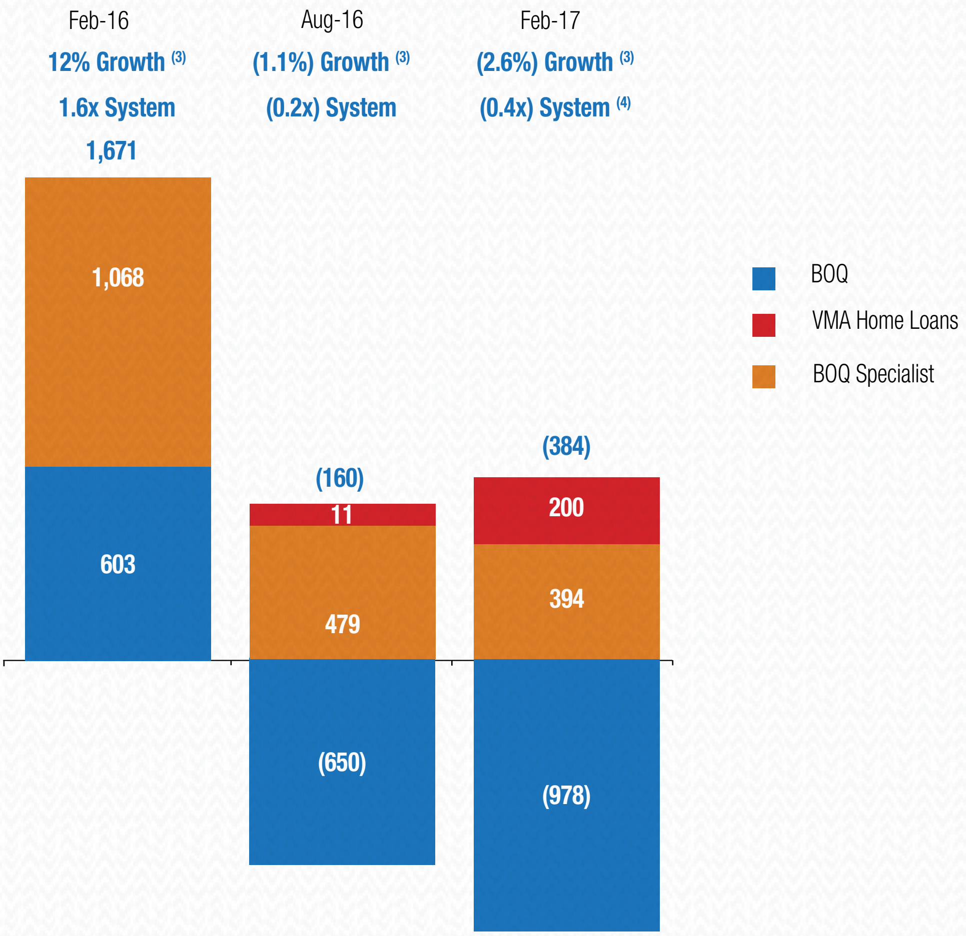
2.7 LENDING (CONTINUED)

$ million	As at Feb-17	Aug-16	Feb-16	Feb 17 vs Aug 16 (1)	Feb 17 vs Feb 16
Housing Lending - APRA on-balance sheet	**27,058**	27,733	27,709	(5%)	(2%)
Housing Lending - APS 120 qualifying securitisation (2)	**2,446**	2,155	2,339	27%	5%
	29,504	29,888	30,048	(3%)	(2%)
Commercial Lending	**8,906**	8,818	8,502	2%	5%
BOQ Finance	**4,285**	4,142	4,057	7%	6%
Consumer	**300**	304	317	(3%)	(5%)
Gross Loans and Advances ('GLA')	**42,995**	43,152	42,924	(1%)	-
Specific and Collective Provisions	**(252)**	(256)	(265)	(3%)	(5%)
Net Loans and Advances	**42,743**	42,896	42,659	(1%)	-

(1) Growth rates have been annualised.

(2) Securitised loans subject to capital relief under APRA Prudential Standard APS 120 Securitisation.

GROWTH IN HOUSING ($M)



(3) Growth rates have been annualised.

(4) Represents latest available APRA System growth statistics as at January 2017.

2.7 LENDING (CONTINUED)

HOUSING LENDING

The housing portfolio contracted 3% (annualised) over the first half as the business continued to focus on margin preservation as well as improving the deposit mix. Competition continued to intensify toward the end of 2016 in a low interest rate environment, resulting in higher funding costs. BOQ continued to focus on building service and fulfilment capability through the progressive rollout of the new Retail Lending Origination platform and has commenced centralising its mortgage processing capabilities across the Group.

BOQ Specialist continued strong momentum in its on-balance sheet mortgage offering to its niche, professional client base. First half growth of $400 million (27% annualised) was achieved, though this was lower than prior periods. This portfolio provides significant mortgage portfolio diversification both demographically and geographically outside of Queensland, and future cross sell opportunities in supporting the commercial lending needs of these customers over their life cycle.

The launch of the Virgin Money mortgage product in May 2016 has provided another channel for BOQ to engage with a new customer demographic. The Virgin brand attracts a different customer who is more likely to be metro-based, with a strong propensity to engage through digital channels. Virgin Money expanded its Broker presence, partnering with Aussie and Connective in late 2016 and is on target to have 3,000 accredited brokers in the second half of the year. Since May 2016, Virgin Money has built a $211 million housing portfolio and is accelerating the Bank's geographic diversification with 84% of the Virgin Money portfolio based outside of Queensland.

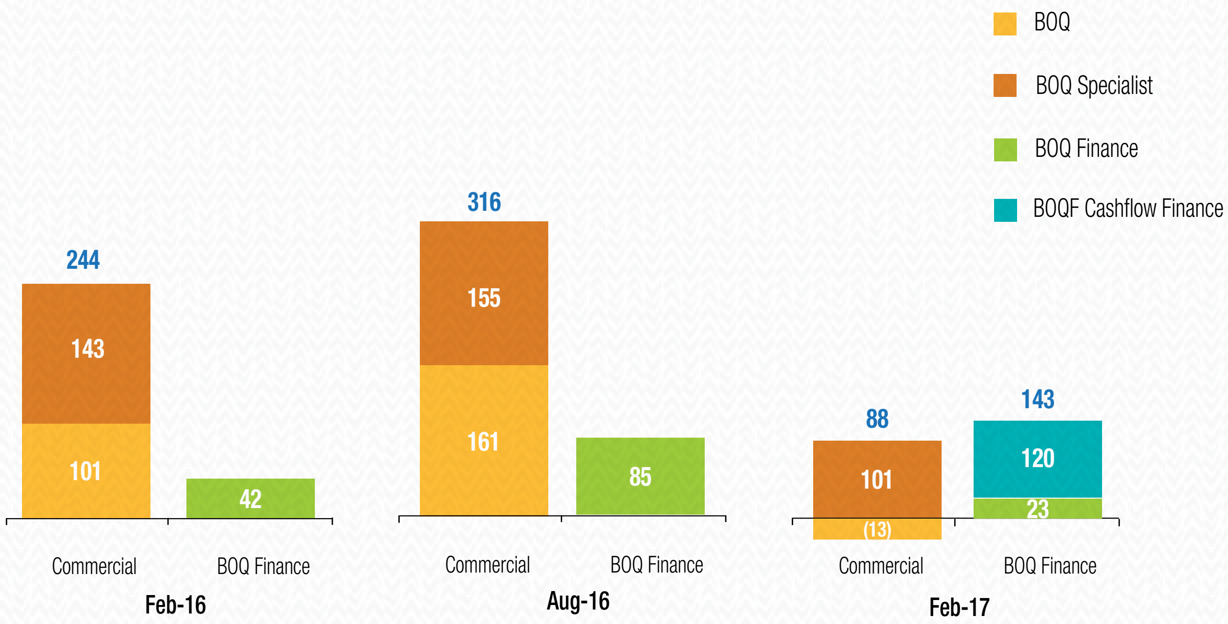
BOQ has further optimised the branch network with a reduction in the branch footprint of 14 locations this half, mainly reflecting consolidations and Owner Manager retirements. Whilst some branches have incurred higher levels of run-off which has constrained growth, this is accelerating the journey to a more efficient network with higher average footings per branch and stronger risk and compliance foundations. BOQ has seen strong engagement from the Owner Managers transitioning to the new franchise agreement, now covering 62% of all Owner Managers. The new franchise agreement better aligns the network with the strategic objectives of the Bank. A further 4 ICON branches were delivered during the half bringing the total to 16, with the first flagship branch in the Brisbane CBD.

Growth through the broker channel has moderated in the first half reflecting both a heightened competitive environment and BOQ's disciplined approach to credit quality. BOQ continues to target extensions to accredited broker relationships and recognises the importance further growth in this channel provides to customer and portfolio diversification. In the 2017 calendar year, there has been a significant uplift in broker applications as the competitive environment across pricing and credit practices appears to have improved the Group's relative market proposition in the broker space.

Across the BOQ branded and Virgin Money broker aggregator relationships, the Group has access to the majority of the Australia Broker market.

2.7 LENDING (CONTINUED)

GROWTH IN COMMERCIAL & BOQ FINANCE ($M)



	Commercial	BOQ Finance	Commercial	BOQ Finance	**Commercial**	**BOQ Finance** (3)
Growth rate (1)	5.9%	2.1%	7.4%	4.2%	**2.0%**	**1.1%**
System growth (1) (2)	11.0%	(3.5%)	4.8%	2.4%	**8.3%**	**4.6%**
Growth vs System (2)	0.5x	0.6x	1.6x	1.7x	**0.2x**	**0.2x**

(1) Growth rates have been annualised.

(2) February 2017 represents latest available APRA and AELA System growth statistics as at January 2017.

(3) Excluding the acquisition of BOQF Cashflow Finance.

2.7 LENDING (CONTINUED)

BOQ BUSINESS

BOQ Commercial loans increased by 2% annualised to $8.9 billion with the key focus being on profitable growth by maximising and leveraging opportunities across whole of customer needs, and by continuing to gain momentum within the chosen niche specialist sectors.

The BOQ Specialist commercial loan book delivered strong growth of 8% annualised in its core segment, delivering bespoke solutions to medical, dental and veterinary professionals and building deeper, more meaningful relationships in this sector. This niche specialist business continues to grow both mortgages and commercial loans and has increased its customer numbers by an annualised 9% over the first half to more than 30,000. The success of customer acquisition is tied to the commitment to servicing the professional and personal needs of the client base from graduation to retirement.

The BOQ Finance ('BOQF') lending portfolio increased by 1% annualised to $4.3 billion. The BOQF strategy focuses on niche products and markets. Organic growth in the specialist Dealer business and improved margin management in the Equipment Finance business over the first half was complemented by the acquisition of BOQF Cashflow Finance (formerly known as Centrepoint Alliance Premium Funding) in December 2016. This acquisition gives BOQF the ability to provide short term funding to small and medium businesses through a specialist third party origination network. There is also the opportunity for suitable existing BOQ products to be distributed through this network over time.

The BOQ Business strategy's focus on defined niche target industries has continued to gain momentum and deliver strong commercial growth in the target industries (Retirement & Healthcare, Hospitality & Tourism and Franchising), and is poised to capitalise on the positive conditions now emerging in Agribusiness.

The SME strategy continues to evolve with the delivery of product and technical capability through Retail branches, business centres and business bankers. A new auto-decisioning tool for amounts under $750,000 has been rolled out that will enhance the customer experience. The successful development and delivery of the Commercial Lending Origination Environment, which digitised the commercial lending process throughout the whole of the bank, is providing improved momentum in this segment. The Business Franchise offering has continued to improve through a more select brand partnership and accreditation process. In addition to this, the Financial Markets business has launched a new unsecured foreign exchange facility that will support both SME and Commercial client offerings.

3. BUSINESS SETTINGS

3.1 ASSET QUALITY

Key Metrics		Half Year Performance Feb-17	Aug-16	Feb-16	Feb 17 vs Aug 16	Feb 17 vs Feb 16
Loan Impairment Expense	($ million)	**27**	31	36	(13%)	(25%)
Loan Impairment Expense / GLA	bps	**13**	14	17	(1bp)	(4bps)
Impaired Assets	($ million)	**210**	232	240	(9%)	(13%)
30DPD Arrears	($ million)	**468**	461	562	2%	(17%)
90DPD Arrears	($ million)	**217**	234	255	(7%)	(15%)
Collective Provision & General Reserve for Credit Losses ('GRCL') (1) / RWA	bps	**90**	91	96	(1bp)	(6bps)

(1) GRCL gross of tax effect.

The Bank's key credit indicators with comparisons against August 2016 and February 2016 were:

- Loan impairment expense of $27 million (13bps/GLA) for the first half, which was a 25% decrease on the prior corresponding period. This result was led by a strengthening Commercial portfolio and improved BOQ Finance payment performance. While an uplift occurred in Retail housing impairments, performance remains within expectation and portfolio arrears metrics are performing well;
- Impaired assets decreased by $22 million over the half and $30 million below the prior corresponding period. There were no new exposures greater than $5 million impaired during the half;
- Past due performance has increased slightly in 30dpd for the half but are significantly below levels of the prior corresponding period. 30dpd is typically impacted by seasonality, but this was not as prominent this half; and
- Collective provisioning and GRCL coverage against risk weighted assets has decreased by 1bps over the half, and 6bps against the prior corresponding period. This decrease against the prior comparative period is attributable largely to an improvement in commercial asset quality, again evidenced by arrears performance.

LOAN IMPAIRMENT EXPENSE

$ million	Half Year Performance Feb-17	Aug-16	Feb-16	Feb 17 vs Aug 16	Feb 17 vs Feb 16
Retail Lending	11	8	8	38%	38%
Commercial Lending	5	8	14	(38%)	(64%)
BOQ Finance	11	15	14	(27%)	(21%)
Total Loan Impairment Expense	27	31	36	(13%)	(25%)
Loan Impairment Expense / GLA	13bps	14bps	17bps	(1bp)	(4bps)

Retail portfolio impairment expense was weighted to central Queensland and northern Western Australia where asset values have had the highest deterioration in value. The underlying Retail housing portfolio performance remains strong with sound arrears metrics well below historical seasonal experience. Commercial impairment expense has continued to improve against the prior half with favourable realisation outcomes achieved on provisions raised in prior periods. In addition, new specific provisioning activity was low, benefiting from the risk appetite and practices established since 2012. BOQ Finance impairment expense improved against the prior two periods as impacts from mining and associated sectors have eased and arrears have reduced to historically low levels.

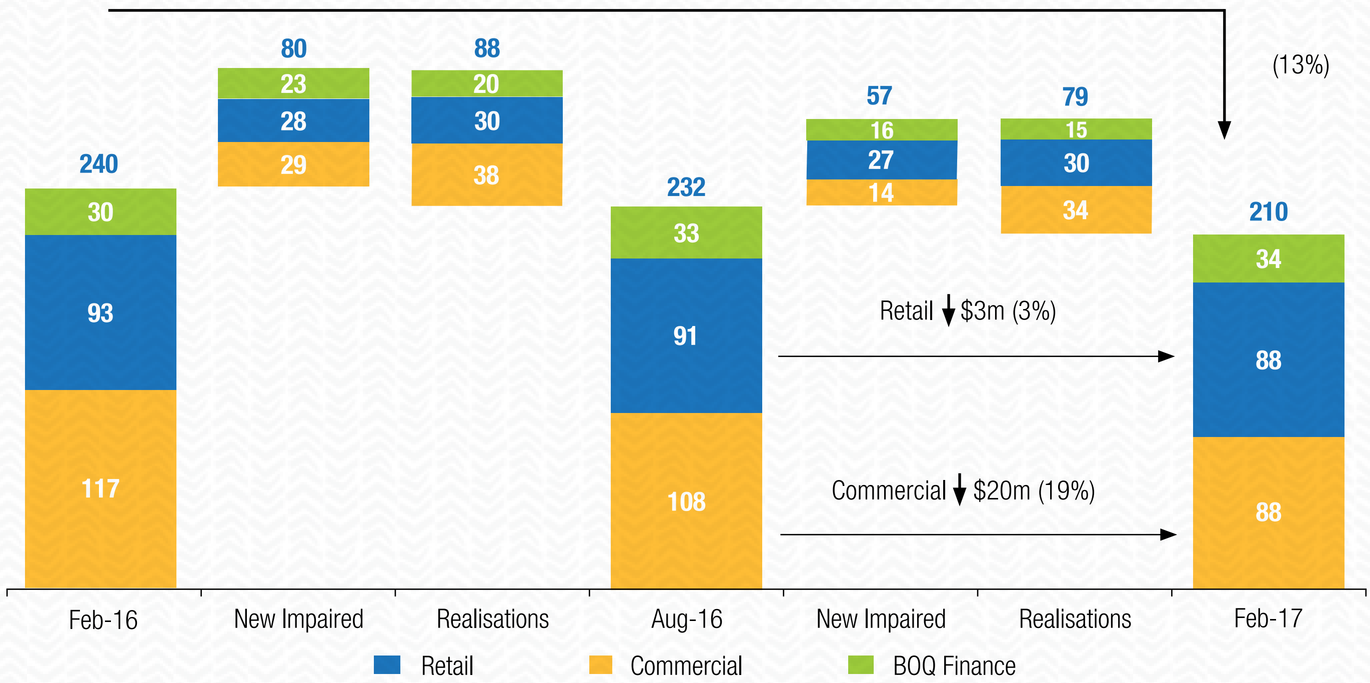
3.1 ASSET QUALITY (CONTINUED)

IMPAIRED ASSETS

$ million	As at Feb-17	As at Aug-16	As at Feb-16	Feb 17 vs Aug 16	Feb 17 vs Feb 16
Retail Lending	**88**	91	93	(3%)	(5%)
Commercial Lending	**88**	108	117	(19%)	(25%)
BOQ Finance	**34**	33	30	3%	13%
Total Impaired Assets	**210**	232	240	(9%)	(13%)
Impaired Assets / GLA	**49bps**	54bps	56bps	(5bps)	(7bps)

Impaired assets have decreased by $22 million or 9% over the half to $210 million, attributable largely to a $20 million or 19% reduction in Commercial assets as new impaired asset recognition for the half remained low. Retail impaired assets decreased $3 million with new impaired assets and realisations remaining in line with the prior half. BOQ Finance impaired assets increased by $1 million for the half, although there was reduced activity overall through lower new impairments and realisations.

IMPAIRED ASSETS ($M)



3.1 ASSET QUALITY (CONTINUED)

RETAIL IMPAIRED ASSETS

Retail impaired assets decreased by $3 million or 3% over the half, while the impairment expense increased. This is largely attributed to an uplift in impairment expense in central Queensland and northern Western Australian, generally with lower loan balances, but demonstrating higher loss rates. Default metrics on the housing portfolio remain strong and have remained steady from the prior period where a seasonal impact would normally be expected.

COMMERCIAL IMPAIRED ASSETS

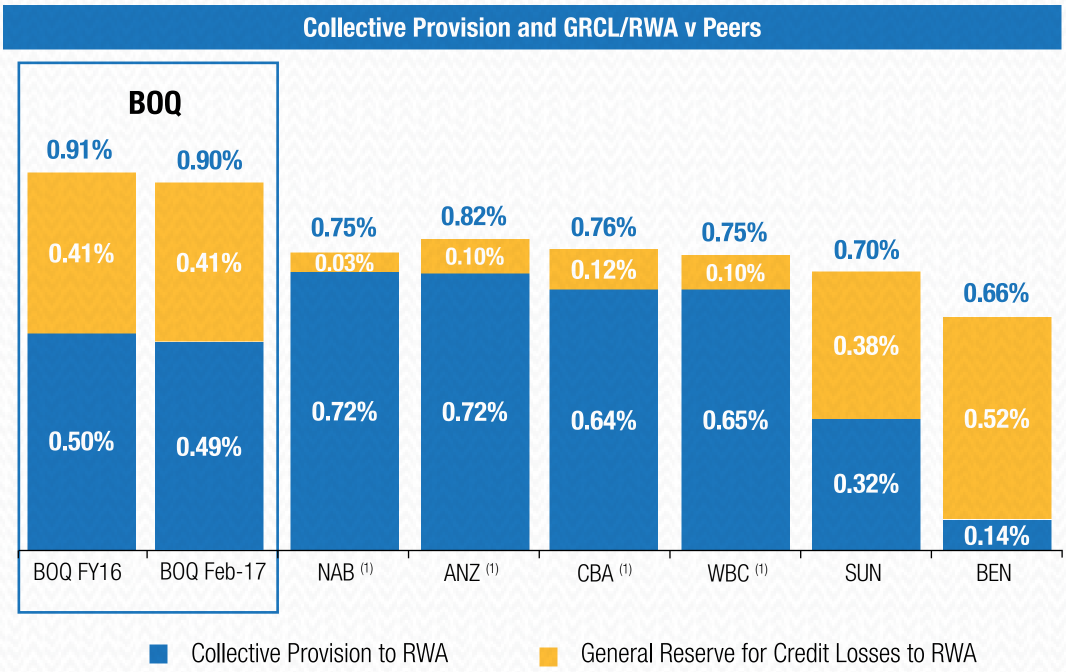
Commercial impaired assets decreased by $20 million or 19% over the half. This was led by strong arrears performance and a significant reduction in new impaired assets, with realisations in line with prior periods. Within the portfolio are two exposures greater than $5 million, down from four exposures in the prior corresponding period. No new impaired assets greater than $5 million were recognised during the period.

BOQ FINANCE IMPAIRED ASSETS

BOQ Finance impaired assets increased by $1 million or 3% during the half. While arrears performance has improved since the last half and prior corresponding period, three larger exposures (totalling $6 million) in the BOQ Finance portfolio are anticipated to have longer workout timeframes than typical BOQ Finance exposures, causing the slight increase in impaired asset balances.

COLLECTIVE PROVISION AND GRCL/RWA VS PEERS

The graph below shows the Bank's level of collective provisions and GRCL to Risk Weighted Assets ('RWA') against the current peer levels as published in their most recent financial reports. BOQ's coverage has decreased 1bp over the half as the collective provision decreased by $3 million in tandem with a moderate increase in RWA's from the change in mix of lending assets in the first half. The major banks utilise an advanced approach to the calculation of RWA's which increases their coverage ratio when compared to BOQ and other standardised banks.



(1) Major banks' on the advanced approach accredited by APRA risk weightings are lower causing coverage to appear higher on a relative basis to the standardised banks.

3.1 ASSET QUALITY (CONTINUED)

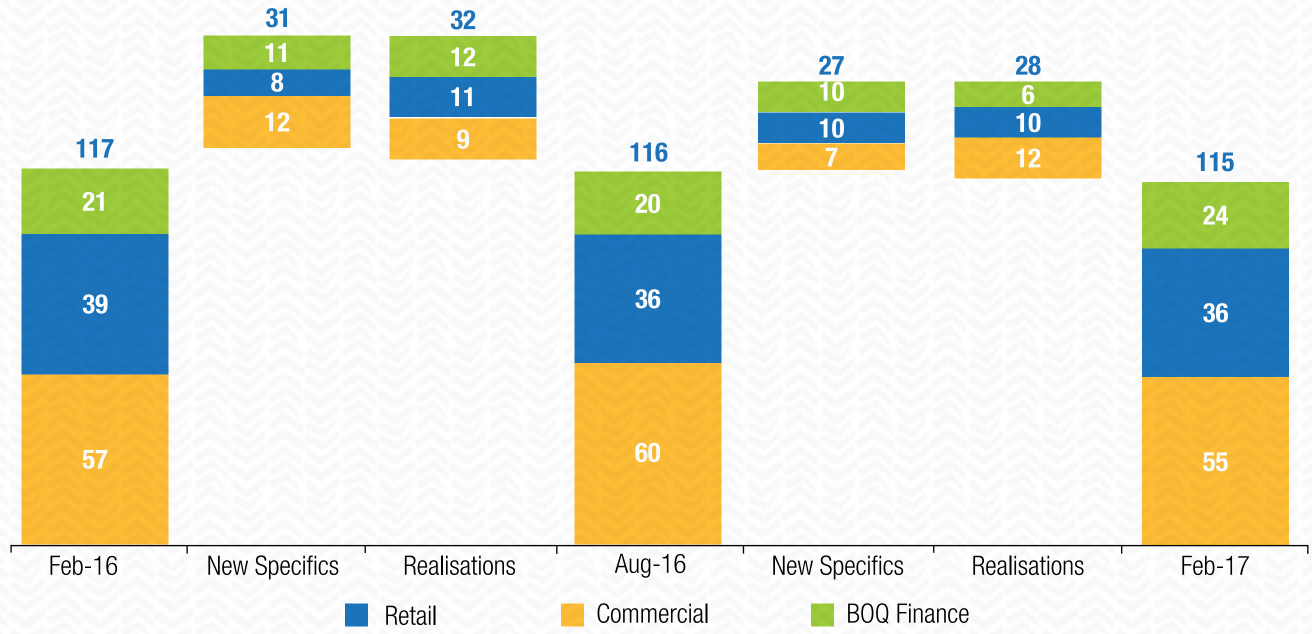
PROVISION COVERAGE

Total provisions have decreased by $4 million or 2% to $252 million. Specific provisioning reduced by $1 million as there was lower activity over the half compared to the prior period, while the collective provision has reduced by $3 million.

	As at				
$ million	Feb-17	Aug-16	Feb-16	Feb 17 vs Aug 16	Feb 17 vs Feb 16
Specific Provision	115	116	117	(1%)	(2%)
Collective Provision	137	140	148	(2%)	(7%)
Total Provisions	252	256	265	(2%)	(5%)
GRCL	81	81	81	-	-
Specific Provisions to Impaired Assets	55%	50%	49%	500bps	600bps
Total Provisions and GRCL to Impaired Assets [1]	175%	160%	159%	1500bps	1600bps
Total Provisions and GRCL to RWA [1]	1.3%	1.3%	1.4%	-	(10bps)

(1) GRCL gross of tax effect.

SPECIFIC PROVISIONS ($M)



3.1 ASSET QUALITY (CONTINUED)

ARREARS

Key Metrics	Portfolio Balance $m Feb-17	Feb-17	Aug-16	Feb-16	Feb 17 vs Aug 16	Feb 17 vs Feb 16
Total Lending - Portfolio balance ($ million)		**42,995**	43,152	42,924	-	-
30 days past due ($ million)		**468**	461	562	2%	(17%)
90 days past due ($ million)		**217**	234	255	(7%)	(15%)
			Proportion of Portfolio			
30 days past due: GLAs		**1.09%**	1.07%	1.31%	2bps	(22bps)
90 days past due: GLAs		**0.50%**	0.54%	0.59%	(4bps)	(9bps)
By Product						
30 days past due: GLAs (Housing)	**27,116**	**0.98%**	0.98%	1.10%	-	(12bps)
90 days past due: GLAs (Housing)		**0.41%**	0.47%	0.40%	(6bps)	1bp
30 days past due: GLAs (Line of Credit)	**2,388**	**2.09%**	1.93%	2.70%	16bps	(61bps)
90 days past due: GLAs (Line of Credit)		**0.84%**	1.02%	1.18%	(18bps)	(34bps)
30 days past due: GLAs (Consumer)	**300**	**2.00%**	1.97%	1.89%	3bps	11bps
90 days past due: GLAs (Consumer)		**1.00%**	1.32%	0.95%	(32bps)	5bps
30 days past due: GLAs (Commercial)	**8,906**	**1.35%**	1.23%	1.68%	12bps	(33bps)
90 days past due: GLAs (Commercial)		**0.89%**	0.81%	1.20%	8bps	(31bps)
30 days past due: GLAs (BOQ Finance)	**4,285**	**0.65%**	0.75%	0.89%	(10bps)	(24bps)
90 days past due: GLAs (BOQ Finance)		**0.08%**	0.13%	0.17%	(5bps)	(9bps)

RETAIL ARREARS

Housing 30dpd arrears have remained flat for the half and were 12bps lower than the prior corresponding period, and 6bps lower in the half in 90dpd. This half has not experienced the typical seasonal uptick as strongly as in recent years and is in a strong starting position for the second half. The housing portfolio continues to benefit from a low interest rate environment and a strong residential property market in most areas of the country.

Line of Credit ('LOC') arrears have increased by 16bps in 30dpd though are significantly lower than prior corresponding period. There has been a positive downward trend in the 90dpd space over the prior two halves and the overall LOC portfolio has continued to run off in line with expectations.

BOQ BUSINESS ARREARS

Commercial arrears have increased in both 30dpd and 90dpd by 12bps and 8bps respectively over the half and decreased by 33bps and 31bps on the prior corresponding period. This portfolio continues to benefit from the new risk appetite and credit practices established since 2012.

BOQ Finance arrears have trended down in both 30dpd and 90dpd over the past two periods. This reversed the usual upward trend and seasonal impacts prominent in the leasing portfolio's payment performance which typically begins to form by February, indicating either increased loan impairment expense or collections activity over the following quarter. In the absence of this seasonal behaviour, it is anticipated that BOQ Finance impairment expense performance should continue at this lower level.

BOQ GROUP – 2017 HALF YEAR RESULTS

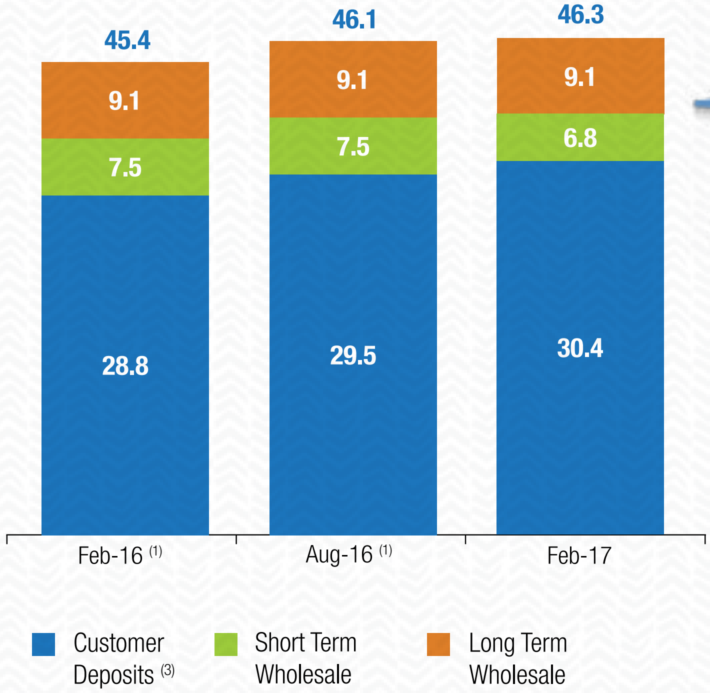
3.2 FUNDING AND LIQUIDITY

BOQ continues to increase its core stable funding with increases in customer deposits and long term wholesale. As a result the Bank has become less reliant on short term wholesale funding. Customer deposits increased by $825 million for the half which improved the Deposit to Loan Ratio by 3% to 71%.

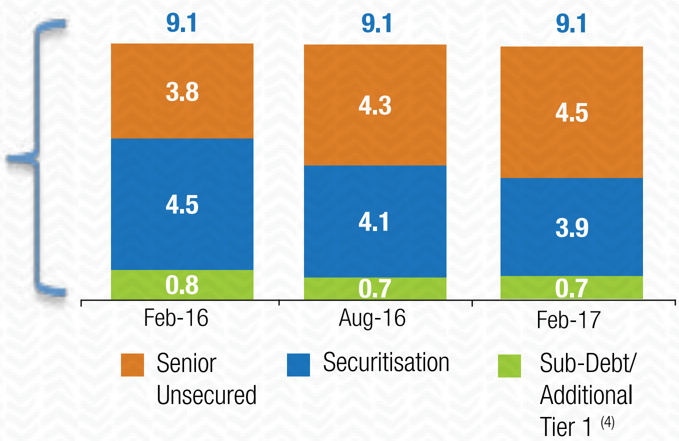
BOQ's long term debt program continues to provide funding diversity throughout the economic cycle. Recent transactions in both the senior unsecured debt and securitisation markets have highlighted the Bank's capacity to source funding both domestically and offshore.

	As at				
$ million	**Feb-17**	Aug-16 (1)	Feb-16 (1)	Feb 17 vs Aug 16 (2)	Feb 17 vs Feb 16
Customer Deposits (3)	**30,375**	29,550	28,833	6%	5%
Wholesale Deposits	**6,721**	7,170	7,247	(13%)	(7%)
Total Deposits	**37,096**	36,720	36,080	2%	3%
Borrowings	**9,218**	9,398	9,204	(4%)	-
Other Liabilities	**951**	1,148	1,032	(35%)	(8%)
Total Liabilities	**47,265**	47,266	46,316	-	2%

FUNDING MIX ($b)



LONG-TERM WHOLESALE ($b)



(1) August 2016 and February 2016 customer and wholesale deposits have been restated to reflect a reclassification to align to industry practice.

(2) Growth rates have been annualised.

(3) The classification of customer deposits is defined as all deposits excluding those from financial institutions as defined under APS210 *Liquidity.*

(4) Additional Tier 1 securities consist of Convertible Preference Shares ('CPS') and Wholesale Capital Notes.

3.2 FUNDING AND LIQUIDITY (CONTINUED)

BOQ's liquidity strategy and risk appetite is designed to ensure it has the ability to meet payment obligations as and when they fall due. To manage liquidity risk BOQ maintains a portfolio of unencumbered high quality liquid assets, including a buffer to withstand a range of stress events, including those involving the loss or impairment of both unsecured and secured funding sources.

As at 28 February 2017, BOQ's Liquidity Coverage Ratio ('LCR') was 132% and averaged 137% for the quarter. The higher LCR at the half reflects the recent $1 billion capital relief RMBS issuance completed on 16 February 2017. In addition, the Group's Net Stable Funding ratio ('NSFR') has been stable at 107% over the period and places BOQ in good stead to meet the 1 January 2018 staged implementation date, with a strong buffer to prudential minimums.

The liquid asset portfolio increased its proportion of tier one High Quality Liquid Assets ('HQLA1') as BOQ continues to take all reasonable steps to reduce its reliance on the Committed Liquidity Facility ('CLF').

	As at				
Key Metrics	**Feb-17**	Aug-16	Feb-16	Feb 17 vs Aug 16	Feb 17 vs Feb 16
Customer deposit funding	**82%**	80%	80%	2%	2%
Wholesale deposit funding	**18%**	20%	20%	(2%)	(2%)
Total GLA's (net of specific provision) ($'million)	**42,880**	43,036	42,807	-	-
Deposit to Loan Ratio	**71%**	68%	66%	3%	5%

FUNDING

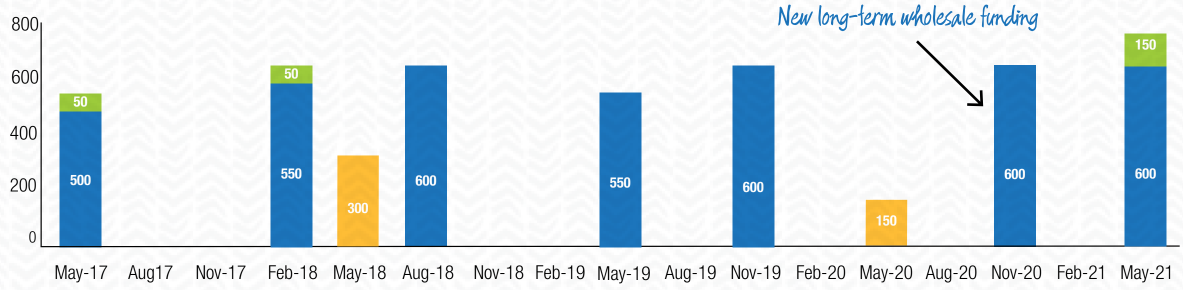
$1.8 billion of long term wholesale debt was issued over the half.

A $600 million 4 year senior unsecured transaction was completed in October 2016. BOQ also re-entered the RMBS market in February 2017 with its first public transaction since March 2015. A $1 billion transaction was executed and capital relief was obtained through successfully placing all of the subordinated tranches in the structure.

3.2 FUNDING AND LIQUIDITY (CONTINUED)

MAJOR MATURITIES ($M) (1) (2)

The domestic senior unsecured funding curve has reached a mature state, evident through numerous pricing points across its seven benchmark-sized securities. BOQ maintained the senior unsecured curve over the half, refinancing a November 2016 maturity by issuing a new 4-year benchmark transaction in October.



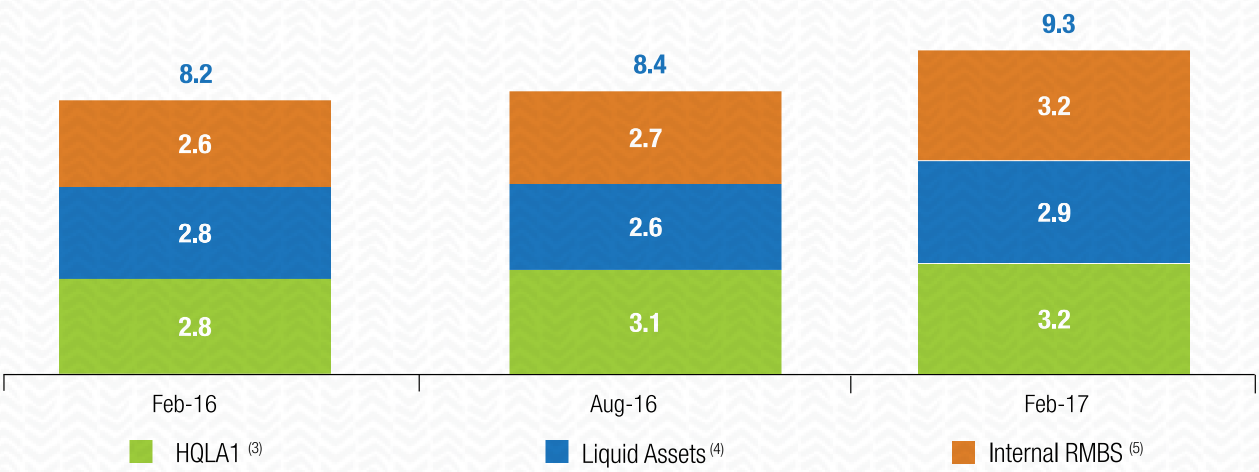
(1) Maturities equal to or greater than $50 million shown.

(2) Redemption of Sub Debt Notes and Additional Tier 1 maturities are presented at the first scheduled call date which is at BOQ's option and is subject to obtaining prior written approval from APRA.

LIQUIDITY

The Bank was granted a Reserve Bank of Australia ('RBA') Committed Liquidity Facility of $2.5 billion which is more than adequate to meet the regulatory minimum of greater than 100% of the Liquidity Coverage Ratio from 1 January 2017. In addition to the liquid assets that contribute to the LCR, as at 28 February 2017, the Bank holds internal Residential Mortgage Backed Securities ('RMBS') of $3.2 billion which are eligible for repurchase arrangements with the RBA as a source of contingent liquidity in the event of a crisis scenario. Significant additional liquidity is also available with a material proportion of the Bank's retail lending assets eligible to be placed as collateral into the internal RMBS structure.

LIQUIDITY COMPOSITION - BASEL III ($B)



(3) HQLA1 includes government and semi-government securities, cash held with RBA and notes & coins.

(4) Liquid Assets include all unencumbered RBA repurchase eligible liquid assets able to be pledged as collateral to the RBA under the CLF.

(5) Internal RMBS are able to be pledged as collateral to the RBA CLF.

3.3 CAPITAL MANAGEMENT

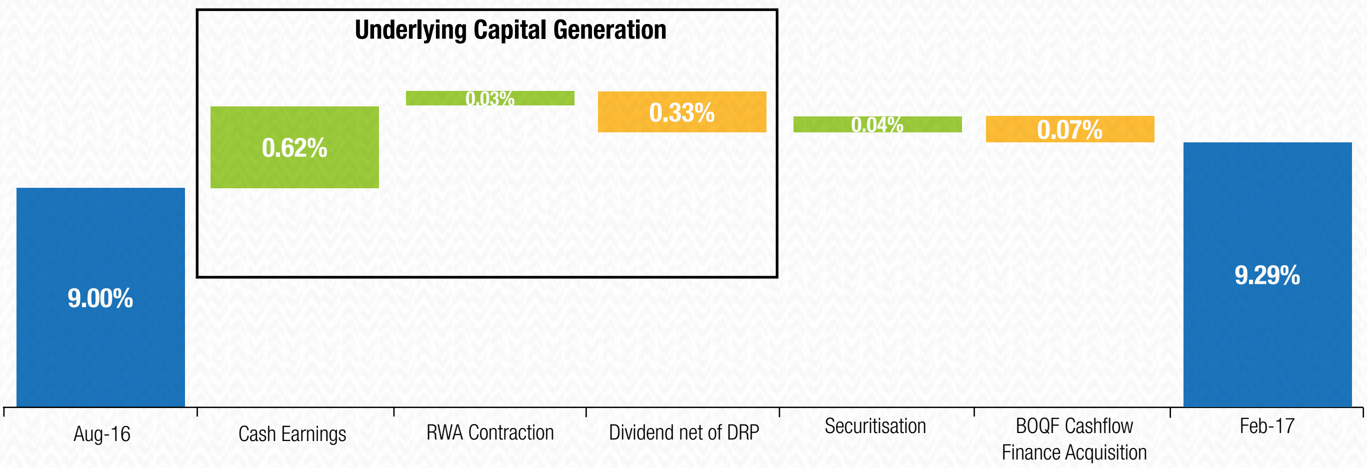
CAPITAL ADEQUACY

	As at				
$ million	Feb-17	Aug-16	Feb-16	Feb 17 vs Aug 16 (1)	Feb 17 vs Feb 16
Common Equity Tier 1 ('CET1')	**2,602**	2,524	2,416	6%	8%
Additional Tier 1 Capital	**450**	450	450	-	-
Total Tier 2 Capital	**469**	474	554	(2%)	(15%)
Total Capital Base	**3,521**	3,448	3,420	4%	3%
Total RWA	**28,014**	28,054	27,467	-	2%
Common Equity Tier 1 Ratio	**9.29%**	9.00%	8.80%	29bps	49bps
Total Capital Adequacy Ratio	**12.57%**	12.29%	12.45%	28bps	12bps

(1) Growth rates have been annualised.

BOQ's Common Equity Tier 1 ('CET1') capital ratio increased 29bps to 9.29% during the half. Underlying capital generation increased to 32bps, driven by cash earnings, moderated loan growth and continued strong levels of participation in dividend reinvestment. Risk weighted asset levels also benefited from the successful completion of a $1 billion capital efficient RMBS securitisation term issuance during the half, the first undertaken by the Group since March 2015. The Group also completed the acquisition of BOQF Cashflow Finance Pty Ltd (formerly Centrepoint Alliance Premium Funding Pty Ltd) during the period, which included $8 million of goodwill and absorbed 7 basis point of CET1.

FEBRUARY 2017 VS AUGUST 2016 MOVEMENT



3.4 TAX EXPENSE

Tax expense arising on Cash Earnings for the period amounted to $78 million. This represents an effective tax rate of 30.8%, which is above the corporate tax rate of 30% primarily due to non-deductibility of interest payable on convertible preference shares issued in 2013 and Wholesale Capital Notes issued in 2015. Tax expense for the period benefited from some one-off provision adjustments and excluding these adjustments, the underlying effective tax rate has remained at 31.2%.

4. CONSOLIDATED INTERIM FINANCIAL REPORT

The Directors of the Bank of Queensland Limited ('the Bank') present their report together with the consolidated interim financial report for the half-year ended 28 February 2017 and the independent auditor's review report thereon.

Directors Details

The Directors at any time during or since the end of the half-year are:

Name	Period of Directorship
Roger Davis	Director since August 2008 / Chairman since May 2013
Jon Sutton	Managing Director and Chief Executive Officer since January 2015
David Willis	Director since February 2010
Michelle Tredenick	Director since February 2011
Richard Haire	Director since April 2012
Margaret Seale	Director since January 2014
Bruce Carter	Director since February 2014
Karen Penrose	Director since November 2015
John Lorimer	Director since January 2016
Warwick Negus	Director since September 2016

Principal activities

The principal activity of the Bank which comprises the Bank and its subsidiaries (together referred to as the "Consolidated Entity" or "the Group"), is the provision of financial services to the community. The Bank has an authority to carry on banking business under the Banking Act 1959. There were no significant changes during the period in the nature of the activities of the Consolidated Entity.

Review of Operational and Financial Results

The Bank delivered a Statutory Net Profit after Tax for the first half of $161 million, decreasing 6% on the 29 February 2016 half-year.

Total operating income has decreased by 5% to $532 million and was largely driven by the decrease in net interest income. Net Interest Margin decreased in the half to 1.85%, due to market challenges relating to lending competition, funding costs and a lower yield curve. Other operating income decreased, reflecting switching customer preferences for lower fee products and lower levels of trading profits.

Operating expenses decreased to $271 million on the prior comparative period largely due to the organisational operating model changes introduced in 2016. Cost to Income ('CTI') ratio during the period was 50.9%.

The Bank has continued to prioritise a disciplined approach to credit with conservative settings maintained. Loan impairment expense has reduced 25% on the prior half to $27 million, or 13bps (annualised) of gross loans and advances, reflecting strong risk discipline, low interest rates and relatively stable market conditions.

The Common Equity Tier 1 ('CET1') ratio increased 29 basis points over the half to 9.29% as a result of strong organic capital generation.

The Board has determined to pay an interim dividend of 38 cents per share fully franked, which is consistent with the prior corresponding period.

Further analysis of the Bank's operations and results for the 28 February 2017 period is detailed in the Highlights & Strategy, Group Performance.

Other matters

Director and Management changes

On 22 September 2016, the Bank appointed Warwick Negus as a Non-Executive Director.

Subsequent events

No matters or circumstances have arisen since the end of the financial half year and up until the date of this report which significantly affect the operations of the Bank, the results of those operations, or the state of affairs of the Bank in subsequent years. The Bank has determined an interim dividend of $147 million to be paid 17 May 2017. Further details with respect to the dividend amount per share, payment date and dividend re-investment plan can be obtained from Note 4.2.2.

Management attestation

The Board has been provided with a written statement from the Group's Chief Executive Officer and Chief Financial Officer, confirming the accompanying financial statements and notes are in accordance with the *Corporations Act 2001* and they present a true and fair view in all material respects of the Group's financial position and performance as at and for the half-year ended 28 February 2017.

The Directors' declaration can be found on page 48 of this document.

Lead auditor's independence declaration under section 307C of the *Corporations Act 2001*

The lead auditor's independence declaration is set out on page 30 and forms part of the Directors' Report for the half-year ended 28 February 2017.

Rounding of amounts

The Bank is a company of a kind referred to in ASIC Corporations Instrument 2016/191 dated 24 March 2016 and in accordance with that Instrument, amounts in this financial report and Directors' Report have been rounded off to the nearest million dollars, unless otherwise stated.

Dated this twenty ninth day of March 2017.

Signed in accordance with a resolution of the Directors:

Roger Davis
Chairman

Jon Sutton
Managing Director and CEO

LEAD AUDITOR'S INDEPENDENCE DECLARATION

UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

To the Directors of Bank of Queensland Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 28 February 2017 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and

ii. no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

Robert Warren
Partner
Sydney
29 March 2017

CONSOLIDATED INCOME STATEMENT

FOR THE HALF-YEAR ENDED 28 FEBRUARY 2017

	Note	Feb-17 $m	Feb-16 $m
Interest income		**1,011**	1,067
Less: Interest expense		**559**	601
Net interest income		**452**	466
Other operating income		**69**	80
Net banking operating income		**521**	546
Premiums from insurance contracts		**34**	35
Investment revenue		**1**	1
Less: Claims and policyholder liability expense from insurance contracts		**24**	21
Net insurance operating income		**11**	15
Total operating income before impairment and operating expenses		**532**	561
Less: Expenses		**271**	274
Less: Impairment on loans and advances		**27**	36
Profit before income tax		**234**	251
Less: Income tax expense	4.2.1	**73**	80
Profit for the period		**161**	171
Profit attributable to:			
Equity holders of the parent		**161**	171
Basic earnings per share - Ordinary shares (cents)		**41.8**	45.7
Diluted earnings per share - Ordinary shares (cents)		**40.3**	43.7

The consolidated income statement should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE HALF-YEAR ENDED 28 FEBRUARY 2017

	Feb-17 $m	Feb-16 $m
Profit for the period	161	171
Other comprehensive income, net of income tax		
Items that may be reclassified subsequently to profit or loss		
Cash flow hedges:		
Net gains/(losses) taken to equity	17	(25)
Net gains transferred to profit and loss	4	3
Foreign currency translation differences on foreign operations	-	(1)
Change in fair value of assets available-for-sale	8	(5)
Other comprehensive income, net of income tax	29	(28)
Total comprehensive income for the period	190	143
Total comprehensive income attributable to:		
Equity holders of the parent	190	143

The consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED BALANCE SHEET

AS AT 28 FEBRUARY 2017

	Note	Feb-17 $m	Aug-16 $m
Assets			
Cash and liquid assets		**894**	1,228
Financial assets available-for-sale	4.3.3 (b)	**3,954**	3,739
Financial assets held for trading	4.3.3 (b)	**2,072**	1,591
Due from other financial institutions - Term deposits		**60**	68
Derivative financial assets	4.3.3 (b)	**107**	180
Loans and advances at amortised cost	4.3.3 (a); 4.3.4	**42,743**	42,896
Other assets		**123**	127
Property, plant and equipment		**57**	60
Deferred tax assets		**59**	80
Intangible assets		**872**	869
Investments in joint arrangements		**15**	15
Total assets		**50,956**	50,853
Liabilities			
Due to other financial institutions - Accounts payable at call		**153**	209
Deposits	4.3.3 (a)	**37,096**	36,720
Derivative financial liabilities	4.3.3 (b)	**353**	498
Accounts payable and other liabilities		**369**	355
Current tax liabilities		**12**	14
Provisions		**43**	47
Insurance policy liabilities		**21**	25
Borrowings including subordinated notes	4.3.5	**9,218**	9,398
Total liabilities		**47,265**	47,266
Net assets		**3,691**	3,587
Equity			
Issued capital		**3,308**	3,243
Reserves		**56**	33
Retained profits		**327**	311
Total equity		**3,691**	3,587

The consolidated balance sheet should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 28 FEBRUARY 2017

	Ordinary shares $m	Employee benefits reserve $m	Equity reserve for credit losses $m	Other reserves $m	Retained profits $m	Total equity $m
Half Year ended 28 February 2017						
Balance at beginning of the period	**3,243**	**27**	**81**	**(75)**	**311**	**3,587**
Total comprehensive income for the period						
Profit	-	-	-	-	161	161
Other comprehensive income, net of income tax						
Cash flow hedges:						
Net gains taken to equity	-	-	-	17	-	17
Net gains transferred to profit and loss	-	-	-	4	-	4
Change in fair value of assets available-for-sale	-	-	-	8	-	8
Total other comprehensive income	-	-	-	29	-	29
Total comprehensive income for the period	-	-	-	29	161	190
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Issues of ordinary shares (1)	12	-	-	-	-	12
Dividend reinvestment plan	53	-	-	-	-	53
Dividends to shareholders	-	-	-	-	(145)	(145)
Equity settled transactions	-	(6)	-	-	-	(6)
Total contributions by and distributions to owners	65	(6)	-	-	(145)	(86)
Balance at the end of the period	**3,308**	**21**	**81**	**(46)**	**327**	**3,691**

(1) On 21 October 2016, 1,050,000 ordinary shares were issued at $11.15 to the trustee of the Bank of Queensland Limited Employee Share Plans Trust to satisfy the exercise of award rights and issue of shares under the Award Rights Plan and issue of shares under the BOQ Restricted Share Plan and BOQ Employee Share Plan.

The consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF-YEAR ENDED 28 FEBRUARY 2017

	Ordinary shares $m	Employee benefits reserve $m	Equity reserve for credit losses $m	Other reserves $m	Retained profits $m	Total equity $m
Half Year ended 29 February 2016						
Balance at beginning of the period	**3,122**	**34**	**81**	**(25)**	**257**	**3,469**
Total comprehensive income for the period						
Profit	-	-	-	-	171	171
Other comprehensive income, net of income tax						
Cash flow hedges:						
Net losses taken to equity	-	-	-	(25)	-	(25)
Net gains transferred to profit and loss	-	-	-	3	-	3
Foreign currency translation differences on foreign operations	-	-	-	(1)	-	(1)
Change in fair value of assets available-for-sale	-	-	-	(5)	-	(5)
Total other comprehensive expense	-	-	-	(28)	-	(28)
Total comprehensive income / (expense) for the period	-	-	-	(28)	171	143
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Issues of ordinary shares (1)	20	-	-	-	-	20
Dividend reinvestment plan	51	-	-	-	-	51
Dividends to shareholders	-	-	-	-	(141)	(141)
Equity settled transactions	-	(14)	-	-	-	(14)
Treasury shares (2)	(3)	-	-	-	-	(3)
Total contributions by and distributions to owners	68	(14)	-	-	(141)	(87)
Balance at the end of the period	**3,190**	**20**	**81**	**(53)**	**287**	**3,525**

(1) On 26 October 2015, 1,130,000 ordinary shares were issued at $13.79 and on 9 February 2016, 374,000 ordinary shares were issued at $12.63 to the trustee of the Bank of Queensland Limited Employee Share Plans Trust to satisfy the exercise of award rights and issue of shares under the Award Rights Plan and issue of shares under the BOQ Restricted Share Plan and BOQ Employee Share Plan.

(2) Treasury shares represent the value of shares in the Bank held by a subsidiary that the Bank is required to include in the Consolidated Entity's interim financial statements. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Bank's own equity instruments.

The consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE HALF-YEAR ENDED 28 FEBRUARY 2017

	Note	Feb-17 $m	Feb-16 $m
Cash flows from operating activities			
Interest received		**1,034**	1,068
Fees and other income received		**70**	71
Dividends received		**-**	1
Interest paid		**(564)**	(623)
Cash paid to suppliers and employees		**(242)**	(267)
Operating income tax paid		**(70)**	(94)
		228	156
(Increase) / decrease in operating assets:			
Loans and advances at amortised cost		**268**	(1,992)
Other financial assets		**(732)**	(121)
Increase / (decrease) in operating liabilities:			
Deposits		**326**	1,269
Securitisation liabilities		**(153)**	(316)
Net cash outflow from operating activities		**(63)**	(1,004)
Cash flows from investing activities			
Acquisition of BOQF Cashflow Finance Pty Ltd (1)		**(14)**	-
Payments for property, plant and equipment		**(6)**	(8)
Payments for intangible assets		**(23)**	(35)
Cash distribution received from equity accounted investments		**-**	2
Proceeds from sale of property, plant and equipment		**7**	6
Net cash outflow from investing activities		**(36)**	(35)
Cash flows from financing activities			
Proceeds from issue of ordinary shares		**12**	20
Proceeds from borrowings and foreign exchange instruments		**885**	1,121
Repayments of borrowings		**(1,028)**	(248)
Payments for treasury shares		**(12)**	(20)
Dividends paid		**(92)**	(91)
Net cash inflow / (outflow) from financing activities		**(235)**	782
Net decrease in cash and cash equivalents		**(334)**	(257)
Cash and liquid assets at beginning of year		**1,228**	1,103
Cash and liquid assets at end of half-year		**894**	846

The consolidated statement of cash flows should be read in conjunction with the accompanying notes.

(1) Entity was formerly known as Centrepoint Alliance Premium Funding Pty Ltd

4.1 BASIS OF PREPARATION

4.1.1. Reporting entity

The Bank is a company domiciled in Australia. The consolidated interim financial report of the Bank as at and for the half-year ended 28 February 2017 comprises the Consolidated Entity and the Consolidated Entity's interest in equity accounted investments. The principal activity of the Bank is the provision of financial services to the community.

4.1.2. Basis of accounting

The consolidated interim financial report is a general purpose financial report which has been prepared in accordance with AASB 134: *Interim Financial Reporting* and the *Corporations Act 2001*. The consolidated interim financial report does not include all the information required for a full annual financial report, and should be read in conjunction with the consolidated annual financial report of the Consolidated Entity as at and for the year ended 31 August 2016, which is available upon request from the Bank's registered office at Level 6, 100 Skyring Terrace, Newstead QLD 4006 or at http://www.boq.com.au.

The Consolidated Entity is of a kind referred to in ASIC Corporations Instrument 2016/191 dated 24 March 2016 and in accordance with that Instrument, amounts contained in this report have been rounded off to the nearest million dollars, unless otherwise stated.

These consolidated interim financial statements are presented in Australian dollars which is the Consolidated Entity's functional currency.

The consolidated interim financial report was approved by the Board of Directors on 29 March 2017.

4.1.3. Significant accounting policies

Except as described below, the accounting policies applied by the Consolidated Entity in this consolidated interim financial report are the same as those applied by the Consolidated Entity in its consolidated financial report as at and for the year ended 31 August 2016.

Changes in accounting policies

The Consolidated Entity has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 September 2016. These changes in accounting policies are also expected to be reflected in the Consolidated Entity's financial statements as at and for the year ending 31 August 2017.

- AASB 2014-3 *Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations*
- AASB 2014-4 *Clarification of Acceptable Methods of Depreciation and Amortisation*
- AASB 2014-9 *Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements*
- AASB 2015-1 *Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012–2014 Cycle*
- AASB 2015-2 *Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101*

The nature and effect of the changes are further explained below. The Bank has reviewed the impact of the following and determined there to be no material impact on the Consolidated Entity.

(a) Accounting for acquisitions of interests in joint operations

This amendment provides guidance on the accounting for acquisitions of interests in joint operations. The amendment requires the acquirer of an interest in a joint operation in which the activity constitutes a business to apply all of the principles on business combinations accounting in AASB 3 and to disclose the information required by AASB 3.

(b) Clarification of acceptable methods of depreciation and amortisation

Establishes the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset.

(c) Equity Method in Separate Financial Statements

Amends AASB 1 *First-time Adoption of Australian Accounting Standards* and AASB 128 *Investments in Associates and Joint Ventures*, to allow entities to use the equity method of accounting for investments in subsidiaries, joint ventures and associates in their separate financial statements.

4.1.3. Significant accounting policies (continued)

(d) Annual Improvements to Australian Accounting Standards 2012–2014 Cycle

This standard sets out amendments to various Australian Accounting Standards in order to address the following items:

- AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* - Changes in methods of disposal – where an entity reclassifies an asset (or disposal group) directly from being held for distribution to being held for sale (or visa versa), an entity shall not follow the guidance in paragraphs 27–29 to account for this change.
- AASB 7 *Financial Instruments: Disclosures* - Clarifies how an entity should apply the guidance regarding servicing contracts and the applicability of offsetting financial assets and financial liabilities.
- AASB 119 *Employee Benefits* - Clarifies that the high quality corporate bonds used to estimate the discount rate for post-employment benefit obligations should be denominated in the same currency as the liability.
- AASB 134 *Interim Financial Reporting* - Amends AASB 134 to clarify the meaning of disclosure of information 'elsewhere in the interim financial report' and to require the inclusion of a cross-reference from the interim financial statements to the location of this information.

(e) Disclosure Initiative: Amendments to AASB 101

The amendments are designed to further encourage companies to apply professional judgment in determining what information to disclose in the financial statements.

New accounting standards

The following standards and amendments have been identified as those which may impact the Consolidated Entity and the majority were available for early adoption at 28 February 2017 but have not been applied in these financial statements.

- AASB 9 *Financial Instruments* - This standard introduces changes in the classification and measurement of financial assets and liabilities, new expected loss model for impairment and simplifications to hedge accounting. This standard becomes mandatory for the Group's 31 August 2019 financial statements and a program for implementation has commenced. The potential financial impact has not yet been determined.
- AASB 15 *Revenue from contracts with customers* - The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The model features a contract based five-step analysis of transactions to determine whether, how much and when revenue is recognised. The potential effects of this standard is yet to be determined.
- AASB 16 *Leases* - This standard makes changes to the accounting for leases by Lessees. Lessees are required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee measures right-of-use assets similarly to other non-financial assets and lease liabilities similarly to other financial liabilities. Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. AASB 16 substantially carries forward the lessor accounting requirements in AASB 117. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The potential effects of this standard is yet to be determined.

4.1.4. Use of estimates and judgements

In preparing the consolidated interim financial report, management has been required to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, equity, income, and expenses. These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances.

The significant judgements made by management in applying the Consolidated Entity's accounting policies and key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 August 2016, with the exception of the changes outlined in 4.1.3 (a)-(e) above.

4.2. FINANCIAL PERFORMANCE

4.2.1. Income tax expense

The Consolidated Entity's effective tax expense rate for the six months ended 28 February 2017 was 31.2% and for the six months ended 29 February 2016 was 31.9%. This is above the corporate tax rate of 30% and is primarily attributable to the non-deductibility of interest payable on convertible preference shares and wholesale capital notes (refer to note 4.3.5 for details).

4.2.2. Dividends

	Half Year Ended			
	Feb-17		Feb-16	
	Cents per share	**$m**	Cents per share	$m
Ordinary shares				
Final 2016 dividend paid 22 November 2016 (2015: 24 November 2015)	**38**	**145**	38	141
Convertible preference shares				
Second half 2016 CPS dividend paid on 17 October 2016 (2015: 15 October 2015)	**268**	**8**	258	8

Since the end of the period, the Directors have determined the following dividends.

	Cents per share	$m
First half 2017 CPS dividend	249	8
Interim 2017 ordinary share dividend	38	147

The first half CPS payment will be fully franked and paid on 18 April 2017 to owners of convertible preference shares at the close of business on 30 March 2017 (record date). Shares will be quoted ex-dividend on 29 March 2017.

The interim ordinary share dividend payment will be fully franked and paid on 17 May 2017 to owners of ordinary shares at the close of business on 21 April 2017 (record date). Shares will be quoted ex-dividend on 20 April 2017.

Dividend reinvestment plan

As resolved by the Board, the Bank of Queensland Dividend Reinvestment Plan ('DRP') provides shareholders with the opportunity to reinvest all or part of their entitlement to a dividend into new shares at a discount of 1.5%.

The discount rate applied is 1.5% of the arithmetic average, rounded to four decimal places, of the daily volume weighted average price of:

- all shares sold in the ordinary course of trading on the Australian Securities Exchange automated trading system; and
- where shares are sold on trading platforms of Australian licensed financial markets operated by persons other than ASX, all shares sold in the ordinary course of trading on such of those trading platforms determined by the Board from time to time;
- during the 10 trading day period commencing on the second trading day after the Record Date in respect of the relevant dividend.

The calculation of the daily volume weighted average price shall not include certain transactions, as outlined in the DRP Terms and Conditions.

Shares issued or transferred under the DRP will be fully-paid and rank equally in all respects with existing shares. If, after this calculation there is a residual balance, that balance will be carried forward (without interest) and added to the next dividend for the purpose of calculating the number of shares secured under the DRP at that time.

The last date for election to participate in the DRP for the 2017 interim dividend is 24 April 2017.

4.2.3. OPERATING SEGMENTS

The Bank determines and presents operating segments based on the information that is provided internally to the Managing Director and CEO, who is the Bank's chief operating decision maker.

Segment results that are reported to the Managing Director and CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. The Bank has determined and presented the following two segments based on information provided to the chief operating decision maker.

Banking Retail banking, commercial, personal, small business loans, equipment, debtor finance, treasury, savings and transaction accounts.

Insurance Consumer credit insurance, life insurance, accidental death insurance, funeral insurance and motor vehicle gap insurance.

	6 months to Feb-17			
	Banking $m	Insurance $m	Consolidation adjustments $m	Total Segments $m
Revenue from outside the group	521	11	-	532
Inter-segment revenue	1	(1)	-	-
Total segment revenue	522	10	-	532
Expenses	267	4	-	271
Impairment on loans and advances	27	-	-	27
Segment profit before income tax	228	6	-	234
Income tax expense	71	2	-	73
Segment profit after income tax	157	4	-	161

	6 months to Feb-16			
	Banking $m	Insurance $m	Consolidation adjustments $m	Total Segments $m
Revenue from outside the group	546	15	-	561
Inter-segment revenue	2	(1)	(1)	-
Total segment revenue	548	14	(1)	561
Expenses	270	4	-	274
Impairment on loans and advances	36	-	-	36
Segment profit before income tax	242	10	(1)	251
Income tax expense	77	3	-	80
Segment profit after income tax	165	7	(1)	171

The Consolidated Entity's business segments operate principally in Australia.

4.3. CAPITAL AND BALANCE SHEET MANAGEMENT

4.3.1. Capital management

The Bank and Consolidated Entity's capital management strategy aims to ensure adequate capital levels are maintained to protect deposit holders. The Bank's capital is measured and managed in line with Prudential Standards issued by APRA. The Bank's capital management plan is updated annually and submitted to the Board for approval. The approval process is designed to ensure the plan is consistent with the overall business plan and for managing capital levels on an ongoing basis.

The Board has set the Common Equity Tier 1 capital target range to be between 8.0% and 9.5% of risk weighted assets and the total capital range to be between 11.5% and 14.5% of risk weighted assets. As at February 2017:

- Common Equity Tier 1 capital was 9.3%, and
- Total capital adequacy ratio was 12.6%.

Qualifying capital	Feb-17 $m	Aug-16 $m
Common Equity Tier 1 Capital		
Paid-up ordinary share capital	**3,308**	3,243
Reserves	**6**	(18)
Retained profits, including current year profits	**323**	311
Total Common Equity Tier 1 Capital	**3,637**	3,536
Regulatory adjustments		
Goodwill and intangibles	**(872)**	(869)
Deferred expenditure	**(164)**	(158)
Other deductions	**1**	15
Total Regulatory adjustments	**(1,035)**	(1,012)
Net Common Equity Tier 1 Capital	**2,602**	2,524
Additional Tier 1 Capital (1)	**450**	450
Net Tier 1 Capital	**3,052**	2,974
Tier 2 Capital		
Tier 2 Capital (1)	**251**	253
General Reserve for Credit Losses	**218**	221
Net Tier 2 Capital	**469**	474
Capital Base	**3,521**	3,448
Risk Weighted Assets	**28,014**	28,054
Capital Adequacy Ratio	**12.6%**	12.3%

Prepared in accordance with APS 110 *Capital Adequacy*.

(1) APRA APS 330 *Capital Instrument Disclosures* are available on the Regulatory Disclosure section of the Group's website.

4.3. CAPITAL AND BALANCE SHEET MANAGEMENT (CONTINUED)

4.3.2. Issued capital

	Feb-17 Number	Feb-16 Number
Movements during the period		
Balance at the beginning of the period – fully paid	**380,995,702**	370,768,776
Dividend reinvestment plan	**5,278,750**	3,893,309
Issues of ordinary shares (1)	**1,050,000**	1,504,000
Balance at the end of the period – fully paid	**387,324,452**	376,166,085
Treasury shares (included in ordinary shares above)		
Balance at the beginning of the period	**537,337**	489,515
Net acquisitions and disposals during the period	**117,799**	157,126
Balance at the end of the period	**655,136**	646,641

(1) On 21 October 2016, 1,050,000 ordinary shares were issued at $11.15 to the trustee of the Bank of Queensland Limited Employee Share Plans Trust to satisfy the exercise of award rights and issue of shares under the Award Rights Plan and issue of shares under the BOQ Restricted Share Plan and BOQ Employee Share Plan.

4.3.3. Financial Instruments

(a) Carrying amounts versus fair values

The table below discloses the fair value of financial instruments where their carrying values are not a reasonable approximation of their fair values.

	Carrying value		Fair value	
	Feb-17 $m	Aug-16 $m	Feb-17 $m	Aug-16 $m
Assets carried at amortised cost				
Loans and advances at amortised cost	**42,743**	42,896	**42,794**	43,069
	42,743	42,896	**42,794**	43,069
Liabilities carried at amortised cost				
Deposits	**(37,096)**	(36,720)	**(37,089)**	(36,760)
Borrowings including subordinated notes	**(9,218)**	(9,398)	**(9,220)**	(9,400)
	(46,314)	(46,118)	**(46,309)**	(46,160)

4.3.3. Financial Instruments (continued)

(b) Fair value hierarchy

The Consolidated Entity measures fair values using the following fair value hierarchy and valuation techniques, which reflect the significance of the inputs used in making the measurements:

- Level 1: This category includes assets and liabilities for which the valuation is determined from inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: This category includes assets and liabilities for which the valuation is determined from inputs other than quoted prices included within level 1, that are observable either directly or indirectly, such as the use of discounted cash flow analysis, option pricing models and other market accepted valuation models.
- Level 3: Inputs that are unobservable, i.e. there is no observable market data.

The table below analyses financial instruments carried at fair value and the fair value hierarchy classification of these instruments. The fair value hierarchy classification of instruments in Section 4.3.3 (a) is Loans and advances level 3, Deposits and Borrowings including subordinated notes level 2.

	Feb-17			
	Level 1 $m	Level 2 $m	Level 3 [(1)] $m	Total $m
Instruments carried at fair value				
Available-for-sale financial assets	**2,242**	**1,709**	**3**	**3,954**
Financial assets designated at fair value through profit and loss	**-**	**2,072**	**-**	**2,072**
Derivative financial assets	**-**	**107**	**-**	**107**
	2,242	**3,888**	**3**	**6,133**
Derivative financial liabilities	**-**	**(353)**	**-**	**(353)**
	2,242	**3,535**	**3**	**5,780**

(1) In the current period, shares in an investment with a value of $6 million were sold and a gain of $0.7 million was recognised.

	Aug-16			
	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Instruments carried at fair value				
Available-for-sale financial assets	1,863	1,867	9	3,739
Financial assets designated at fair value through profit and loss	-	1,591	-	1,591
Derivative financial assets	-	180	-	180
	1,863	3,638	9	5,510
Derivative financial liabilities	-	(498)	-	(498)
	1,863	3,140	9	5,012

(c) Valuation techniques used to derive level 2 and level 3 fair values

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data where it is available and rely as little as possible on the entity specific estimates.

If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3, for example, other investments. Specific valuation techniques used to value financial instruments include:

- The use of quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

4.3.4. Loans and advances at amortised cost

	Feb-17 $m	Aug-16 $m
Gross loans and advances at amortised cost	**43,366**	43,547
Less:		
Unearned lease finance income	**371**	395
Provisions for impairment	**252**	256
Gross loans and advances at amortised cost	**42,743**	42,896

	Feb-17 $m	Aug-16 $m [(1)]
Specific provision:		
Balance at the beginning of the period	**116**	117
Add: Expensed during the period	**31**	41
Less: Bad debts written off net of recoveries	**30**	38
Unwind of discount	**(2)**	(4)
Balance at the end of the period	**115**	116
Collective provision:		
Balance at the beginning of the period	**140**	148
Movement during the period	**(3)**	(8)
Balance at the end of the period	**137**	140
Total provisions for impairment	**252**	256

(1) Six months to 31 August 2016.

4.3.5. Borrowings including subordinated notes

The Consolidated Entity recorded the following movements on borrowings including subordinated notes:

	Securitisation liabilities (1) $m	Debt issues (2) $m	Borrowings including subordinated notes $m	Convertible preference shares $m	Wholesale Capital notes $m	Total $m
Half Year ended 28 February 2017						
Balance at the beginning of the period	4,117	4,584	252	296	149	9,398
Acquired during the period	-	125	-	-	-	125
Proceeds from issues	1,047	889	-	-	-	1,936
Repayments	(1,200)	(1,028)	-	-	-	(2,228)
Deferred establishment costs	(3)	(1)	-	-	-	(4)
Amortisation of deferred costs	2	1	(1)	1	-	3
Foreign exchange translation	(4)	(8)	-	-	-	(12)
Balance at the end of the period	**3,959**	**4,562**	**251**	**297**	**149**	**9,218**

	Securitisation liabilities (1) $m	Debt issues (2) $m	Borrowings including subordinated notes $m	Convertible preference shares $m	Wholesale Capital notes $m	Total $m
Half Year ended 29 February 2016						
Balance at the beginning of the period	4,812	3,133	325	295	148	8,713
Proceeds from issues	698	1,061	-	-	-	1,759
Repayments	(1,013)	(248)	-	-	-	(1,261)
Deferred establishment costs	(2)	(1)	-	-	-	(3)
Amortisation of deferred costs	2	-	(2)	2	-	2
Foreign exchange translation	(1)	(5)	-	-	-	(6)
Balance at the end of the period	**4,496**	**3,940**	**323**	**297**	**148**	**9,204**

(1) Securitisation liabilities are secured by a floating charge over securitised assets for amounts owing to noteholders and any other secured creditors of the securitisation vehicles.

(2) Debt issues consist of domestic and offshore senior unsecured debt transactions.

4.4. CONTROLLED ENTITIES

4.4.1. Acquisition of subsidiary

(a) Acquisition of controlled entities

On 30 December 2016, the Bank acquired 100% of BOQF Cashflow Finance Pty Ltd (formerly known as Centrepoint Alliance Premium Funding Pty Ltd) for consideration of $21.4 million.

BOQF Cashflow Finance Pty Ltd ('BOQF Cashflow Finance') focuses on short term loan products in the insurance premium funding industry for predominantly small to medium sized enterprises. The Bank purchased BOQF Cashflow Finance as an extension to the BOQ Finance business and aligned to the Bank's strategy to target profitable niche business segments. In the period from 31 December 2016 to 28 February 2017, BOQF Cashflow Finance contributed a profit after tax of $0.6 million.

The provisional acquisition accounting had the following effect on the consolidated entity's assets and liabilities.

	Recognised values on acquisition $m	Pre-acquisition carrying amounts $m
Assets		
Cash and liquid assets	7	7
Loans and advances at amortised cost	142	143
Other assets	5	5
Total assets	154	155
Liabilities		
Accounts payable and other liabilities	16	16
Borrowings including subordinated notes	125	125
Total liabilities	141	141
Net identifiable tangible assets and liabilities	13	14
Goodwill and other identifiable intangible assets on acquisition	8	
Total Consideration	21	
Consideration paid, satisfied in cash	21	
Cash acquired	7	
Net cash outflow	(14)	

In addition, the following entity was established during the financial year:

- Series 2017-1 REDS Trust was opened on 16 February 2017.

(b) Disposal of controlled entities

The following entities were closed during the financial year:

- Series 2013-1 EHP REDS Trust was closed on 19 September 2016.
- Nyala Funding Trust CMBS 2013-1 was closed on 15 September 2016.

4.5. OTHER NOTES

4.5.1. Intangible assets

The Group has not identified any cash generating units for which the carrying amount of Goodwill exceeds the recoverable amount and as such there have been no impairments of Goodwill recognised for the period.

4.5.2. Related parties

Arrangements for all related parties are consistent with those disclosed in the 31 August 2016 Annual Report.

4.5.3. Contingent liabilities

As previously disclosed in the Bank's full year results, on 11 March 2016, the Bank was served with class action proceedings commenced in the New South Wales Registry of the Federal Court. The proceedings have been commenced by Petersen Superannuation Fund Pty Ltd (the Applicant) on behalf of an open class against Bank of Queensland Limited and DDH Graham Limited and relate to the affairs of the Sherwin group of companies, including Wickham Securities Limited (in Liquidation), Sherwin Financial Planners Pty Ltd (in Liquidation), DIY Superannuation Services Pty Ltd (in Liquidation) and certain of their related entities, with respect to the operation of some of the Bank's Money Market Deposit Accounts. It is the Bank's intention to continue to defend the proceedings and the Bank has filed a defence and cross-claims. It is currently not practicable for the Bank to provide an estimate of any liability in relation to the proceedings.

4.5.4. Events subsequent to balance date

No matters or circumstances have arisen since the end of the financial half year and up until the date of this report which significantly affects the operations of the Bank, the results of those operations, or the state of affairs of the Bank in subsequent years. The Bank has determined an interim dividend to be paid on 17 May 2017. Further details with respect to the dividend amount per share, payment date and dividend re-investment plan can be obtained from note 4.2.2.

DIRECTORS' DECLARATION

In the opinion of the Directors of Bank of Queensland Limited ('the Bank'):

(a) the consolidated financial statements and accompanying notes, set out on pages 31 to 47 are in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the financial position of the Consolidated Entity as at 28 February 2017 and of its performance, for the half-year ended on that date; and

  (ii) complying with Australian Accounting Standard AASB 134: *Interim Financial Reporting* and the *Corporations Regulations 2001*; and

(b) there are reasonable grounds to believe that the Bank will be able to pay its debts as and when they become due and payable.

Dated this twenty ninth day of March 2017.

Signed in accordance with a resolution of the Directors:

Roger Davis
Chairman

Jon Sutton
Managing Director and CEO

INDEPENDENT AUDITOR'S REVIEW REPORT

KPMG

To the shareholders of Bank of Queensland Limited

Report on the Consolidated Interim Financial Report

Conclusion

We have reviewed the accompanying ***Consolidated Interim Financial Report*** of Bank of Queensland Limited.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Consolidated Interim Financial Report of Bank of Queensland Limited is not in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Consolidated Entity's*** financial position as at 28 February 2017 and of its performance for the ***half-year*** ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001.*

The ***Consolidated Interim Financial Report*** comprises:

- Consolidated Balance Sheet as at 28 February 2017
- Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows for the half-year ended on that date
- Notes (Sections 4.1.1 to 4.5.4) comprising a summary of significant accounting policies and other explanatory information
- The Directors' Declaration.

The ***Consolidated Entity*** comprises Bank of Queensland Limited (the Company) and the entities it controlled at the half-year's end or from time to time during the half-year period.

Responsibilities of the Directors for the Consolidated Interim Financial Report

The Directors of the Consolidated Entity are responsible for:

- the preparation of the Consolidated Interim Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- such internal control as the Directors determine is necessary to enable the preparation of the Consolidated Interim Financial Report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility for the review of the Consolidated Interim Financial Report

Our responsibility is to express a conclusion on the Consolidated Interim Financial Report based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Consolidated Interim Financial Report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Consolidated Entity's financial position as at 28 February 2017 and its performance for the half-year ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Bank of Queensland Limited, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of Consolidated Interim Financial Report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with *Australian Auditing Standards* and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001.*

KPMG

Robert Warren
Partner
Sydney
29 March 2017

5. APPENDICES

5.1 ASX APPENDIX 4D

Cross Reference Index	Page
Details of reporting period and previous period (Rule 4.2A.3 Item No. 1)	Inside front cover
Results for Announcement to the Market (Rule 4.2A.3 Item No. 2)	Inside front cover
Net tangible assets per security (Rule 4.2A.3 Item No. 3)	Page 50
Details of entities over which control has been gained or lost (Rule 4.2A.3 Item No. 4)	Page 46
Dividends and Dividend dates (Rule 4.2A.3 Item No. 5)	Page 39
Dividend Reinvestment Plan (Rule 4.2A.3 Item No. 6)	Page 39
Details of associated and joint venture entities (Rule 4.2A.3 Item No. 7)	Page 50
Foreign Entities (Rule 4.2A.3 Item No. 8)	Not applicable

Details of associated and joint venture entities (Rule 4.2A.3 Item No. 7) (1)	Ownership interest held (%)
Ocean Springs Pty Ltd	9.31%
Dalyellup Beach Pty Ltd	17.08%
East Busselton Estate Pty Ltd	25.00%
Coastview Nominees Pty Ltd	5.81%
Provence 2 Pty Ltd	25.00%

(1) The principal activity of the joint venture entities is land subdivision, development and sale. These investments were acquired as part of the Home Building Society acquisition in 2007.

	As at		
Net tangible assets per security (Rule 4.2A.3 Item No. 3)	**Feb-17**	Aug-16	Feb-16
Net tangible assets per ordinary shares ($) (1)	**7.28**	7.13	7.07

(1) Represents net assets excluding intangible assets, preference shares and other equity instruments divided by ordinary shares on issue at the end of the year.

5.2 RECONCILIATION OF STATUTORY PROFIT TO CASH EARNINGS

The Cash Earnings provided is used by Management to present a clear view of the Bank's underlying operating results. This excludes a number of items that introduce volatility and/or one-off distortions of the current year performance, and allows for a more effective comparison of BOQ's performance across reporting periods.

The main costs incurred during the period relate to the continued amortisation of acquisition fair value adjustments.

(A) RECONCILIATION OF CASH EARNINGS TO STATUTORY NET PROFIT AFTER TAX

	Half Year Performance				
$ million	**Feb-17**	Aug-16	Feb-16	Feb 17 vs Aug 16	Feb 17 vs Feb 16
Cash Earnings after Tax	**175**	181	179	(3%)	(2%)
Amortisation of acquisition fair value adjustments	**(6)**	(7)	(9)	(14%)	(33%)
Hedge ineffectiveness	**(5)**	(6)	2	(17%)	(350%)
Integration / Transaction costs	**(1)**	(1)	(1)	-	-
Legacy items	**(2)**	-	-	-	-
Statutory Net Profit after Tax	**161**	167	171	(4%)	(6%)

(B) NON-CASH EARNINGS RECONCILING ITEMS

$ million	**Cash Earnings Feb-17**	VMA [1]	Amortisation of acquisition fair value adjustments	Hedge ineffectiveness	Integration/ Transaction costs	Legacy items	**Statutory Net Profit Feb-17**
Net Interest Income	**452**	-	-	-	-	-	**452**
Non-Interest Income	**80**	7	-	(7)	-	-	**80**
Total Income	**532**	7	-	(7)	-	-	**532**
Operating Expenses	**(252)**	(7)	(8)	-	(1)	(3)	**(271)**
Underlying Profit	**280**	-	(8)	(7)	(1)	(3)	**261**
Loan Impairment Expense	**(27)**	-	-	-	-	-	**(27)**
Profit before Tax	**253**	-	(8)	(7)	(1)	(3)	**234**
Income Tax Expense	**(78)**	-	2	2	-	1	**(73)**
Profit after Tax	**175**	-	(6)	(5)	(1)	(2)	**161**

(1) Virgin Money (Australia)

5.3 OPERATING CASH EXPENSES

	Half Year Performance				
	Feb-17	Aug-16	Feb-16	Feb 17 vs Aug 16	Feb 17 vs Feb 16
Employee expenses					
Salaries	**101**	100	100	1%	1%
Superannuation contributions	**10**	10	10	-	-
Payroll tax	**7**	6	7	17%	-
Employee Share Programs	**5**	6	5	(17%)	-
Other	**3**	5	4	(40%)	(25%)
	126	127	126	(1%)	-
Occupancy expenses					
Lease expense	**16**	15	16	7%	-
Depreciation of Fixed Assets	**4**	4	5	-	(20%)
Other	**1**	2	1	(50%)	-
	21	21	22	-	(5%)
General expenses					
Marketing	**5**	10	7	(50%)	(29%)
Commissions to Owner Managed Branches	**3**	4	3	(25%)	-
Communications and postage	**10**	11	10	(9%)	-
Printing and stationery	**2**	2	2	-	-
Impairment	**1**	1	-	-	-
Processing costs	**4**	8	12	(50%)	(67%)
Other operating expenses	**14**	12	16	17%	(13%)
	39	48	50	(19%)	(22%)
IT expenses					
Data processing	**37**	34	30	9%	23%
Amortisation of Intangible Assets	**18**	15	12	20%	50%
Depreciation of Fixed Assets	**-**	1	-	(100%)	-
	55	50	42	10%	31%
Other expenses					
Professional fees	**7**	6	6	17%	17%
Directors' fees	**1**	1	1	-	-
Other	**3**	3	2	-	50%
	11	10	9	10%	22%
Restructuring expenses (1)	**-**	8	7	-	-
Total Operating Expenses	**252**	264	256	(5%)	(2%)

(1) The 2016 restructuring expenses mainly consist of employee costs.

5.3 Operating Cash Expenses (continued)

Employee Expenses

In 2016, BOQ started a program to reshape its operating model and organisation structure through a number of productivity initiatives. The benefits obtained from this has allowed the group to record a reduction in employee costs whilst expanding the Virgin Money mortgage offering.

Occupancy Expenses

Occupancy costs have remained relatively flat compared to the prior periods.

General Expenses

The timing of marketing campaign activity is traditionally more weighted to the second half which is reflective of the reduced marketing costs this half. Contract outcomes have resulted in a permanent reduction in processing costs compared to the prior periods.

IT Expenses

A number of key strategic initiatives, including the release of the Retail Loan Origination Platform, to improve the overall customer experience, productivity and efficiency were implemented in the prior periods which has resulted in an increase in the amortisation profile this half.

5.4 CASH EPS CALCULATIONS

Key Metrics		Half Year Performance Feb-17	Aug-16	Feb-16	Feb 17 vs Aug 16	Feb 17 vs Feb 16
Basic EPS	(cents)	**45.5**	47.8	47.8	(5%)	(5%)
Diluted EPS	(cents)	**43.7**	45.4	45.6	(4%)	(4%)
Reconciliation of Cash Earnings for EPS						
Cash Earnings available for ordinary shareholders	($ million)	**175**	181	179	(3%)	(2%)
Add: CPS Dividend	($ million)	**8**	8	8	-	-
Add: Wholesale Capital Notes [1]	($ million)	**3**	3	4	-	(25%)
Cash Diluted Earnings available for ordinary shareholders	($ million)	**186**	192	191	(3%)	(3%)
Weighted Average Number of Shares ('WANOS')						
Basic WANOS	(million)	**384**	**378**	373	2%	3%
Add: Effect of award rights	(million)	**1**	**1**	2	-	(50%)
Add: Effect of CPS	(million)	**27**	**30**	27	(10%)	-
Add: Effect of Wholesale Capital Notes [1]	(million)	**13**	**15**	14	(13%)	(7%)
Diluted WANOS for Cash Earnings EPS	(million)	**425**	**424**	416	-	2%

(1) On 26 May 2015, the Bank issued 15,000 Wholesale Capital Notes at a price of $10,000 per note.

5.5 ISSUED CAPITAL

ORDINARY SHARES

	Consolidated 2017 Number	2017 $m
Movements during the year		
Balance at the beginning of the year – fully paid	**380,995,702**	3,279
Issue of ordinary shares - 21 October 2016 [1]	**1,050,000**	12
Dividend reinvestment plan - 22 November 2016 [2]	**5,278,750**	53
Balance at the end of the year – fully paid	**387,324,452**	3,344

(1) On 21 October 2016, 1,050,000 ordinary shares were issued at $11.15 to the trustee of the Bank of Queensland Limited Employee Share Plans Trust to satisfy the exercise of award rights and issue of shares under the Award Rights Plan and issue of shares under the BOQ Restricted Share Plan and BOQ Employee Share Plan.

(2) 37% was taken up by shareholders on 22 November 2016 as part of the Dividend Reinvestment Plan.

5.6 AVERAGE BALANCE SHEET AND MARGIN ANALYSIS

	February 2017 (Six month period)			August 2016 (Six month period)		
	Average Balance $m	Interest $m	Average Rate %	Average Balance $m	Interest $m	Average Rate %
Interest earning assets						
Gross loans & advances at amortised cost	**43,011**	**939**	**4.40**	43,354	1,011	4.64
Investments & other securities	**6,226**	**72**	**2.33**	5,999	78	2.59
Total interest earning assets	**49,237**	**1,011**	**4.14**	49,353	1,089	4.39
Non-interest earning assets						
Property, plant & equipment	**59**			60		
Other assets	**1,500**			1,551		
Provision for impairment	**(255)**			(264)		
Total non-interest earning assets	**1,304**			1,347		
Total Assets	**50,541**			50,700		
Interest bearing liabilities						
Retail deposits	**29,625**	**313**	**2.13**	28,690	339	2.35
Wholesale deposits & Borrowings	**16,463**	**246**	**3.01**	17,569	280	3.17
Total Interest bearing liabilities	**46,088**	**559**	**2.45**	46,259	619	2.66
Non-interest bearing liabilities	**817**			885		
Total Liabilities	**46,905**			47,144		
Shareholders' funds	**3,636**			3,556		
Total liabilities & shareholders' funds	**50,541**			50,700		
Interest margin & interest spread						
Interest earning assets	**49,237**	**1,011**	**4.14**	49,353	1,089	4.39
Interest bearing liabilities	**46,088**	**559**	**2.45**	46,259	619	2.66
Net interest spread			**1.69**			1.73
Benefit of net interest-free assets, liabilities and equity			**0.16**			0.17
Net interest margin - on average interest earning assets	**49,237**	**452**	**1.85**	49,353	470	1.90

BOQ GROUP - 2017 HALF YEAR RESULTS

5.7 DISTRIBUTION FOOTPRINT

BOQ has continued to develop its 'Customer in Charge' strategy to allow customers to engage through their channel of choice. This includes a preferred broker (aligned to BOQ or Virgin Money) or directly with BOQ through BOQ's Owner Managed and Corporate branches, online via digital, social media or mobile banking or on the telephone to BOQ's Customer Contact Centres.

Branch numbers reduced by 14 over the first half as BOQ looked to optimise its points of presence. The majority of BOQ's Owner Managers have transitioned to the new franchise proposition which better aligns the network with the strategic objectives of the Bank and has delivered significant performance improvements. A further 4 ICON branches have been delivered this half bringing the total to 16, including the first flagship branch in the Brisbane CBD which was successfully delivered post balance date.

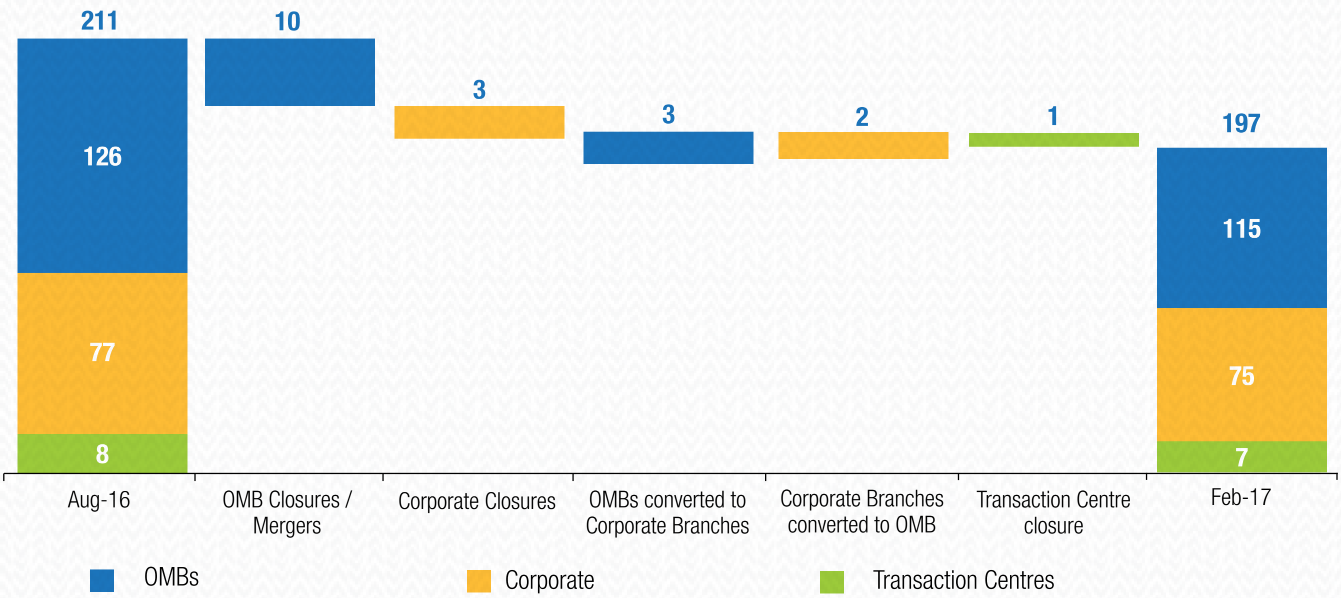
The broker strategy expansion has continued to accelerate through the first half of the year with the total accredited brokers now exceeding 6,000 across the BOQ and Virgin Money brands. The majority of accredited brokers are located outside of Queensland which will further accelerate the geographic diversification of the portfolio and provide deeper access to Sydney and Melbourne markets where the Group has been traditionally under represented.

5.7 DISTRIBUTION FOOTPRINT (CONTINUED)

As at Feb-17	QLD	NSW / ACT	VIC	WA	NT	TAS	SA	Total
Corporate Branches	41	11	8	14	-	-	1	75
Owner Managed Branches	70	20	13	9	1	2	-	115
Transaction Centres	7	-	-	-	-	-	-	7
	118	**31**	**21**	**23**	**1**	**2**	**1**	**197**

As at Aug-16	QLD	NSW / ACT	VIC	WA	NT	TAS	SA	Total
Corporate Branches	43	11	8	14	-	-	1	77
Owner Managed Branches	77	23	13	9	2	2	-	126
Transaction Centres	8	-	-	-	-	-	-	8
	128	**34**	**21**	**23**	**2**	**2**	**1**	**211**

CORPORATE, OWNER MANAGED BRANCHES & TRANSACTION CENTRES



5.8 CREDIT RATING

The Bank monitors rating agency developments closely. Entities in the Group are rated by Standard and Poor's, Moody's Investor Service and Fitch Ratings.

Our current long-term debt ratings are shown below.

Rating Agency	Short Term	Long Term	Outlook
Standard & Poor's	A2	A-	Negative
Fitch	F2	A-	Stable
Moody's	P2	A3	Stable

5.9 REGULATORY DISCLOSURES

The APS 330 Common Disclosure and Regulatory Capital reconciliation (included in the relevant Pillar 3 Disclosures document) and the Capital Instruments Disclosures are available at the Regulatory Disclosures section of the Bank's website at the following address:

http://www.boq.com.au/regulatory_disclosures.htm

5.10 LIQUIDITY COVERAGE RATIO

APRA requires ADIs to maintain a minimum 100% Liquidity Coverage Ratio ('LCR'). The LCR requires sufficient High Quality Liquid Assets ('HQLA') to meet net cash outflows over a 30 day period, under a regulator-defined liquidity stress scenario. BOQ manages its LCR on a daily basis with a buffer above the regulatory minimum in line with the BOQ prescribed risk appetite and management ranges. BOQ's average LCR has increased over the February 2017 quarter to 137% (30 November 2016: 130%). The following table presents detailed information in respect of the average LCR composition for the two quarters.

BOQ maintains a portfolio of high quality, diversified liquid assets to facilitate balance sheet liquidity needs and meet internal and regulatory requirements. Liquid assets comprise HQLA (cash, Australian Semi-government and Commonwealth Government securities) and alternate liquid assets covered by the Committed Liquidity Facility ('CLF') from the Reserve Bank of Australia. Assets eligible for the CLF include senior unsecured bank debt, covered bonds and residential mortgage backed securities ('RMBS') that are repo-eligible with the Reserve Bank of Australia.

BOQ has a stable, diversified and resilient deposit and funding base that mitigates the chance of a liquidity stress event across various funding market conditions. BOQ utilises a range of funding tools including customer deposits, securitisation, short term and long term wholesale debt instruments. BOQ has increased customer funding and reduced it's short-term wholesale exposures over the period as part of its overall funding strategy. Bank lending is predominantly funded from stable funding sources with short term wholesale funding primarily used to manage timing mismatches and fund liquid assets.

The liquid assets composition has changed over the combined quarters with the allocation to HQLA increasing, now making up 79% of net cash outflows (31 August 2016: 72%).

BOQ does not have significant derivative exposures or currency exposures that could adversely affect its LCR.

5.10 LIQUIDITY COVERAGE RATIO (CONTINUED)

Average Quarterly Performance

	February Quarter		November Quarter	
$ million	Total Unweighted Value Feb-17	Total Weighted Value Feb-17	Total Unweighted Value Nov-16	Total Weighted Value Nov-16
Liquid Assets, of which				
High-quality liquid assets ('HQLA1')	n/a	3,115	n/a	3,190
Alternative liquid assets ('ALA')	n/a	2,319	n/a	2,384
Total Liquid Assets		**5,434**		**5,574**
Cash Outflows				
Customer deposits and deposits from small business customers, of which	13,539	1,260	13,886	1,255
stable deposits	*6,863*	*343*	*7,114*	*356*
less stable deposits	*6,676*	*917*	*6,772*	*899*
Unsecured wholesale funding, of which	4,106	2,486	4,422	2,821
non-operational deposits	*3,134*	*1,514*	*3,237*	*1,636*
unsecured debt	*972*	*972*	*1,185*	*1,185*
Secured wholesale funding	n/a	41	n/a	45
Additional requirements, of which	447	343	449	377
outflows related to derivatives exposures and other collateral requirements	*337*	*337*	*374*	*374*
credit and liquidity facilities	*110*	*6*	*75*	*3*
Other contractual funding obligations	489	180	406	92
Other contingent funding obligations	10,226	623	9,057	620
Total Cash Outflows	**28,807**	**4,933**	**28,220**	**5,210**
Cash Inflows				
Inflows from fully performing exposures	761	452	694	378
Other cash inflows	517	517	546	546
Total Cash Inflows	**1,278**	**969**	**1,240**	**924**
Total Net Cash Outflows	**27,529**	**3,964**	**26,980**	**4,286**
Total Liquid Assets	n/a	**5,434**	n/a	**5,574**
Total Net Cash Outflows	n/a	**3,964**	n/a	**4,286**
Liquidity Coverage Ratio (%)	n/a	**137%**	n/a	**130%**

GLOSSARY OF TERMS

Term	Description
Alternative Liquid Asset ('ALA')	Qualifying Collateral for the Committed Liquid Facility comprising of all assets eligible for repurchase transactions with the RBA under normal market conditions and any other assets nominated by the RBA.
APRA Prudential Standard ('APS')	Prudential Standards issued by APRA applicable to ADIs.
Australian Accounting Standards ('AASB')	A series of technical pronouncements that set out the measurement and recognition requirements when accounting for particular types of transactions and events, along with the preparation and presentation requirements of an entity's financial statements.
Australian Equipment Lessors Association ('AELA')	AELA is the national association for the equipment leasing and financing industry.
Australian Prudential Regulation Authority ('APRA')	APRA is the prudential regulator of banks, insurance companies and superannuation funds, credit unions, building societies and friendly societies.
Australian Securities Exchange ('ASX')	Australian Securities Exchange or ASX Limited ABN 98 008 624 691 and the market operated by ASX Limited.
Authorised Deposit-Taking Institution ('ADI')	A corporations which is authorised under the *Banking Act 1959* and includes banks, building societies and credit unions.
Available for Sale ('AFS')	Available for sale is an accounting term used to classify financial assets. AFS assets represent securities and other financial investments that are neither held for trading, nor held to maturity. Under IFRS, AFS assets are defined as being all financial assets that do not fall into one of the other IFRS financial asset classifications.
Average Interest Earning Assets	Average balance over the period for a bank's assets that accrue interest income.
Bank of Queensland Limited ('the Bank') ('BOQ')	The Bank is a for profit entity primarily involved in providing retail banking, leasing finance, and insurance products, to its customers.
BASEL III	A global regulatory framework to improve the regulation, supervision and risk management within the banking system developed by the Basel Committee on Banking Supervision.
Basis points ('bps')	One per cent of one per cent (0.01%)
Cash Earnings	Cash Earnings is a non-Accounting Standards measure commonly used in the banking industry to assist in presenting a clear view of the bank's underlying earnings
Committed Liquidity Facility ('CLF')	The Reserve Bank provides a CLF as part of Australia's implementation of the Basel III liquidity reforms. The facility, which is required because of the limited amount of government debt in Australia, is designed to ensure that participating ADIs have enough access to liquidity to respond to an acute stress scenario, as specified under the relevant APS.
Common Equity Tier 1 ('CET1')	Capital that is recognised as the highest quality component of capital under APRA Prudential Standards.
Common Equity Tier 1 ratio ('CET1 ratio)	CET1 capital divided by total risk-weighted assets calculated in accordance with relevant APS.
Consolidated Entity ('the Group')	The Bank and its' subsidiaries.
Convertible Preference Shares ('CPS')	CPS are fully paid, non-cumulative, perpetual, convertible, unguaranteed and unsecured preference shares with preferred, discretionary dividends, issued by companies.
Cost to Income ratio	Operating expenses divided by net operating income.
Days past due ('dpd')	A loan or lease payment that has not been made by a customer by the due date.
Dividend Payout ratio	Dividends paid on ordinary shares divided by earnings per share.
Dividend reinvestment plan ('DRP')	Provides shareholders with the opportunity to convert all or part of their entitlement to a dividend into new shares at a current plan discount of 1.5%.
Dividend Yield	Dividend as a percentage of the share price.
Earnings per Share ('EPS')	Measures of earnings attributed to each equivalent ordinary share over a twelve month period. Calculated by dividing the company's earnings by the weighted average number of shares on issue in accordance with AASB 133 *Earnings per share*.
Equipment Hire Purchase ('EHP')	EHP trust under the REDS securitisation program, issuing ABS to the term market.
Effective tax rate	Income tax expense divided by profit before tax.
Full Time Equivalent ('FTE')	A calculation based on number of hours worked by full and part time employees as part of their normal duties.

GLOSSARY OF TERMS (CONTINUED)

Term	Description
General Reserve for Credit Losses ('GRCL')	An estimate of the reasonable and prudent expected credit losses over the remaining life of the portfolio and on non-defaulted assets, not covered by provisions for impairment.
Gross Loans and Advances ('GLA')	Initially recognised at fair value plus incremental direct transaction costs and subsequently measured at each reporting date at amortised cost using the effective interest method.
High Quality Liquid Asset ('HQLA1')	Comprises of the Bank's notes and coins and marketable securities representing claims on or guaranteed by the Australian Government or Semi-Government authorities.
Impaired Assets	Exposures that have deteriorated to the point where full collection of principal and interest is in doubt.
Interest bearing liabilities	The bank's liabilities that accrue interest expense.
International Accounting Standard ('IAS')	A set of accounting standards developed by the International Accounting Standards Board stating how particular types of transactions and other events should be reflected in financial statements. These standards are currently being phased out and replaced by IFRS (see below)
International Financial Reporting Standards ('IFRS')	International Financial Reporting Standards and interpretations issued by the International Accounting Standards Board.
Issued Capital	Value of securities allotted in a company to its shareholders.
Line of Credit ('LOC')	A flexible facility that allows a customer to draw down on their approved available credit at any time, as long as the customer does not exceed the approved credit limit.
Liquid assets	All unencumbered RBA repurchase eligible liquid assets including HQLA1 and assets able to be pledged as collateral to the RBA under the CLF.
Liquidity Coverage Ratio ('LCR')	The ratio of high quality liquid assets that can be converted into cash easily and immediately in private markets, to total net cash flows required to meet the Group's liquidity needs for a 30 day calendar liquidity stress scenario as determined in accordance with APRA's prudential standards.
Net Interest Margin ('NIM')	Net interest income divided by average interest-earning assets.
Net Tangible Assets ('NTA')	Net tangible assets are calculated as the total assets of a company minus any intangible assets such as goodwill, less all liabilities and the par value of preferred stock.
Non-interest earning assets	The bank's assets that do not accrue interest income.
Owner Managed Branch ('OMB')	A branch which is run locally by a franchisee and delivers personal service to their customers.
Residential Mortgage Backed Securities ('RMBS')	A reference to a financial debt security that is secured by a pool of mortgages on residential property. Mortgages are pooled together and sold in debt tranches to investors by issuers as a source of funding.
Return on Average Equity ('ROE')	Net Profit attributable to the owners of the company divided by average ordinary equity.
Return on Average Tangible Equity ('ROTE')	Net profit attributable to the owners of the company divided by average ordinary equity less goodwill and identifiable intangible assets.
Risk Weighted Assets ('RWA')	A quantitative measure of various risks including credit, operational, market and securitisation as defined by APRA's prudential standards.
Share Capital	Company's issued and paid-up capital.
Total Capital Adequacy Ratio	Total capital divided by total risk-weighted assets calculated in accordance with relevant APS.
Treasury shares	Shares that the Bank has issued but are held by a trust included within the Bank's consolidated results. Treasury shares are not considered shares outstanding and are not included in 'per share' calculations.
Virgin Money (Australia) ('Virgin Money')	Virgin Money (Australia) Pty Ltd and its subsidiaries. The Virgin Money entities are subsidiaries of the Group that engages in the provision of financial services (e.g. insurance, superannuation and home lending) on behalf of business partners, including BOQ.
Weighted Average Number of Shares ('WANOS')	Calculated in accordance with AASB 133 *Earnings per Share*.
Wholesale Capital Notes ('WCN')	WCNs are similar to CPS as the notes may convert into common shares in certain circumstances as described in the offer documentation of the notes.