BOQ Investor Information - 2018 Half Year Results

Incorporating the requirements of Appendix 4D

BOQ GROUP - 2018 HALF YEAR RESULTS

ASX APPENDIX 4D

For the half year period ended 28 February 2018

Results for announcement to the market [1]

				$m
Revenues from ordinary activities [2]	Up	4%	to	555
Profit from ordinary activities after tax attributable to members [2]	Up	8%	to	174
Profit for the year attributable to members [2]	Up	8%	to	174

Dividends	Record Date	Paid or payable on	Amounts per security
Ordinary shares (BOQ)			
Interim ordinary dividend - fully franked	27 April 2018	17 May 2018	38 cents
Convertible Preference Shares (CPS) (BOQPD)			
Final 2018 CPS dividend - fully franked	28 March 2018	16 April 2018	$2.44
Wholesale Capital Notes (WCN)			
Half-yearly WCN dividend - fully franked	n/a	28 May 2018	$218.15
Capital Notes (BOQPE)			
First quarter 2018 BOQPE distribution - fully franked	31 January 2018	15 February 2018	52.11 cents
Second quarter 2018 BOQPE distribution - fully franked	27 April 2018	15 May 2018	94.05 cents

(1) Rule 4.2A.3. Refer to Appendix 7.1 for the cross reference index for ASX Appendix 4D.

(2) On 1H17 (six months ended 28 February 2017).

BOQ GROUP - 2018 HALF YEAR RESULTS

BOQ GROUP - 2018 HALF YEAR RESULTS

OPERATING AND FINANCIAL REVIEW

1. Highlights and 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 and current expectations 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.

BOQ does not undertake to update any forward-looking statements contained in this document, subject to disclosure requirements applicable to it.

Rounding

In accordance with applicable financial reporting regulations and current industry practices, 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 to assist in presenting a clear view of the Bank's underlying earnings. Refer to Section 6.2 of the appendices for the reconciliation of statutory profit to cash earnings.

The items excluded from cash earnings are consistent with 2H17 with an additional amount of $1 million relating to the heighted regulatory and compliance activities associated with the industry wide reviews currently being conducted.

Hedge ineffectiveness represents earnings volatility from hedges that are not fully effective under the application of AASB 139 *Financial Instruments: Recognition and Measurement* and create a timing difference in reported profit. These hedges remain economically effective (refer to the reconciliation of statutory profit to cash earnings chart below).

Figures disclosed in this report are on a cash earnings basis unless stated as being on a statutory profit basis. Unless otherwise stated, all financial comparisons in this document refer to the prior half (2H17) and the prior corresponding half (1H17).

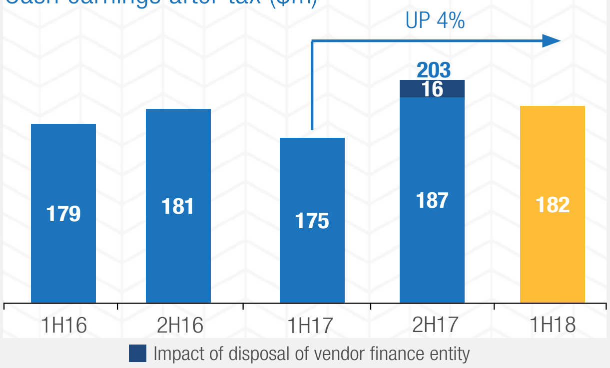
These non-statutory measures have not been subject to review or audit.

Reconciliation of statutory profit to cash earnings ($m)

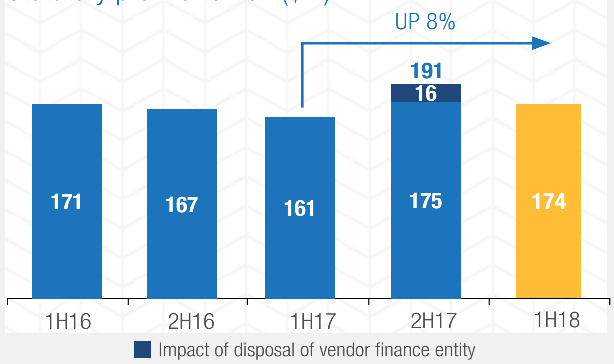
BOQ GROUP - 2018 HALF YEAR RESULTS

1.2 Group highlights

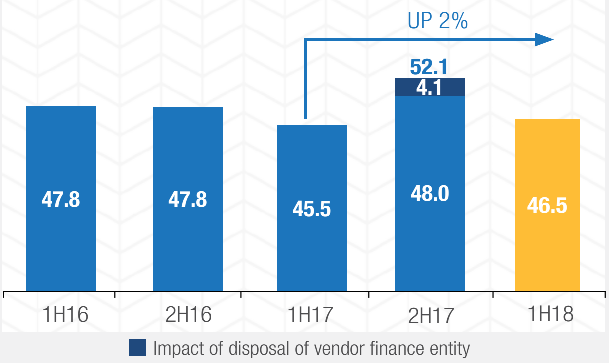
Cash earnings after tax ($m)



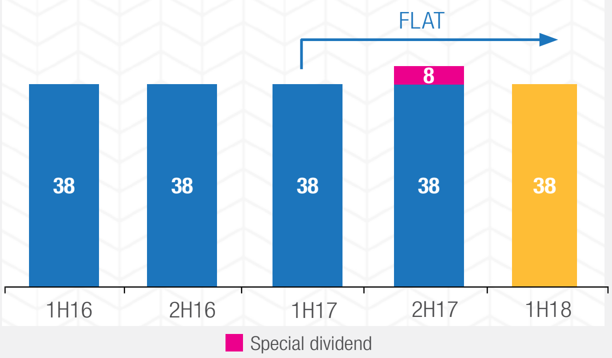
Statutory profit after tax ($m)



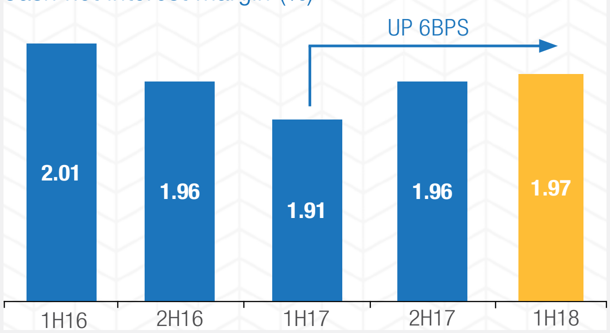
Cash basic earnings per share (cents)



Dividends per ordinary share (cents)

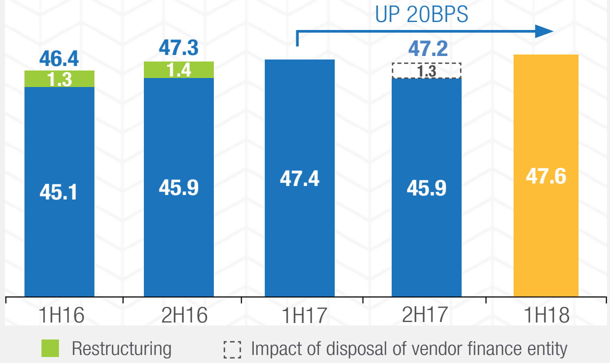


Cash net interest margin (%) (1)

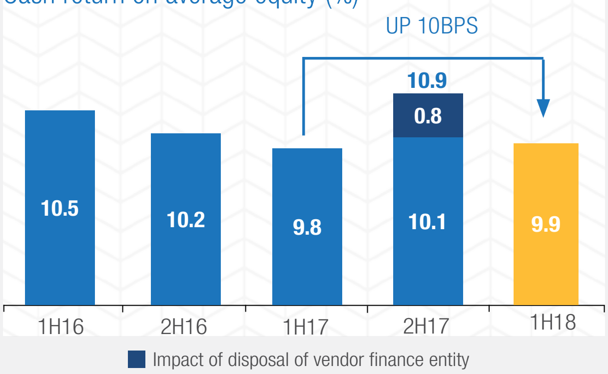


(1) NIM disclosed includes the impact of netting offset accounts against loan balances. Historical data has been previously disclosed excluding this netting.

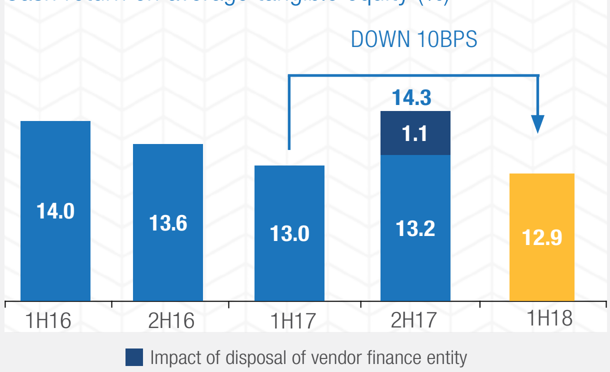
Cash cost to income (%)



Cash return on average equity (%)



Cash return on average tangible equity (%)



BOQ GROUP - 2018 HALF YEAR RESULTS

1.2 Group highlights (continued)

CASH EARNINGS AFTER TAX

$182m

Increased by four per cent on 1H17

Statutory profit up eight per cent on 1H17

CASH NET INTEREST MARGIN (1)

1.97%

Up six basis points over 1H17 driven by repricing in 2H17 for interest only mortgages in conjunction with reduced funding costs

CASH OPERATING EXPENSES

$262m

Two per cent increase in underlying expense profile from 1H17, whilst absorbing the impact of investment in new technology

LOAN IMPAIRMENT EXPENSE

$22m

Stable at 10 basis points of lending compared to 2H17 and a 19 per cent reduction over 1H17

COMMON EQUITY TIER 1

9.42%

Increase of three basis points on 2H17 whilst delivering an eight cent special dividend and suspending the DRP

CASH RETURN ON AVERAGE EQUITY

9.9%

Increase of 10 basis points on 1H17

(1) NIM disclosed netting the impact of offset accounts.

BOQ has delivered a 1H18 result with cash earnings of $182 million, representing a four per cent increase on 1H17 and statutory net profit after tax of $174 million, an increase of eight per cent on 1H17. Revenue growth has remained subdued because of the intense competition in mortgage and term deposit markets.

Lending growth across the Group improved in 1H18 as Retail and BOQ Business continue to deliver on their strategies. The business continued to focus on taking a prudent approach to credit risk and regulatory compliance, investing in technology and operating model simplification to enhance customer offerings and drive future business capability, while maintaining strong cost disciplines.

Lending growth of three per cent (annualised) or $0.7 billion was achieved in 1H18. Housing loan growth was three per cent (annualised) for 1H18 with mortgage broker volumes building. Growth has gained momentum over the past two halves as Virgin Money (Australia) (**VMA** or **Virgin Money Australia**) and BOQ Specialist mortgage offerings delivered strong results in an environment of intense new business price competition. Commercial lending grew six per cent (annualised) as BOQ's strategy of targeting defined niche sectors is delivering positive results.

Net interest margin (**NIM**) was up one basis point to 1.97 per cent for 1H18 compared to 2H17, but increased six basis points compared to 1H17. Easing of funding costs combined with interest only mortgage repricing in August 2017 have contributed to the increase in NIM. The full benefits from lending and deposit repricing was partially offset by intensifying competition for lending, particularly in the Bank's largest portfolio, owner occupier, principal & interest mortgages. A lower yielding mix of business also had an impact, as new interest only lending flows fell significantly.

Operating expense growth has been contained, increasing $1 million from 2H17. The group has continued to invest in new technologies and deliver on its operating model transformation agenda during 1H18. The efficiencies embedded from this transformation program have allowed the group to absorb an increase in IT software amortisation expense and further investment in the Virgin Money Australia mortgage offering.

BOQ achieved pleasing results in credit quality metrics across the portfolio. Loan impairment expense for the half of $22 million was 10 basis points of gross loans and advances, which is unchanged from the 2H17 level, but was 19 per cent lower than 1H17. The 1H18 result was supported by the strong performance of the BOQ Finance leasing portfolio. Arrears remained stable, allowing for normal seasonality in the post-Christmas period, while impaired assets reduced by 10 per cent during the half to $173 million. Only one impaired asset is greater than $5 million.

BOQ's balance sheet remains very strong with an increase in its Common Equity Tier 1 ratio (**CET1**) of three basis points to 9.42 per cent. In 1H18, the capital management initiatives which were announced at the 2017 full year results were delivered, with the payment of an eight cent special dividend and a suspension of the Dividend Reinvestment Plan (**DRP**). Changes to the regulatory standard APS120 *Securitisation* (that came into effect on 1 January 2018) and the reduction of the Bank's general reserve for credit losses (**GRCL**) upon implementation of a new collective provisioning and reserving model increased CET1 by 26 basis points in line with expectations. This positions BOQ very well for evolving regulatory capital requirements.

The Board has determined to pay an interim ordinary dividend of 38 cents per ordinary share fully franked, consistent with 1H17 and 2H17.

BOQ GROUP - 2018 HALF YEAR RESULTS

1.3 Strategy

BOQ is a financial institution whose primary function is gathering deposits and lending. It is listed on the Australian Securities Exchange (**ASX**) and regulated by the Australian Prudential Regulation Authority (**APRA**) as an authorised deposit-taking institution (**ADI**). It is one of the top 100 companies by market capitalisation on the ASX.

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

BOQ aims 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. BOQ is one of Australia's leading regional banks, and one of the few not owned by one of the major banks. Most of BOQ's retail branches are run by local owner managers, meaning the person running the branch owns the branch. As small business owners, owner managers know what it means to deliver personal service. Through its specialisation in niche commercial segments, including medical & dental, corporate healthcare & retirement living, hospitality & tourism and agribusiness, BOQ provides a level of support to business banking customers unique to that offered by other banks.

BOQ is committed to engaging positively with all stakeholders in a fair and transparent way to create value for customers, employees, investors and the communities in which it operates. For more information on BOQ's approach to sustainability and its key sustainability issues, please visit the sustainability section of its website *(https://www.boq.com.au/Shareholder-centre/sustainability)*.

Information on how BOQ continues to address its economic, social, environmental and governance risks can be located in BOQ's Corporate Governance Statement available on the corporate governance page of its website *(https://www.boq.com.au/About-us/corporate-governance)*.

BOQ's corporate strategy is delivered through four strategic pillars: Customer in Charge; Grow the Right Way; There's Always a Better Way; and Loved Like No Other.

Customer in Charge is about improving customers' experience and expanding BOQ's avenues for growth by putting customers in charge of when, where and how they choose to engage with BOQ. This is regardless of whether they come into a branch, use online services, call on the phone or buy products through a third party intermediary.

BOQ's home loan products, including Virgin Money Australia home loans, are distributed by more than 7,500 accredited brokers, making the Bank more accessible to customers who prefer to use brokers. The Bank continued to expand its distribution into the mortgage broker market in 1H18, with 30 per cent of new home loans originated through mortgage brokers. In 1H18 BOQ also launched a new website to improve customers' digital experience. This followed similar upgrades for the Virgin Money Australia and BOQ Specialist websites during 2017.

Grow the Right Way is about building a strong and profitable business by making the right decisions about where and how to grow. This includes focusing on niche customer segments that value an intimate banking relationship. The niche segments in the BOQ commercial portfolio contributed $281 million in new lending growth in 1H18. Together with its BOQ Specialist, BOQ Finance and Virgin Money business, BOQ's niche strategy is delivering.

BOQ continued its conservative approach to lending, maintaining a high quality lending portfolio. In the branch network, as existing franchise agreements expire, BOQ is moving owner managers onto a new balanced scorecard agreement that includes a wider range of metrics, such as customer and compliance measures. 75 per cent of owner managed branches are now on the new franchise agreement. The Bank continues to actively encourage the earlier than contracted conversion of owner managers to the new agreement.

There's Always a Better Way is about BOQ's commitment to making systems and processes simpler, faster and smarter. The aim is to improve efficiency, reduce costs, deliver better customer service and establish a nimble organisation positioned to take advantage of a rapidly changing landscape. BOQ is digitising its lending platforms by making improvements to retail, commercial and lease management lending systems. Ongoing focus on efficiency across the Group has enabled it to achieve flat expense growth, whilst investing in new technology aligned to a simplified and business enabled target architecture which will enable it to respond more quickly to emerging opportunities than has been possible in the past.

Loved Like No Other is about how BOQ maintains positive stakeholder relationships by living its values, creating a place where people love to work and contributing to the communities in which it operates. These are just some of the things BOQ does to prove "It's Possible to Love a Bank".

In recent years BOQ has reinforced its commitment to ethical conduct through a commitment to the Banking and Finance Oath. The Bank also built on its internal ethics training and conduct reporting, and introduced a range of team based initiatives to embed company values and drive a customer centric culture. It continues to demonstrate its commitment to a diverse and inclusive workforce by making significant progress on its reconciliation journey.

By focusing on the 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.

BOQ GROUP - 2018 HALF YEAR RESULTS

2. Group performance analysis

2.1 Income statement and key metrics

	Half Year Performance				
$ million	**Feb-18**	Aug-17	Feb-17	Feb-18 vs Aug-17	Feb-18 vs Feb-17
Net interest income	**475**	474	452	-	5%
Non-interest income	**75**	95	80	(21%)	(6%)
Total income	**550**	569	532	(3%)	3%
Operating expenses	**(262)**	(261)	(252)	-	4%
Underlying profit	**288**	308	280	(6%)	3%
Loan impairment expense	**(22)**	(21)	(27)	5%	(19%)
Profit before tax	**266**	287	253	(7%)	5%
Income tax expense	**(84)**	(84)	(78)	-	8%
Cash Earnings after Tax	**182**	203	175	(10%)	4%
Statutory Net Profit after Tax	**174**	191	161	(9%)	8%

		Half Year Performance				
Key metrics		**Feb-18**	Aug-17	Feb-17	Feb-18 vs Aug-17	Feb-18 vs Feb-17
Shareholder returns						
Share price	($)	**12.63**	12.59	11.85	-	7%
Market capitalisation	($ million)	**4,958**	4,932	4,590	1%	8%
Dividends per ordinary share (fully franked)	(cents)	**38**	38	38	-	-
Special dividend per ordinary share (fully franked)	(cents)	**-**	8	-	n/a	n/a
Cash earnings basis						
Basic earnings per share (**EPS**)	(cents)	**46.5**	52.1	45.5	(11%)	2%
Diluted EPS	(cents)	**44.5**	49.9	43.7	(11%)	2%
Dividend payout ratio	(%)	**82.0**	73.3 (1)	84.1	870bps	(210bps)
Statutory basis						
Basic EPS	(cents)	**44.6**	49.1	41.8	(9%)	7%
Diluted EPS	(cents)	**42.7**	47.2	40.3	(10%)	6%
Dividend payout ratio	(%)	**85.7**	77.9 (1)	91.4	780bps	(570bps)

(1) Excludes special dividend of eight cents per share.

BOQ GROUP - 2018 HALF YEAR RESULTS

2.1 Income statement and key metrics (continued)

		Half Year Performance				
Key metrics		**Feb-18**	Aug-17	Feb-17	Feb-18 vs Aug-17	Feb-18 vs Feb-17
Profitability and efficiency measures						
Cash earnings basis						
Net profit after tax	($ million)	**182**	203	175	(10%)	4%
Underlying profit (1)	($ million)	**288**	308	280	(6%)	3%
NIM (2)	(%)	**1.97**	1.96	1.91	1bp	6bps
Cost to income ratio (**CTI**)	(%)	**47.6**	45.9	47.4	170bps	20bps
Loan impairment expense / gross loans and advances (**GLA**)	(bps)	**10**	10	13	-	(3bps)
Return on average equity (**ROE**)	(%)	**9.9**	10.9	9.8	(100bps)	10bps
Return on average tangible equity (**ROTE**) (3)	(%)	**12.9**	14.3	13.0	(140bps)	(10bps)
Statutory basis						
Net profit after tax	($ million)	**174**	191	161	(9%)	8%
Underlying profit (1)	($ million)	**278**	294	261	(5%)	7%
NIM (2)	(%)	**1.97**	1.96	1.91	1bp	6bps
CTI	(%)	**49.9**	48.5	50.9	140bps	(100bps)
Loan impairment expense / GLA	(bps)	**10**	10	13	-	(3bps)
ROE	(%)	**9.5**	10.3	9.0	(80bps)	50bps
ROTE (3)	(%)	**12.4**	13.5	11.9	(110bps)	50bps
Asset quality						
30 days past due (**dpd**) arrears	($ million)	**493**	470	468	5%	5%
90dpd arrears	($ million)	**237**	257	217	(8%)	9%
Impaired assets	($ million)	**173**	192	210	(10%)	(18%)
Specific provisions / impaired assets	(%)	**57.6**	55.1	54.7	250bps	290bps
Collective provisions / Risk Weighted Assets (**RWA**)	(%)	**0.42**	0.42	0.49	-	(7bps)
Capital						
Common Equity Tier 1 ratio	(%)	**9.42**	9.39	9.29	3bps	13bps
Total Capital Adequacy ratio	(%)	**12.78** (4)	12.37	12.57	41bps	21bps
RWA	($ million)	**28,859**	28,644	28,014	2% (5)	3%

(1) Profit before loan impairment expense and tax.

(2) NIM net of offset accounts.

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

(4) Post balance date, the Bank redeemed $141 milion of the remaining CPS on issue on 16 April 2018. Adjusting for this redemption, the Total Capital Adequacy ratio would be 12.29% on a pro-forma basis.

(5) Annualised.

BOQ GROUP - 2018 HALF YEAR RESULTS

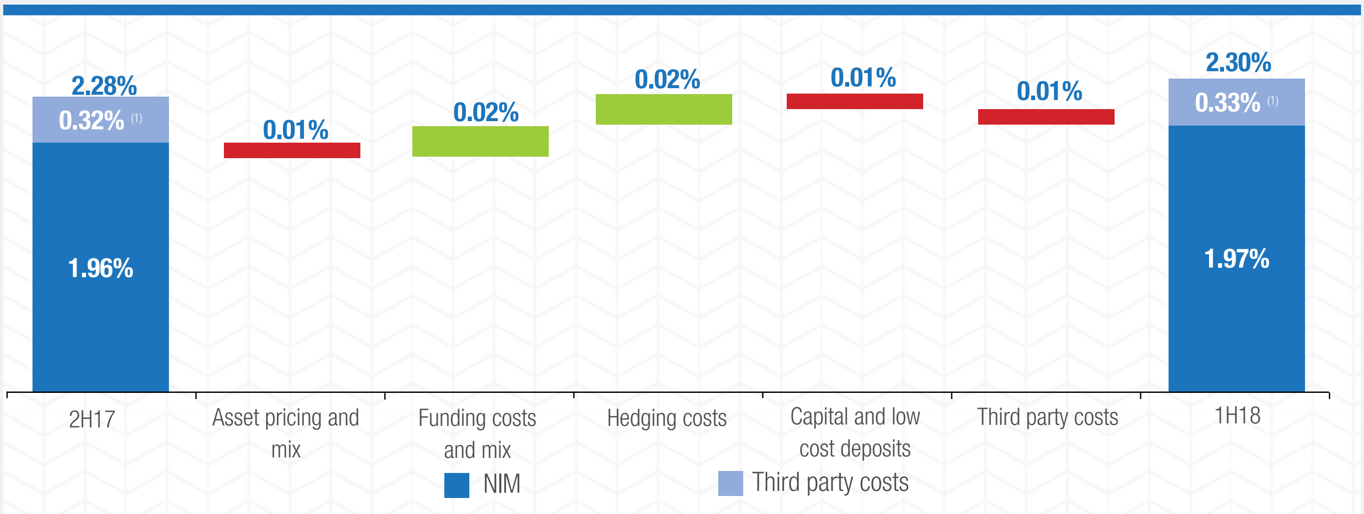
2.2 Net interest income

	Half Year Performance				
$ million	**Feb-18**	Aug-17	Feb-17	Feb-18 vs Aug-17	Feb-18 vs Feb-17
Net Interest Income	**475**	474	452	-	5%
Average interest earning assets	**48,519**	48,042	47,790	1%	2%
NIM (1)	**1.97%**	1.96%	1.91%	1bp	6bps

(1) NIM disclosed including the impact of offset accounts.

Net interest income increased by $1 million from 2H17 and $23 million from 1H17. This was driven by a one basis point increase in NIM from 2H17 and six basis points increase compared to 1H17, combined with higher average gross loans in 1H18. Adjusting for the lower number of days in the current half compared to 2H17 (181 days compared to 184 days), would result in a further $8 million or a two per cent underlying increase in net interest income. Whilst margin pressure remains due to intensifying competition, lower system credit growth and a lower yielding asset mix, the easing of funding costs, combined with interest only mortgage repricing in August 2017, contributed to the increase in NIM.

Net interest margin - August 2017 to February 2018



(1) Third party costs largely represent commissions to owner managers and brokers.

Underlying movements within the NIM included the following:

Asset pricing and mix

Asset pricing and mix decreased by one basis point. Loan repricing actions contributed positively to NIM by four basis points. Lower rates being offered on new loans, in particular the increased competition for owner occupied principal and interest housing loans, reduced interest only lending flows and repricing to retain existing customers, had a five basis point contractionary effect.

Funding costs and mix

Funding cost benefits increased NIM by two basis points. The sophistication in pricing of the Bank's term deposit portfolios combined with a deposit growth strategy focused on transaction and savings accounts improved funding costs. Wholesale funding costs remained relatively flat, with the Bank taking the opportunity to increase its long term wholesale issuance as well as absorbing the impact of pre-funding the AT1 maturity.

Hedging Costs

The impact of hedging costs reduced in the half largely due to basis hedging costs, with portfolio spreads decreasing from an average of 29 basis points to 23 basis points compared to the prior half. This added two basis points of NIM. In late February, basis spreads have widened significantly. If these remain elevated, it is likely to have an opposite impact over the second half.

Capital and low cost deposits

The lower interest rate environment reduced the returns on BOQ's $4.2 billion replicating portfolio (covering BOQ's capital and low cost deposits) causing a one basis point reduction in NIM over the half. The ongoing impact should reduce to half a basis point in the second half and neutralise during FY19, based on forward interest rates implied by the current interest rate curve.

Third party costs

Third party costs increased one basis point in the first half. This increase reflected a higher proportion of broker flows as well as incentive payments to owner managers focused on deposit gathering initiatives and non-financial measures.

BOQ GROUP - 2018 HALF YEAR RESULTS

2.3 Non-interest income

	Half Year Performance				
$ million	Feb-18	Aug-17	Feb-17	Feb-18 vs Aug-17	Feb-18 vs Feb-17
Banking income	**46**	50	46	(8%)	-
Insurance income	**10**	10	11	-	(9%)
Other income	**17**	33	18	(48%)	(6%)
Trading income	**2**	2	5	-	(60%)
Total non-interest income	**75**	95	80	(21%)	(6%)

Non-interest income of $75 million decreased $5 million or six per cent compared to 1H17 and $20 million or 21 per cent below the 2H17 level ($4 million or five per cent excluding the disposal of a vendor finance entity in 2H17).

Banking income is in line with the 1H17 level and $4 million or eight per cent below 2H17. The declining trend in banking income is a result of customers choosing lower or no fee products. Transaction income reduced by $2 million against 2H17 due to changes in Visa interchange fees at the end of FY17 and the industry wide removal of ATM usage fees through the Bank's ATM fleet.

Other income decreased $1 million on 1H17. BOQ Finance equipment sales were $2 million lower than 2H17 with lower end of term contract volumes within the BOQ Finance portfolio. The reduction in income was also due to the previously disposed vendor finance entity. Virgin Money Australia third party product distribution business contributed $3 million to the result in 1H18. This business achieved another half year period of above system growth in credit card receivables, with a growth rate above six per cent (annualised).

The trading income contribution decreased $3 million on 1H17 as the Group held lower levels of traded liquidity instruments.

The St Andrew's Insurance contribution is discussed in section 2.4 below.

2.4 Insurance overview

	Half Year Performance				
$ million	Feb-18	Aug-17	Feb-17	Feb-18 vs Aug-17	Feb-18 vs Feb-17
Gross written premium (net of refunds)	**37**	35	35	6%	6%
Net earned premium	**34**	34	34	-	-
Underwriting result	**9**	9	8	-	13%
Other insurance income	**1**	1	2	-	(50%)
Total income	**10**	10	10	-	-
Consolidation adjustment	**-**	-	1	-	(100%)
Group insurance result	**10**	10	11	-	(9%)

St Andrew's Insurance contributed $10 million to non-interest income, consistent with 2H17 and a $1 million reduction from 1H17.

Gross written premiums were up six per cent due to growth in the volume of regular premium policies, particularly from wholesale partnerships. Net earned premiums were in line with 1H17 and 2H17, with a lower contribution from consumer credit insurance, offset by growth in the contribution from wholesale partnerships.

The underwriting result increased by $1 million to $9 million from 1H17 due to improved claims experience.

The contribution from the insurance business remained stable, however, regulatory scrutiny on the insurance market continues to contribute to an uncertain performance outlook.

BOQ GROUP - 2018 HALF YEAR RESULTS

2.5 Operating expenses

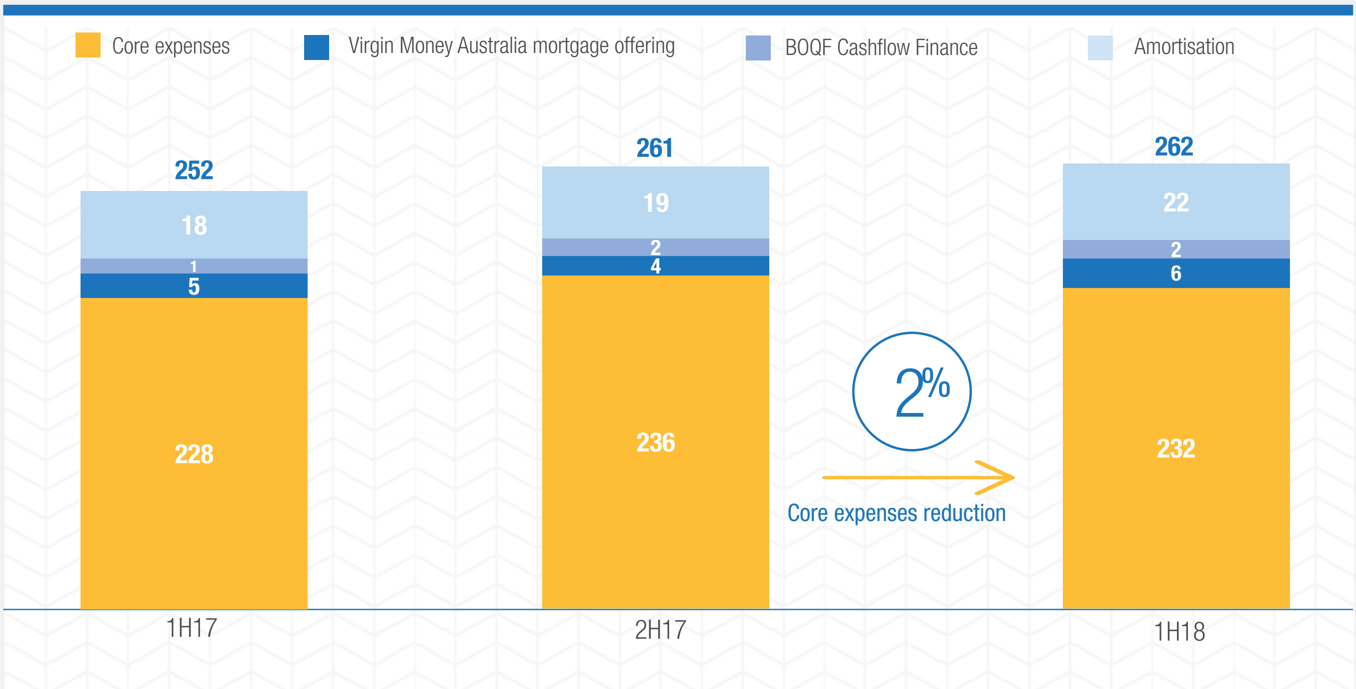
	Half Year Performance				
$ million	Feb-18	Aug-17	Feb-17	Feb-18 vs Aug-17	Feb-18 vs Feb-17
Employee expenses	**130**	131	126	(1%)	3%
Occupancy expenses	**22**	21	21	5%	5%
General expenses	**41**	46	39	(11%)	5%
IT expenses	**59**	53	55	11%	7%
Other expenses	**10**	10	11	-	(9%)
Total operating expenses (1)	**262**	261	252	-	4%
CTI	**47.6%**	45.9%	47.4%	170bps	20bps
Number of employees (**FTE**) (1)	**2,046**	2,031	1,953	1%	5%

(1) Operating expenses and FTE numbers exclude Virgin Money Australia third party business costs as the net result is included in non-interest income. Expenses relating to the Virgin Money Australia mortgage offering have been included in the above table.

Operating expenses exclude expenses relating to the white label product distribution activities of Virgin Money Australia. The net result of these activities have been consolidated in non-interest income for the determination of cash earnings. Total expenses for the third party distribution activities of Virgin Money Australia were $7 million for 1H18, which was consistent with 2H17. The costs associated with the aquired BOQF Cashflow Finance business is now embedded and consistent with 2H17. A reconciliation of cash earnings to statutory net profit is set out in section 6.2 (B).

Operating expenses of $262 million for 1H18 were in line with 2H17 and increased four per cent on 1H17. Software amortisation increased by $4 million from 1H17 to 1H18 as a result of investment in the Group's transformation agenda. Marketing activity of the Group, included within general expenses, has traditionally been seasonally higher in the second half.

Operating expenses analysis ($m)



BOQ GROUP - 2018 HALF YEAR RESULTS

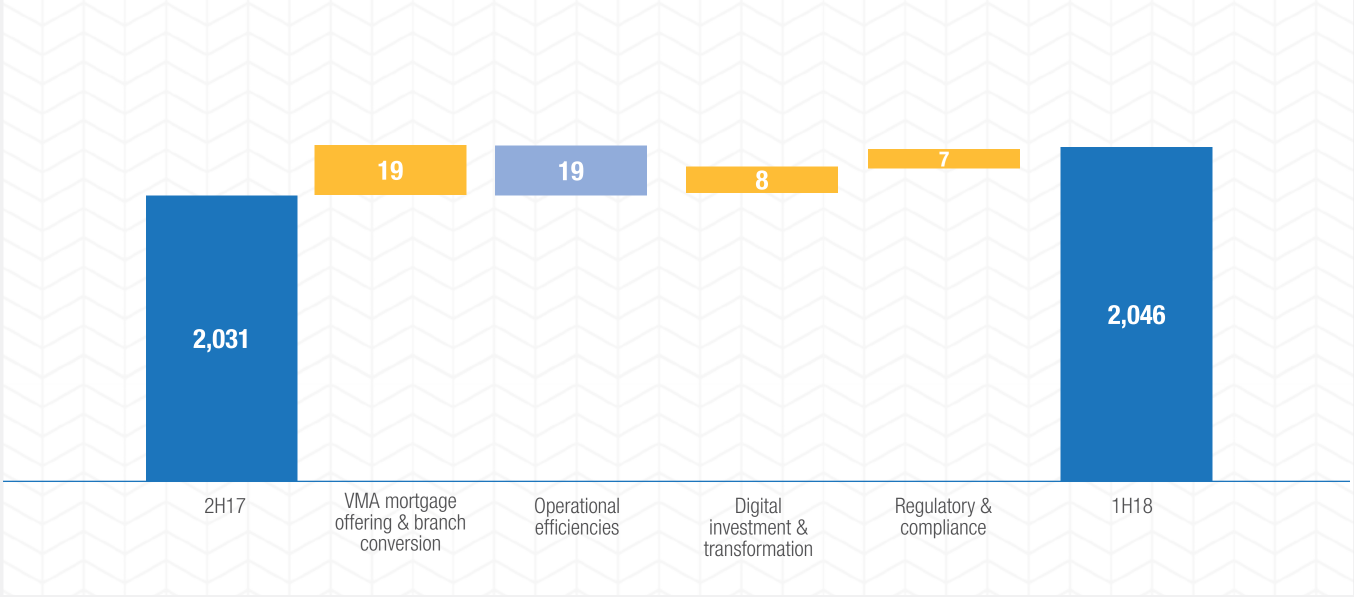
2.5 Operating expenses (continued)

Core expenses have decreased three per cent on an annualised basis compared to 2H17, with efficiences being derived through vendor negotiations, process improvements and reflecting the seasonal weighting of marketing activity to the second half of the year.

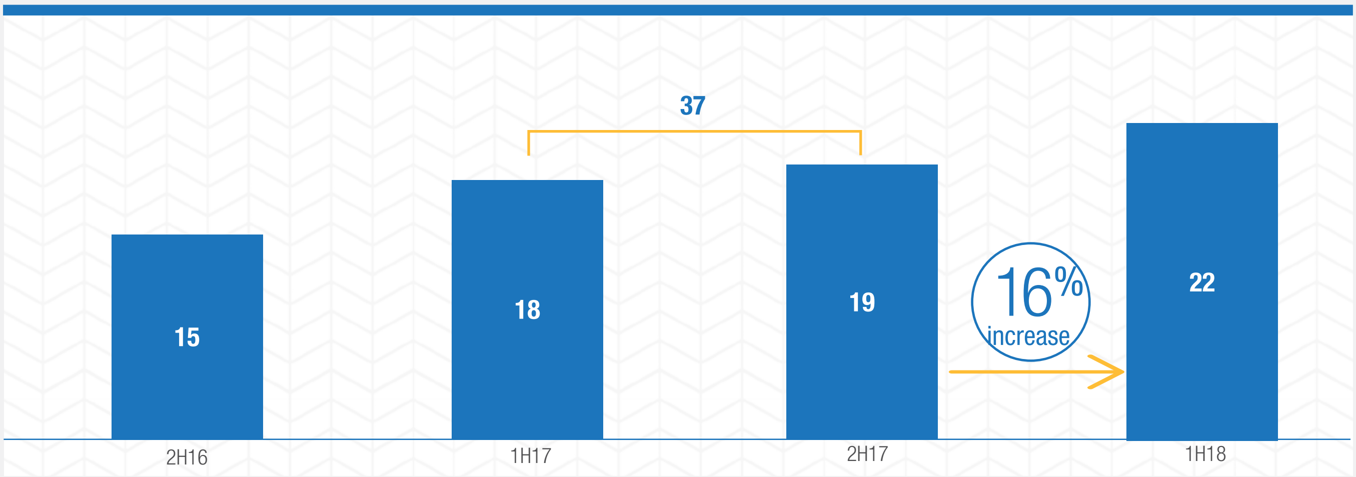
IT software amortisation expenses associated with the Group's transformation agenda increased by $3 million over the prior half. The Virgin Money Australia mortgage expansion increased costs by a further $2 million.

BOQ FTE 1H18 VS 2H17

Employee numbers have increased one per cent from 2H17. Operational efficiencies have created capacity to further invest in maturing the diversified channel offerings, whilst maintaining investment in digital priorities. The Bank's conservative approach to regulatory compliance and significant industry reviews continue to drive requirements for additional resource capability.



IT intangible assets amortisation profile ($m)



BOQ GROUP - 2018 HALF YEAR RESULTS

2.6 Capitalised investment spend

The Group's transformation program requires a number of significant investments in order to execute BOQ's strategy.

In 1H18, the majority of this investment related to the New Payments Platform (**NPP**), the treasury & market risk systems upgrade and developing capability for financial markets digital customer offerings & foreign currency accounts. These investments extend digital banking capabilities, increase the Bank's ability to expand its product base and improve efficiency, while continuing to strengthen the risk management and control environment.

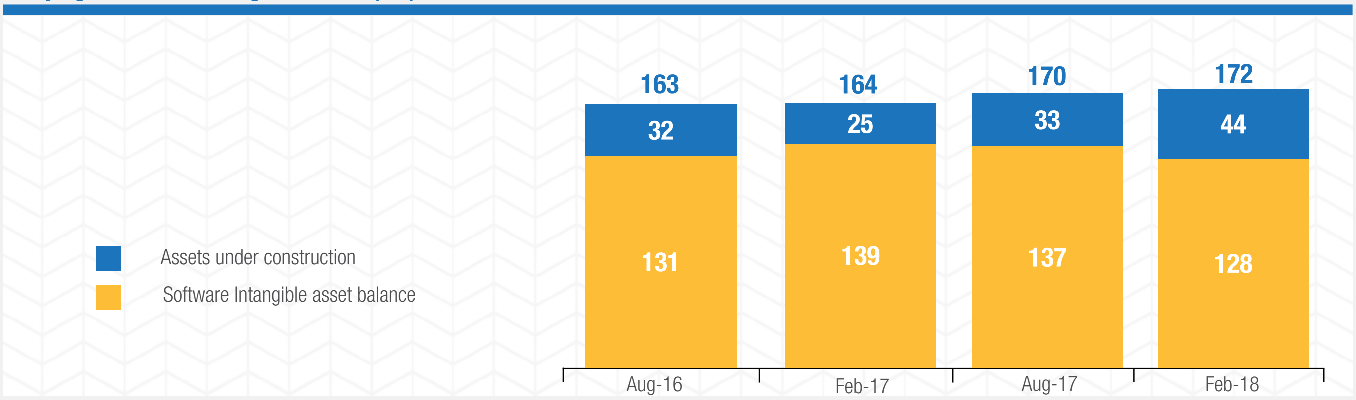
During the half, the web experience platform for BOQ and BOQ Finance websites was successfully launched. This follows similar upgrades to Virgin Money Australia and BOQ Specialist websites in 2017. This project has delivered a common platform for all public BOQ websites while enhancing functionality and providing new features for customers. This is a foundational platform providing significant opportunity to enhance customer fulfilment and direct offering capability over time.

In preparation for the adoption of Australia's NPP, current and future investment will focus on enhancing the Group's core capabilities, including maximising the customer experience.

Investments that will enable this include the build of a digitised Customer engagement platform, which will provide customers with a seamless experience, regardless of brand or channel. A Customer Heartbeat project is underway that will deliver an uplift in customer service standards through a common framework. Other significant projects relate to a new customer contact centre operating model and enhanced support systems as well as delivering technology enabled improvements in internal processes that will strengthen the Bank's operational excellence.

The major investment delivery has continued to accelerate with an increase in assets under construction in 1H18. However, the rate of growth in the carrying value of IT intangible assets has slowed over time as the annual amortisation charge increases.

Carrying value of IT intangible assets ($m)



2.7 Lending

Loan growth was three per cent (annualised) in 1H18 despite intense competition for owner occupier, principal and interest mortgages and a changing regulatory landscape. BOQ continued to balance margin and asset quality while focusing on deposit acquisition, particularly across the branch network. The strategy of targeting niche customer segments is delivering results with BOQ Specialist, BOQ Finance and niche segments in the BOQ branded commercial portfolio all posting solid growth. The new Virgin Money Australia mortgage offering continued to grow strongly and now has a home loan portfolio of more than $1.2 billion.

	As at				
$ million	**Feb-18**	Aug-17	Feb-17	Feb-18 vs Aug-17 (1)	Feb-18 vs Feb-17
Housing lending	**28,468**	27,850	27,058	4%	5%
Housing lending - APS 120 qualifying securitisation (2)	**1,767**	2,003	2,446	(24%)	(28%)
	30,235	29,853	29,504	3%	2%
Commercial lending	**9,589**	9,312	8,906	6%	8%
BOQ Finance	**4,360**	4,345	4,285	1%	2%
Consumer	**304**	307	300	(2%)	1%
Gross loans and advances	**44,488**	43,817	42,995	3%	3%
Provision for impairment	**(219)**	(227)	(252)	(7%)	(13%)
Net loans and advances	**44,269**	43,590	42,743	3%	4%

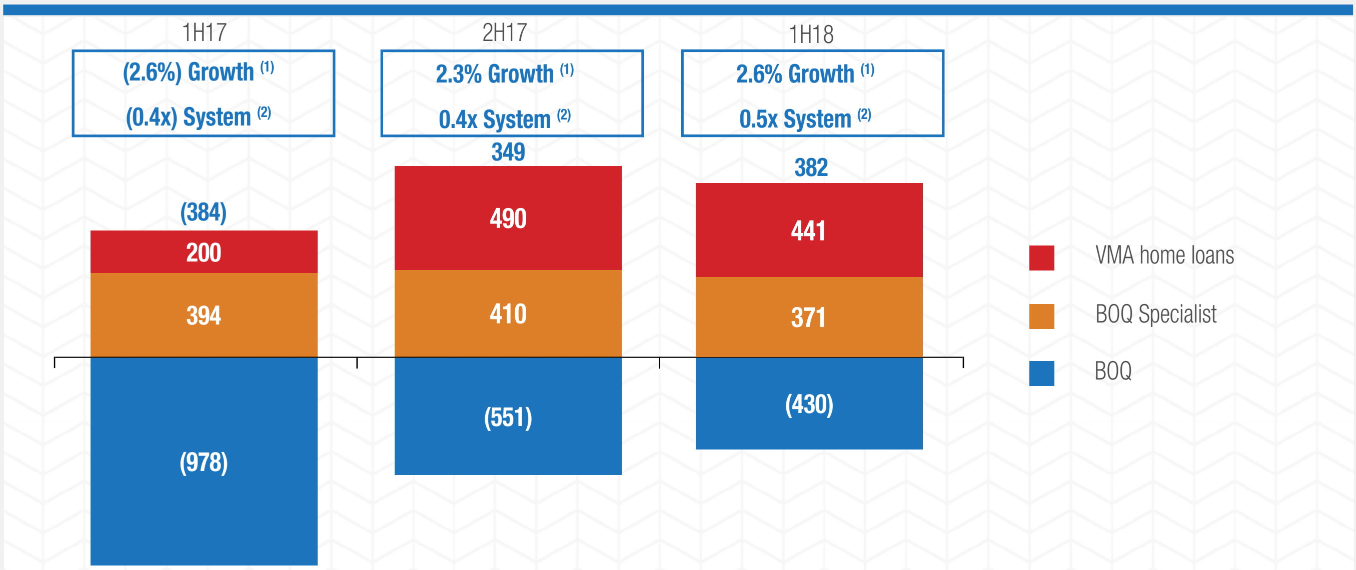
(1) Growth rates have been annualised.

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

BOQ GROUP - 2018 HALF YEAR RESULTS

2.7 Lending (continued)

Growth in housing gross loans & advances ($m)



(1) Growth rates have been annualised.

(2) Source: APRA Monthly Banking Statistics.

Housing lending

Housing lending improved in 1H18 against a background of an increasingly competitive mortgage market, prudential caps in certain market segments and increased discounting. While growth continues to recover across the housing portfolio in 1H18, this was below APRA system growth. BOQ maintained prudent credit settings and took a conservative approach to regulatory compliance, moving to adopt enhanced servicing, validation and responsible lending practices much earlier than many of its competitors. BOQ's relative under representation in higher growth markets, such as Sydney and Melbourne, also constrained growth rates, however it remains well positioned to leverage the Queensland economic recovery. The Bank has refined its service and fulfilment capability through the Retail Lending Origination platform and centralising mortgage processing capabilities, which have improved customer outcomes and operational efficiencies.

The Housing portfolio grew three per cent (annualised) over 1H18 with continued growth across the Virgin Money Australia and BOQ Specialist channels. The branch network health and momentum continued to improve from 1H17 and 2H17 and was supported by improved broker flows in the BOQ branded mortgages. Geographically, the lending portfolio continues to benefit from the increased channel diversity with further market penetration under the Customer in Charge strategy. Settlements outside of Queensland delivered more than half of new business flows, whilst retail distribution through third party channels grew to 25 per cent of new business settlements in BOQ branded mortgages. This was below the industry average of above 50 per cent.

The branch network showed strong improvement in retention performance whilst new business acquisition remains challenging in a market where serviceability and validation disciplines are not uniformly applied. BOQ continues to build a more efficient network, with higher average footings per branch than 1H17 and stronger risk and compliance foundations. Engagement surrounding the transitioning of owner managers to the new franchise agreement has been strong. The agreement now covers 75 per cent of all owner managers ensuring the network is better aligned with the Bank's strategic objectives. The Bank continues to actively encourage earlier than contracted conversion of owner managers to the new agreement.

The Virgin Money Australia mortgage offering continued to exceed expectations providing another channel for BOQ to engage with a new customer demographic. In 1H18, Virgin Money Australia grew by $441 million with the portfolio now over $1.2 billion. This growth supports the Bank's geographic diversification, with more than 80 per cent of the Virgin Money Australia portfolio based outside of Queensland. Virgin Money Australia continues to expand its broker presence and introduced a direct online capability in 1H18 leveraging the Bank's investment in its new web experience platform.

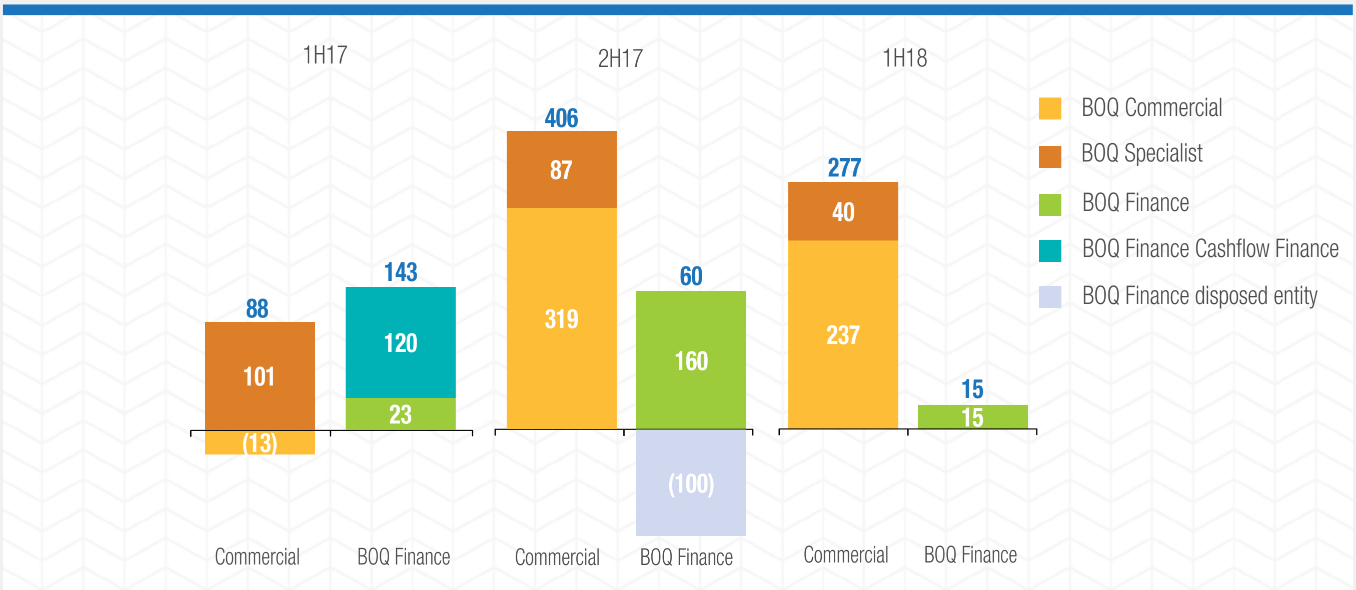
BOQ growth through the broker channel improved in 1H18. Broker flows returned as other market participants progressively implemented credit assessment, serviceability and validation practices more closely aligned to those of BOQ, increasing the Group's relative market proposition.

BOQ Specialist's strong momentum continued in its mortgage offering to its niche, professional client base. 1H18 growth of $371 million was achieved on a maturing portfolio by focusing on building relationships with professionals in the early stages of their careers. This portfolio provides significant demographic and geographic diversification and creates future opportunities to meet the commercial lending needs of the targeted health professional market segments over their life cycle.

BOQ GROUP - 2018 HALF YEAR RESULTS

2.7 Lending (continued)

Growth in commercial & BOQ Finance gross loans & advances ($m)



	Feb-17		Aug-17		**Feb-18**	
	Commercial	BOQ Finance (3)	Commercial	BOQ Finance (3)	Commercial	BOQ Finance
Growth rate (1)	2.0%	1.1%	9.1%	7.6%	**5.9%**	**0.7%**
System growth (1) (2)	8.3%	4.6%	4.9%	5.2%	**3.6%**	**4.0%**
Growth vs System	0.2x	0.2x	1.9x	1.5x	**1.6x**	**0.2x**

(1) Growth rates have been annualised.
(2) Based on APRA and AFIA system growth statistics
(3) Excludes the acquisition of BOQF Cashflow Finance in December 2016 and disposal of a vendor finance entity in June 2017.

BOQ Business

The commercial lending portfolio grew by six per cent (annualised) in 1H18 to $9.6 billion, continuing the momentum from 2H17, with a key focus in niche segments.

The BOQ branded commercial portfolio grew strongly by $237 million. The Bank's niche segment strategy is delivering, with the segments of corporate healthcare & retirement living, hospitality & tourism and agribusiness all contributing to solid growth. Diversification has improved significantly, with the Queensland concentration in the commercial book stabilising at a comfortable level of 44 per cent.

The SME lending strategy continued to evolve, with direct sales through business banking sales channels and selected broker relationships delivering growth. The Bank's ongoing investment in the delivery of product and digital fulfillment capability has resulted in improved processes for customers. Ongoing investment in developing financial market services will support both the Bank's SME and commercial offerings in the future.

BOQ Specialist delivered commercial loan book growth of three per cent (annualised) in its core medical segment. Competition has intensified in this segment. The BOQ Specialist commercial risk appetite has remained prudent to ensure long term business sustainability. Initiatives are in place to restore growth momentum over the next two half year periods. The business traditionally has experienced seasonality with higher growth rates in the second half of the financial year. BOQ Specialist focuses on very clearly defined niches and has developed a distinctive competitive advantage offering tailored consumer and commercial products and services to assist professionals through their practicing life cycles. Formal relationships with industry bodies, as well as suppliers, has positioned BOQ Specialist as a key partner in this space. BOQ Specialist has captured a large part of the graduate market, which is expected to sustain growth in the future as the lending requirements of these customers develop and transition through housing and commercial lending needs over time.

BOQ Finance continued to provide profitable asset growth, with seasonally affected 1H18 growth of one per cent (annualised). The BOQ Finance strategy focuses on niche products and markets. The acquisition of BOQF Cashflow Finance in December 2016 is now embedded within the business. Improved margin management in key product areas has positioned the business well for profitable growth in 2H18.

BOQ GROUP - 2018 HALF YEAR RESULTS

3. Business settings

3.1 Asset quality

During 1H18, continued strong performance in asset quality was evident across the portfolio. Loan impairment expense of 10 basis points of gross loans and advances was stable on 2H17 and decreased 19 per cent on 1H17. BOQ achieved a reduction in impaired asset balances across all product types compared to 2H17 and 1H17.

BOQ arrears continued to perform well and, while impacted by seasonality, demonstrate strong credit characteristics. Collective provision and the general reserve for credit losses (**GRCL**) coverage reduced after the implementation of the new collective provisioning and reserving model in the current half. The BOQ Finance portfolio performed very strongly with low impairment experience and improved payment performance, though this is not expected to be sustained at these levels over the longer term.

		Half Year Performance				
		Feb-18	Aug-17	Feb-17	Feb-18 vs Aug-17	Feb-18 vs Feb-17
Loan impairment expense	($ million)	**22**	21	27	5%	(19%)
Loan impairment expense / GLA	bps	**10**	10	13	-	(3bps)
Impaired assets	($ million)	**173**	192	210	(10%)	(18%)
30dpd arrears	($ million)	**493**	470	468	5%	5%
90dpd arrears	($ million)	**237**	257	217	(8%)	9%
Collective provision & GRCL coverage / RWA	bps	**70**	83	90	(13bps)	(20bps)

The table above summarises BOQ's key credit indicators with comparisons against 2H17 and 1H17:

- Loan impairment expense was $22 million, or 10 basis points of gross loans and advances for 1H18. This was the result of lower levels of new impairments, particularly in the BOQ Finance portfolio, continuing from the 2H17 experience. The result was further assisted by a strengthened commercial portfolio and a well performing mortgage book.
- Impaired assets decreased $19 million or 10 per cent to $173 million for 1H18. The impaired portfolio contained one impaired exposure greater than $5 million (down from two in 2017). This related to a Central Queensland exposure impaired in 2017 which comprised 16 per cent of the Group impaired balance. An $11 million exposure was realised during 1H18 following a favourable outcome.
- 90 day arrears improved by eight per cent for 1H18, however was nine per cent higher than 1H17, due to a stronger performance in mortgage portfolio arrears. 30 day arrears increased by five per cent for 1H18. 1H18 is impacted by seasonality as arrears increased after the holiday period, which typically recovers throughout the second half.
- Collective provisioning and GRCL coverage against RWA decreased by 13 basis points over 1H18 and 20 basis points over 1H17. This decrease is due to the Group's adoption of the new collective provisioning and reserving model from 1 September 2017. This adoption resulted in a $23 million release of excess GRCL which was no longer required. Following this release, the Group coverage ratio for collective provisioning and GRCL to RWA remains marginally above its regional peers.

BOQ GROUP - 2018 HALF YEAR RESULTS

3.1 Asset quality (continued)

Loan Impairment Expense

	Half Year Performance					
	Feb-18		Aug-17		Feb-17	
	Expense ($m)	**Expense/GLA (bps)**	Expense ($m)	Expense/GLA (bps)	Expense ($m)	Expense/GLA (bps)
Retail lending	**11**	**7**	9	6	11	7
Commercial lending	**10**	**21**	8	17	5	11
BOQ Finance	**1**	**5**	2	9	11	51
Underlying loan impairment expense	**22**	**10**	19	9	27	13
Large commercial exposure impairment			16	7		
Collective provision model adjustment			(14)	(6)		
Total loan impairment Expense	22	10	21	10	27	13

The table above demonstrates the favourable performance in impairment expense. Improved credit quality has been achieved from the Bank's strong focus on risk appetite and also benefited from relatively benign general economic conditions, supported by a low interest rate environment. Loan impairment expense increased $1 million or five per cent on 2H17 and decreased $5 million or 19 per cent on 1H17. BOQ Finance maintained a low loss experience as repayment performance was strong and no large problematic exposures arose. This low level of impairment expense across the BOQ Finance portfolio is not expected to be sustainable. The retail portfolio performance was largely consistent with both 1H17 and 2H17. The commercial portfolio impairment expense increased by $2 million on the 2H17 underlying result with no significant deterioration characteristics evident.

Impaired assets

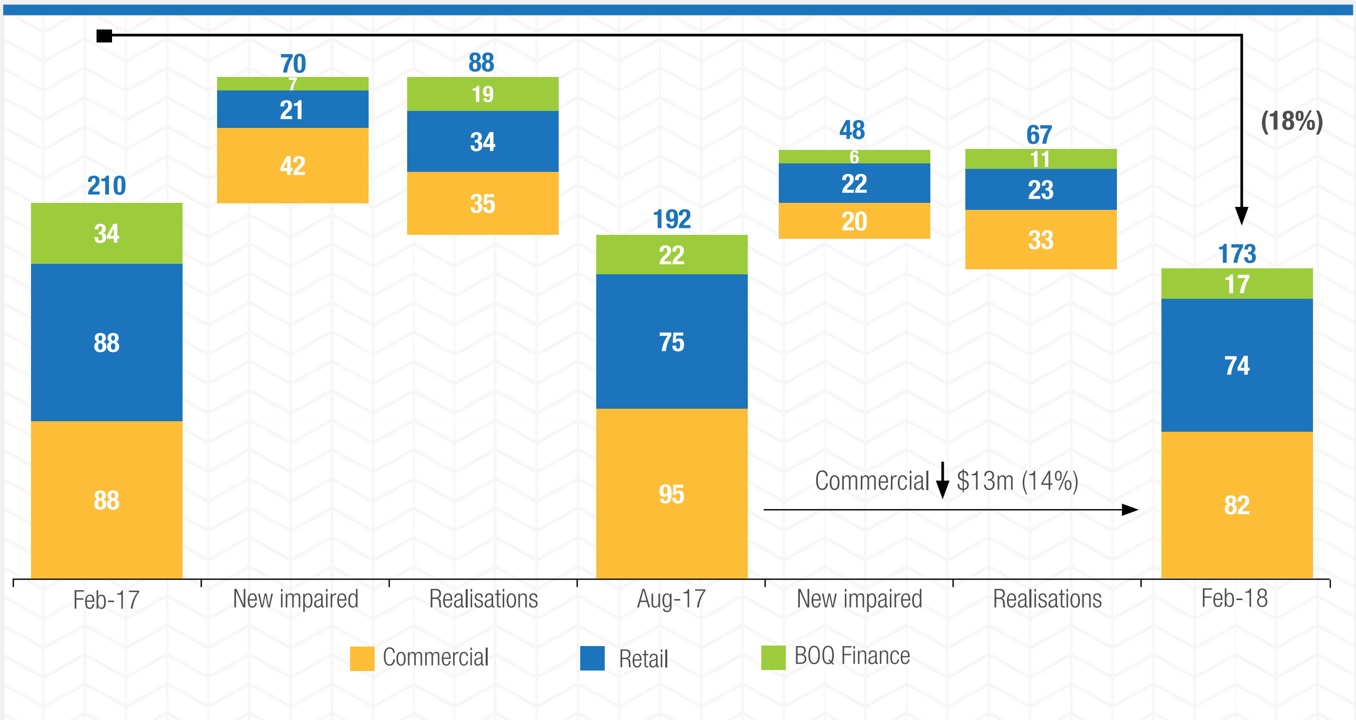
	As at				
$ million	**Feb-18**	Aug-17	Feb-17	Feb-18 vs Aug-17	Feb-18 vs Feb-17
Retail lending	**74**	75	88	(1%)	(16%)
Commercial lending	**82**	95	88	(14%)	(7%)
BOQ Finance	**17**	22	34	(23%)	(50%)
Total impaired assets	**173**	192	210	(10%)	(18%)
Impaired assets / GLA	**39bps**	44bps	49bps	(5bps)	(10bps)

Impaired assets reduced by $19 million (10 per cent) in 1H18 with reductions across each of the product lines. The reduction is due to a large exposure of $11 million, previously the Bank's second largest impaired asset, being managed out of the portfolio ahead of the provisioned balance. Only one exposure greater than $5 million remains in the Group's impaired asset portfolio, which represents 16 per cent of the Group's total impaired asset balance. New impairments were low for 1H18, contributing to the declining impaired asset balance, as favourable realisation outcomes were achieved. BOQ Finance impaired assets reduced by more than 50 per cent from 1H17. This is due to a low level of new impairments being recognised as payment performance remained strong and historical non-performing exposures were cleared from the portfolio. The following chart outlines the movements in impaired assets since February 2017.

BOQ GROUP - 2018 HALF YEAR RESULTS

3.1 Asset quality (continued)

Impaired assets ($m)



Provision coverage

Total provisions decreased by $8 million during 1H18 to $219 million. The majority of this reduction was due to the specific provisioning balance, which declined in line with the reduction in the impaired asset balance. Total provisions and GRCL coverage to impaired assets decreased by 400bps for 1H18, but were in line with 1H17.

The Bank has developed a new collective provisioning and reserving model that was implemented in 1H18. The model has been designed to incorporate the requirements of AASB 9 *Financial Instruments* that is required to be implemented in the 2019 financial year. No material change to collective provisions occurred in the half as a result of the new model implementation, however the GRCL reduced by $23 million (28 per cent).

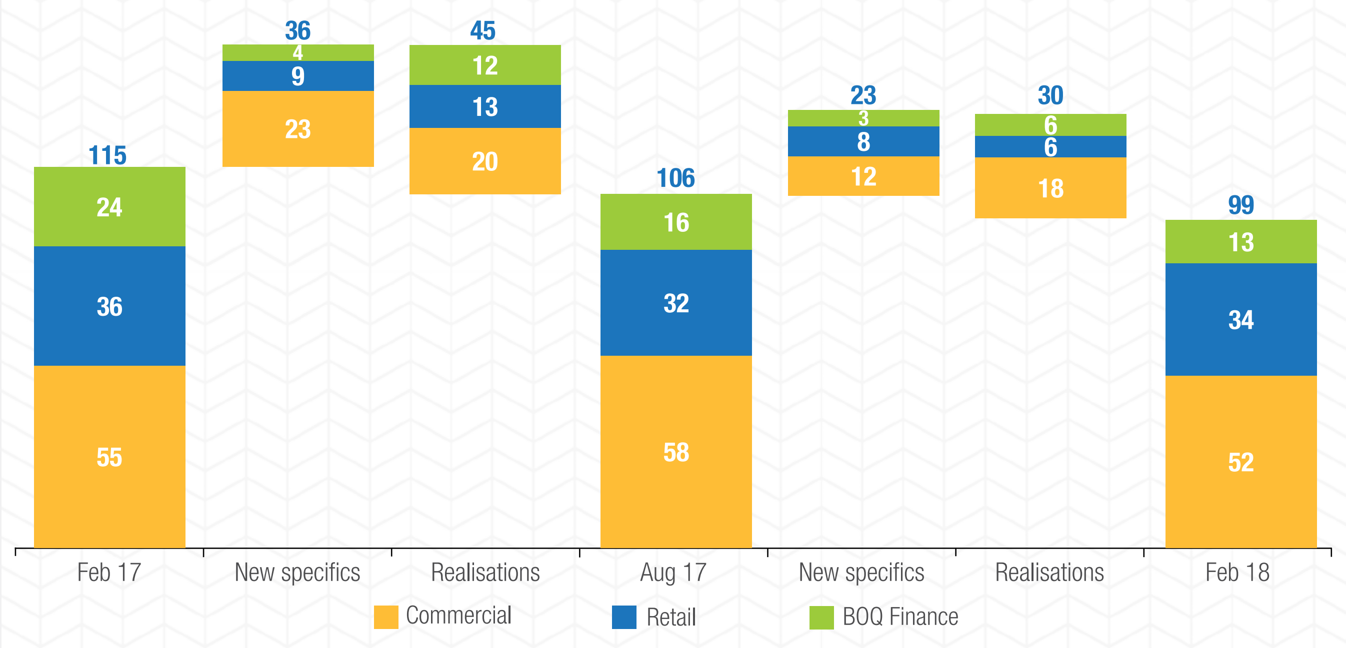
	As at				
$ million	Feb-18	Aug-17	Feb-17	Feb-18 vs Aug-17	Feb-18 vs Feb-17
Specific provision	**99**	106	115	(7%)	(14%)
Collective provision	**120**	121	137	(1%)	(12%)
Total Provisions	**219**	227	252	(4%)	(13%)
GRCL	**58**	81	81	(28%)	(28%)
Specific provisions to impaired assets	**57%**	55%	55%	200bps	200bps
Total provisions and GRCL coverage to impaired assets [(1)]	**175%**	179%	175%	(400bps)	-
Total provisions and GRCL coverage to RWA [(1)]	**1.0%**	1.2%	1.3%	(20bps)	(30bps)

(1) GRCL gross of tax effect.

BOQ GROUP - 2018 HALF YEAR RESULTS

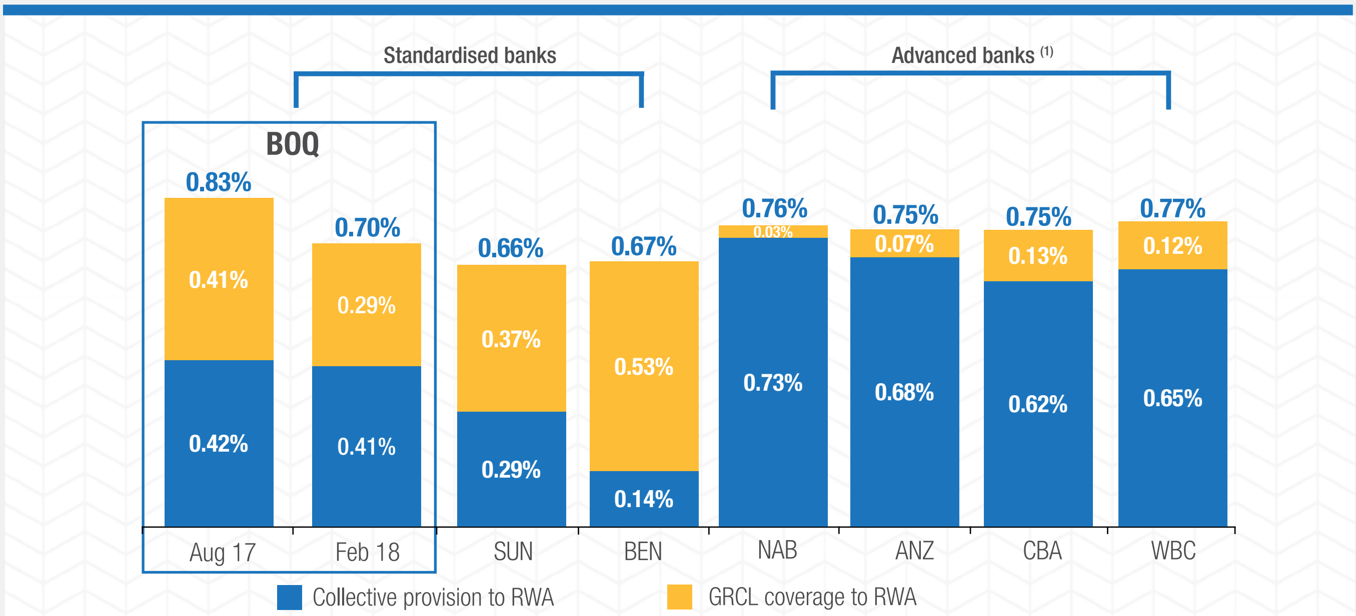
3.1 Asset quality (continued)

Specific provisions ($m)



Collective provision and GRCL coverage/RWA vs peers

The graph below provides BOQ's level of collective provisions and GRCL coverage to RWA against the current levels of its peers, as published in their most recent financial reports. BOQ's coverage decreased by 13 basis points over 1H18 resulting from the reduction in the GRCL.



(1) Advanced accredited approach to risk weightings causes coverage to appear higher on a relative basis to the standardised banks.

BOQ GROUP - 2018 HALF YEAR RESULTS

3.1 Asset quality (continued)

Arrears

Key Metrics	Portfolio balance ($m) Feb-18	Feb-18	Aug-17	Feb-17	Feb-18 vs Aug-17	Feb-18 vs Feb-17
Total lending - portfolio balance ($ million)		**44,488**	43,817	42,995	2%	3%
30 days past due ($ million)		**493**	470	468	5%	5%
90 days past due ($ million)		**237**	257	217	(8%)	9%
		Proportion of portfolio				
30 days past due: GLAs		**1.11%**	1.07%	1.09%	4bps	2bps
90 days past due: GLAs		**0.53%**	0.59%	0.50%	(6bps)	3bps
By product						
30 days past due: GLAs (housing)	**28,185**	**0.99%**	1.02%	0.98%	(3bps)	1bp
90 days past due: GLAs (housing)		**0.45%**	0.50%	0.41%	(5bps)	4bps
30 days past due: GLAs (line of credit)	**2,050**	**2.54%**	2.19%	2.09%	35bps	45bps
90 days past due: GLAs (line of credit)		**1.07%**	1.25%	0.84%	(18bps)	23bps
30 days past due: GLAs (consumer)	**304**	**1.64%**	1.30%	2.00%	34bps	(36bps)
90 days past due: GLAs (consumer)		**0.99%**	0.98%	1.00%	1bp	(1bp)
30 days past due: GLAs (commercial)	**9,589**	**1.26%**	1.22%	1.35%	4bps	(9bps)
90 days past due: GLAs (commercial)		**0.82%**	0.86%	0.89%	(4bps)	(7bps)
30 days past due: GLAs (BOQ Finance)	**4,360**	**0.82%**	0.47%	0.65%	35bps	17bps
90 days past due: GLAs (BOQ Finance)		**0.10%**	0.13%	0.08%	(3bps)	2bps

Retail arrears

Thirty day housing arrears decreased by three basis points while 90 day arrears decreased by five basis points. The decrease in housing arrears was against the traditional seasonal trend for the period. Strengthened credit quality, the continued low interest rate environment and stable property prices all benefited the mortgage portfolio performance. Weakness in the Central Queensland and Western Australian economies had a minimal impact on the overall portfolio payment performance.

BOQ Business arrears

Commercial arrears have been relatively stable over the half with limited evidence of any systemic issues in the portfolio, reflecting the broader state of the Australian economy.

Thirty day BOQ Finance arrears increased by 35 basis points while 90 day arrears decreased by three basis points. The increase in 30 day arrears was largely attributable to seasonality and is expected to improve over the first quarter in 2H18. Ninety day arrears continued to perform well.

BOQ GROUP - 2018 HALF YEAR RESULTS

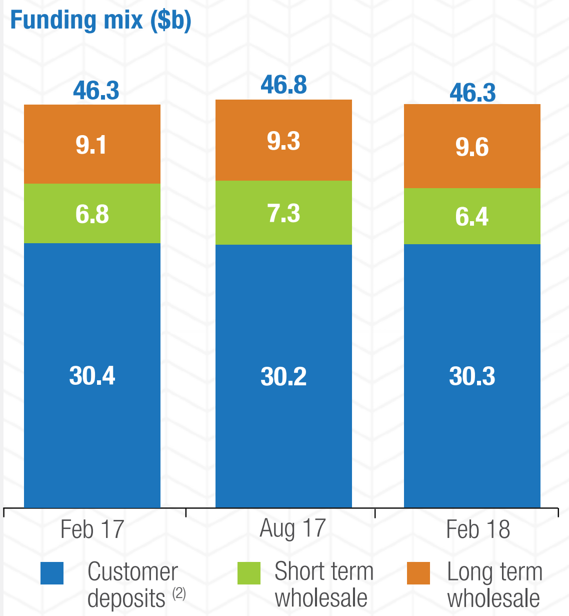
3.2 Funding and liquidity

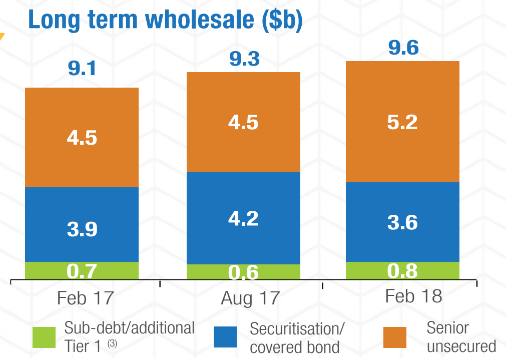
The Bank's funding strategy and risk appetite reflects both the Group's business strategy, adjusts for the current economic environment and is managed to allow for various scenarios that could impact its funding position. During 1H18, customer deposits increased marginally, with the majority of loan growth being funded through a reduction of liquidity accumulated from the Bank's inaugural conditional pass-through (**CPT**) covered bond issuance in July 2017 and two senior unsecured debt issuances settled in November 2017 and February 2018. As a result, the deposit to loan ratio reduced one percentage point to 68 per cent during 1H18.

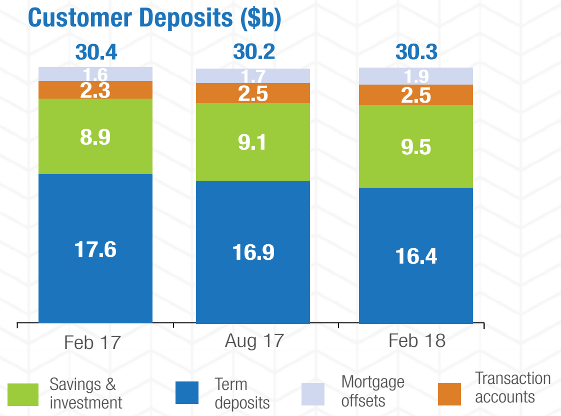
Underlying deposit momentum has been positive with customer relationship based deposit growth of approximately $300 million offset by a reduction in negotiated deposits that tend to be more price sensitive.

Late in the 2017 calendar year, BOQ made significant improvements to its net stable funding ratio (**NSFR**) for the new ratio implementation at 1 January 2018. During 1H18, the two senior unsecured issues and a Capital Notes issue in December 2017 increased the Bank's NSFR to 111 per cent as at 28 February 2018. The Bank has reduced its reliance on short term wholesale funding by replacing this with stable longer term funding which has benefited the NSFR.

	As at				
$ million	**Feb-18**	Aug-17	Feb-17	Feb-18 vs Aug-17 (1)	Feb-18 vs Feb-17
Customer deposits (2)	**30,306**	30,190	30,375	1%	-
Wholesale deposits	**6,471**	6,979	6,721	(15%)	(4%)
Total deposits	**36,777**	37,169	37,096	(2%)	(1%)
Borrowings	**9,615**	9,651	9,218	(1%)	4%
Other liabilities	**1,069**	1,050	951	4%	12%
Total liabilities	**47,461**	47,870	47,265	(2%)	-







(1) Growth rates have been annualised.

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

(3) Additional Tier 1 securities consist of CPS, WCN and Capital Notes.

BOQ GROUP - 2018 HALF YEAR RESULTS

3.2 Funding and liquidity (continued)

BOQ's liquidity strategy and risk appetite are 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, giving the Bank 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 2018, the liquidity coverage ratio (**LCR**) was 128 per cent, with an appropriate buffer held against prudential limits. The average for the quarter was 145 per cent due to low wholesale maturities over December and January, in addition to elevated liquid assets held in advance of term funding maturities during the period.

The Bank's NSFR averaged 110 per cent from inception on 1 January 2018 when the regulatory standard came into effect, providing a prudent buffer above the regulatory minimum of 100 per cent. BOQ continues to take all reasonable steps to reduce its reliance on the committed liquidity facility (**CLF**) and strengthen the NSFR by growing stable sources of funding, including customer deposits and long term wholesale funding.

BOQ continues to diversify its holdings of Tier 1 high quality liquid assets (**HQLA1**), including deposits with the central banks, the Australian Commonwealth Government and semi-government securities.

	As at				
	Feb-18	Aug-17	Feb-17	Feb-18 vs Aug-17	Feb-18 vs Feb-17
Customer deposit funding	**82%**	81%	82%	1%	-
Wholesale deposit funding	**18%**	19%	18%	(1%)	-
Total GLA's (net of specific provision) ($ million)	**44,389**	43,711	42,880	2%	4%
Deposit to loan ratio	**68%**	69%	71%	(1%)	(3%)

Wholesale funding

BOQ focuses on three main strategic elements in delivering its wholesale funding objectives - capacity growth, resilience and diversity - while minimising the cost of funds and maintaining its ability to take advantage of opportunities in the most appropriate markets.

The Bank has increased the long term wholesale funding portfolio over 1H18 using a variety of wholesale debt products and capital instruments, including two benchmark-sized senior unsecured transactions and a $350 million Capital Notes transaction in December 2017 (to partially refinance the outstanding CPS).

Major term funding issuance

During 1H18, BOQ extended its senior unsecured credit curve with a new $600 million four year transaction in November 2017 and a $550 million five year refinance of an existing maturity in February 2018. BOQ also took advantage of the private placement market, raising additional funding both domestically and offshore through its Euro Medium Term Note program. The recent five year transaction conducted in February, coupled with the inaugural CPT covered bond transaction in July 2017, has increased the tenor of the wholesale portfolio and provided significant diversification benefits.

(1) Any transaction issued in a currency other than AUD is shown in the applicable AUD equivalent hedged amount.

(2) Senior unsecured maturities greater than or equal to $50 million shown, excludes private placements.

(3) Redemption of subordinated debt notes and Additional Tier 1 instruments at the scheduled call date is at BOQ's option and is subject to obtaining prior written approval from APRA.

(4) Quarters are reflected in line with the Bank's financial reporting year.

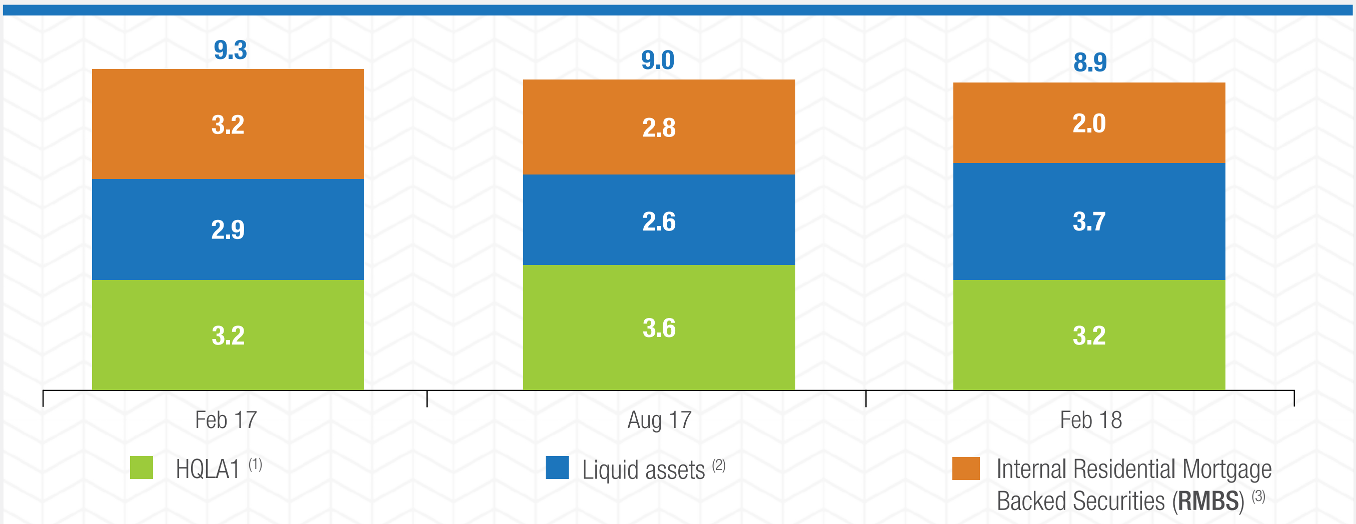
BOQ GROUP - 2018 HALF YEAR RESULTS

3.2 Funding and liquidity (continued)

BOQ maintains a portfolio of Reserve Bank of Australia (**RBA**) repurchase agreement eligible, diversified and marketable HQLA1 qualifying instruments to facilitate balance sheet liquidity and meet internal and external requirements.

BOQ was granted a $3.2 billion RBA CLF for the 2018 calendar year, enabling BOQ to meet its minimum regulatory requirement of greater than 100 per cent LCR.

Liquidity Composition - Basel III ($b)



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

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

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

3.3 Capital management

Capital adequacy

	As at				
$ million	**Feb-18**	Aug-17	Feb-17	Feb-18 vs Aug-17 (1)	Feb-18 vs Feb-17
CET1	**2,719**	2,690	2,602	2%	4%
Additional Tier 1 Capital (2)	**641**	450	450	86%	42%
Total Tier 2	**328**	402	469	(37%)	(30%)
Total capital base	**3,688**	3,542	3,521	8%	5%
Total RWA	**28,859**	28,644	28,014	2%	3%
CET1 ratio	**9.42%**	9.39%	9.29%	3bps	13bps
Total Capital Adequacy Ratio (2)	**12.78%**	12.37%	12.57%	41bps	21bps

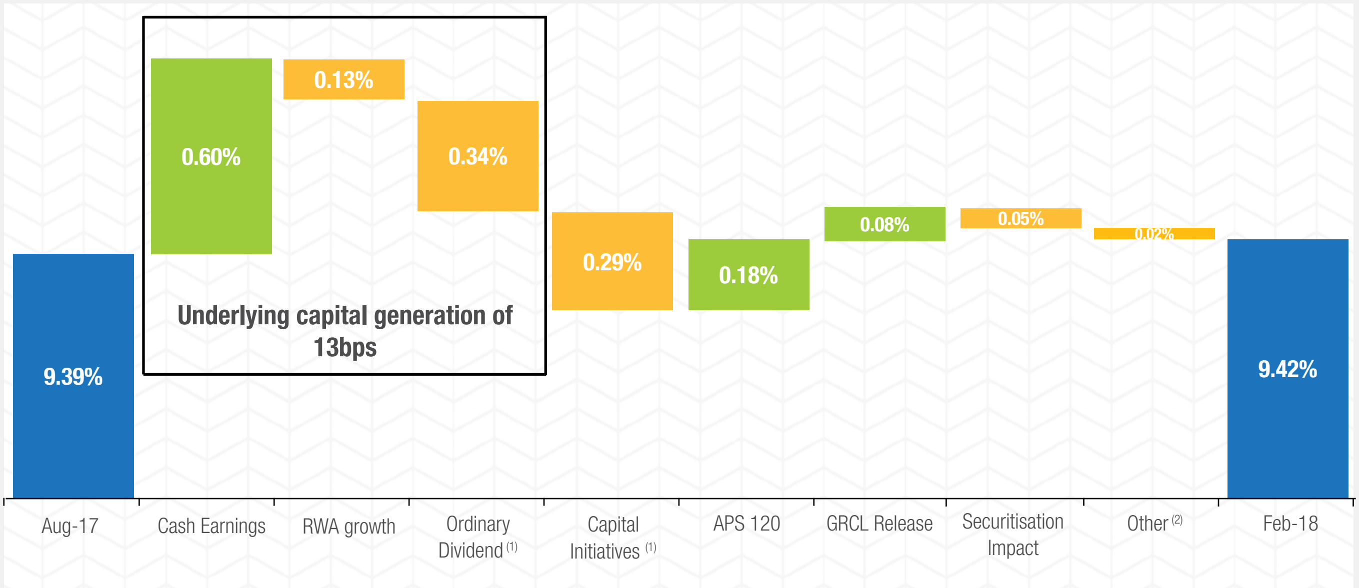
(1) Growth rates have been annualised.

(2) Post balance date, the Bank redeemed $141 milion of the remaining CPS on issue on 16 April 2018. Adjusting for this redemption, the Additional Tier 1 Capital would be $500 million and the Total Capital Adequacy ratio would be 12.29% on a pro-forma basis.

BOQ GROUP - 2018 HALF YEAR RESULTS

3.3 Capital management (continued)

CET1 2H17 VS 1H18



(1) The ordinary dividend is presented with the impact of the DRP not being suspended. The impact of the DRP suspension was 18 basis points, reflected in capital initiatives.

(2) Other Items which decreased CET1 included increased deductions for the AT1 Issuance Costs, increased Off-Balance sheet risk weights through changed treatment, reduced reserves partially offset by reduced securitisation & DTA deductions.

The Group's CET1 ratio increased by three basis points during the year to 9.42 per cent. The Bank's profit supported underlying RWA growth aligned to lending growth in the half which would have generated 13 basis points of excess capital had the Bank's DRP not been suspended (assuming a 35 per cent participation). Capital management initiatives in the half included the suspension of the DRP for the final FY17 dividend which had an impact of 18 basis points and the payment of a special dividend of eight cents per ordinary share which reduced capital by a further 11 basis points. These initiatives were undertaken due to the Bank's strong CET1 ratio and with the knowledge of the positive impacts of the APS 120 & GRCL release that was foreshadowed at the FY17 results. Reduced capital relief qualifying securitisation reliance, combined with the changes in other items such as reserves, deductions and off balance sheet commitment prudential treatment, all had negative impacts.

3.4 Tax Expense

Tax expense arising on cash earnings for 1H18 amounted to $84 million. This represented an effective tax rate of 31.6 per cent, which is above the corporate tax rate of 30% primarily due to the non-deductibility of interest payable on CPS issued in FY13, Wholesale Capital Notes (**WCN**) issued in FY15 and Capital Notes issued in 1H18.

BOQ GROUP - 2018 HALF YEAR RESULTS

4. Divisional performance

4.1 Retail income statement, key metrics and financial performance review

Retail banking provides solutions to personal customers managed through the owner managed and corporate branch network, third party intermediaries and Virgin Money Australia (VMA) distribution channels.

The Retail Banking division has successfully delivered on its strategy of expanding distribution channels during 1H18, with solid growth in lending volumes through Virgin Money Australia and the BOQ Broker channels. These two channels contributed 40 per cent of housing loan settlements for the Retail Banking division during the half. The branch network continued to see run-off in loan balances following a period of consolidation in branch numbers, but pleasingly this rate has slowed over the past two half year periods.

Retail asset growth was flat over the half with a continued focus on quality origination and managing margin in a competitive landscape. The relative customer fulfilment proposition has improved over the period as many competitors in the market progressively moved their lending standards towards the level that BOQ has been operating under for some time. There was also a marked shift in mix away from interest only loans during the half as the industry adjusted to APRA's 30 per cent macro prudential cap for this type of lending. This also led to more intense price competition for new owner occupied principal & interest loans, which impacted net interest margin.

The Virgin Money Australia offering has been well received by customers and brokers, with the mortgage portfolio now exceeding $1.2 billion. These home loan customers provide geographic diversification from the Group's traditional markets in addition to broadening the customer profile to a younger demographic.

The Branch network saw an improvement in customer retention compared to prior periods, whilst transitioning to a more productive network footprint, more reflective of consumer preferences. The branch network has also demonstrated solid growth in relationship based deposits, with compound annual growth of seven per cent over the past two years in transaction account balances. This helped to support a reduction in more expensive negotiated term deposit balances, improving funding costs.

A highlight for the Retail Banking division in 1H18 was the launch of the new BOQ website, following a similar upgrade of the VMA website last year, which provides a much improved user experience for customers to explore BOQ's product and service offering. This is one of a number of initiatives on BOQ's digital evolution roadmap. The platform has also been used to launch a new direct offering through the VMA brand that commenced during the half.

	Half Year Performance				
$ million	**Feb-18**	Aug-17	Feb-17	Feb-18 vs Aug-17	Feb-18 vs Feb-17
Net interest income	**227**	229	217	(1%)	5%
Non-interest income	**33**	35	34	(6%)	(3%)
Total income	**260**	264	251	(2%)	4%
Operating expenses	**(141)**	(138)	(136)	2%	4%
Underlying profit	**119**	126	115	(6%)	3%
Loan impairment expense	**(10)**	(3)	(11)	233%	(9%)
Profit before tax	**109**	123	104	(11%)	5%
Income tax expense	**(34)**	(38)	(32)	(11%)	6%
Cash earnings after tax	**75**	85	72	(12%)	4%

Cash earnings after tax of $75 million for 1H18 was $10 million lower than 2H17. This largely reflects the shorter first half and seasonal factors, along with a reduction in the collective provision in 2H17 to align to the new model that has been implemented during 1H18.

Net interest income of $227 million reduced $2 million on 2H17, primarily due to day count differential as margins held flat.

Non-interest Income of $33 million for 1H18 was $2 million below 2H17. This reflects lower ATM fees and costs relating to branch conversions offset by an improved contribution from the Virgin Money Australia credit card portfolio.

Operating expenses of $141 million increased $3 million from 2H17. This was due to increased amortisation costs from delivered technology investment and increased compliance costs.

Impairment expense of $10 million increased $7 million from 2H17. This was a result of a reduction in collective provision of $5 million in the previous reporting period to align to the new provisioning model. Performance has remained sound with more than half of the expense related to exposures in regional areas still recovering from the mining downturn.

BOQ GROUP - 2018 HALF YEAR RESULTS

4.1 Retail income statement, key metrics and financial performance review (continued)

Key metrics		Feb-18	Aug-17	Feb-17	Feb-18 vs Aug-17 [1]	Feb-18 vs Feb-17
Cash earnings basis						
CTI	(%)	**54.2**	52.3	54.2	190bps	-
Asset quality						
90dpd arrears	($ million)	**147**	163	130	(10%)	13%
Impaired assets	($ million)	**70**	68	78	3%	(11%)
Loan impairment expense / GLA	(bps)	**8**	2	9	6	(1)
Balance sheet						
GLA	($ million)	**25,258**	25,265	25,326	-	-
Housing	($ million)	*25,167*	*25,171*	*25,226*	-	-
Other retail	($ million)	*91*	*94*	*100*	*(6%)*	*(9%)*
Credit RWA [2]	($ million)	**9,225**	9,755	9,743	(11%)	(5%)
Customer deposits	($ million)	**17,120**	17,203	16,971	(1%)	1%
Term Deposits	($ million)	*9,181*	*9,684*	*9,628*	*(10%)*	*(5%)*
Mortgage Offsets	($ million)	*1,234*	*1,153*	*1,098*	*14%*	*12%*
Savings & Investment	($ million)	*5,199*	*4,897*	*4,873*	*12%*	*7%*
Transaction Accounts	($ million)	*1,506*	*1,468*	*1,373*	*5%*	*10%*
Deposit to loan ratio	(%)	**68**	68	67	-	100bps

(1) Balance sheet key metrics have been annualised.
(2) Housing Credit RWAs reduced in 1H18 as a result of the change in APS 120.

BOQ GROUP - 2018 HALF YEAR RESULTS

4.2 BOQ Business income statement, key metrics and financial performance review

BOQ Business includes the BOQ branded commercial lending activity and the BOQ Finance and BOQ Specialist businesses. The division provides tailored business banking solutions including commercial lending, equipment finance and leasing, cashflow finance, foreign exchange, interest rate hedging, transaction banking and deposit solutions.

The BOQ Business division has delivered on its strategy to grow in niche target segments in 1H18, by providing a tailored relationship offering to customers with overall loan growth of $678 million.

BOQ branded commercial loan growth was underpinned by an ongoing focus on quality and appropriate return for risk. Growth in the Bank's niche segments of corporate healthcare & retirement living, hospitality & tourism and agribusiness has also contributed to further diversification of the loan portfolio by geography, industry and asset class, with the Queensland concentration down to 37 per cent.

BOQ Business has enhanced its focus on deposit growth with momentum returning in the half. Growth in relationship banking (transaction and savings accounts) exceeded a minor run off in term deposits. Capability in this area is set to improve further with a number of transaction banking solutions to be rolled out in 2H18. This will address a number of key product gaps which will assist deposit gathering in the commercial space. These include the launch of the partnership with a digital payments provider, a business credit card and new merchant capability.

BOQ Specialist continued to drive solid loan growth. The mortgage offering delivered excellent new customer acquisition with housing loans up eight per cent in the half. This provides a good pipeline of customers with potential commercial lending needs in the future. BOQ Specialist focuses on very clearly defined niches and has developed a distinctive competitive advantage offering tailored consumer and commercial products and services to assist professionals through their practicing life cycles.

BOQ Finance remained focused on improving margin and product mix across its business, through structured programs in its target vendor & equipment finance customer segments. First half growth held steady as seasonally expected.

	Half Year Performance				
$ million	**Feb-18**	Aug-17 (1)	Feb-17	Feb-18 vs Aug-17	Feb-18 vs Feb-17
Net interest income	**251**	248	234	1%	7%
Non-interest income	**30**	48	30	(38%)	-
Total income	**281**	296	264	(5%)	6%
Operating expenses	**(112)**	(113)	(107)	(1%)	5%
Underlying profit	**169**	183	157	(8%)	8%
Loan impairment expense	**(12)**	(18)	(16)	(33%)	(25%)
Profit before tax	**157**	165	141	(5%)	11%
Income tax expense	**(50)**	(46)	(44)	9%	14%
Cash earnings after tax	**107**	119	97	(10%)	10%

(1) Includes the disposal of a vendor finance entity.

Cash earnings after tax of $107 million for 1H18 was $4 million higher than 2H17 after adjusting for the $16 million profit on disposal of a vendor finance entity in the prior half.

Net interest income of $251 million for 1H18 increased $3 million or one per cent from 2H17. Adjusting for the lower day count in the current half, the increase reflects an annualised underlying growth rate of six per cent. This was driven by lending growth of eight per cent annualised from strong performance in the niche segments of medical & dental, corporate healthcare & retirement living, hospitality & tourism and agribusiness. Net interest spread reduced in line with the higher growth rate in mortgage lending relative to higher margin commercial lending.

Non-interest income of $30 million for 1H18 was $18 million lower than 2H17, due primarily to the disposal of a vendor finance entity in 2H17 that generated $16 million in income during that period. This was combined with expected half year seasonality.

Operating expenses of $112 million decreased $1 million from 2H17 as a result of operational efficiencies and some seasonal spend variation.

Impairment expenses of $12 million decreased $6 million from 2H17 following the continued strong performance in the BOQ Finance portfolio. 2H17 included a $12 million charge related to the largest impaired exposure for the Group, offset by a $9 million adjustment to the collective provision to align to the new model implemented in the current financial year.

BOQ GROUP - 2018 HALF YEAR RESULTS

4.2 BOQ Business income statement, key metrics and financial performance review (continued)

Key metrics		Feb-18	Aug-17 (1)	Feb-17	Feb-18 vs Aug-17 (2)	Feb-18 vs Feb-17
Cash earnings basis						
CTI	(%)	**39.9**	38.2	40.5	170bps	(60bps)
Asset quality						
90dpd arrears	($ million)	**90**	94	87	(4%)	3%
Impaired assets	($ million)	**103**	124	132	(18%)	(23%)
Loan impairment expense / GLA	(bps)	**13**	20	18	(7bps)	(5bps)
Balance sheet						
GLA	($ million)	**19,230**	18,552	17,669	7%	9%
Housing	($ million)	*5,068*	*4,682*	*4,278*	*17%*	*18%*
Commercial and other	($ million)	*9,802*	*9,525*	*9,106*	*6%*	*8%*
BOQ Finance	($ million)	*4,360*	*4,345*	*4,285*	*1%*	*2%*
Credit RWA	($ million)	**15,627**	15,016	14,466	8%	8%
Customer deposits	($ million)	**13,186**	12,987	13,404	3%	(2%)
Term Deposits	($ million)	*7,131*	*7,169*	*7,984*	*(1%)*	*(11%)*
Mortgage Offsets	($ million)	*617*	*523*	*458*	*36%*	*35%*
Savings & Investment	($ million)	*4,346*	*4,251*	*4,020*	*5%*	*8%*
Transaction Accounts	($ million)	*1,092*	*1,044*	*942*	*9%*	*16%*
Deposit to loan ratio	(%)	**69**	70	76	(100bps)	(700bps)

(1) Includes the disposal of a vendor finance entity.
(2) Balance sheet key metrics have been annualised.

BOQ GROUP - 2018 HALF YEAR RESULTS

4.3 Other segment income statement and financial performance review

Other includes treasury, St Andrew's Insurance and Group head office.

	Half Year Performance				
$ million	Feb-18	Aug-17	Feb-17	Feb-18 vs Aug-17	Feb-18 vs Feb-17
Net interest income	**(3)**	(3)	1	-	(400%)
Non-interest income	**12**	12	16	-	(25%)
Total income	**9**	9	17	-	(47%)
Operating expenses	**(9)**	(10)	(9)	(10%)	-
Underlying profit	**-**	(1)	8	(100%)	(100%)
Loan impairment expense	**-**	-	-	-	-
Profit before tax	**-**	(1)	8	(100%)	(100%)
Income tax expense	**-**	-	(2)	-	(100%)
Cash earnings after tax	**-**	(1)	6	(100%)	(100%)

Other segment cash net profit after tax for 1H18 was nil with operating expenses of $9 million offset by $9 million in total income. This was largely in line with 2H17.

Non-interest income was flat from 2H17 to 1H18 with $10 million attributable to St Andrew's Insurance in each half, with the remainder largely representing contributions from trading income.

Operating expenses have reduced slightly compared to 2H17 due to lower operating costs within the St Andrew's Insurance business.

5. Consolidated interim financial report

for the half year ended 28 February 2018

Directors' Report

The directors present their report together with the consolidated interim financial report of Bank of Queensland Limited (**the Bank** or **BOQ**), being the Bank and its controlled entities, for the half year ended 28 February 2018 together with the independent auditor's review report.

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 & CEO since January 2015
Bruce Carter	Director since February 2014
Richard Haire	Director since April 2012
John Lorimer	Director since January 2016
Warwick Negus	Director since September 2016
Karen Penrose	Director since November 2015
Margaret (Margie) Seale	Director since January 2014
Michelle Tredenick	Director since February 2011
David Willis	Director since February 2010

Principal activities

The principal activity of the Bank and its controlled entities (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 of $174 million for 1H18, an increase of eight per cent on 1H17.

Total operating income increased by four per cent to $555 million and was largely driven by the increase in net interest income. Net interest margin increased in 1H18 to 1.97 per cent, an increase of six basis points from 1H17. The increase resulted from the easing of funding costs combined with industry wide adjustments to interest only mortgage pricing in August 2017. The performance demonstrates a continuation of improved business momentum in the BOQ branded retail offering through brokers and Virgin Money Australia home loan product, as well as solid performance in the BOQ Business niche segments and BOQS housing loans.

Operating expenses increased by two per cent to $277 million on 1H17 largely due to the investment in new technology with an increase in information technology software amortisation expense. Cost to Income ratio during the period was 49.9 per cent.

The Bank continues to prioritise a disciplined approach to credit with conservative settings maintained. Loan impairment expense reduced 19 per cent on 1H17 to $22 million, or 10 basis points (annualised) of gross loans and advances.

The Bank's Common Equity Tier 1 (**CET1**) ratio increased by three basis points during the half to 9.42 per cent.

The Board has determined to pay an interim dividend of 38 cents per ordinary share fully franked, which is consistent with both 1H17 and 2H17 reporting periods.

Director and management changes

On 3 January 2018, Group Executive People & Culture, Ms Belinda Jefferys, tendered her resignation. Ms Jefferys' last day was 3 April 2018.

On 18 January 2018, Ms Michelle Thomsen stepped down from her role as Company Secretary and on 28 March 2018, Ms Thomsen tendered her resignation as General Counsel.

Directors' Report

For the half year ended 28 February 2018

Subsequent events

On 17 April 2018, the Bank announced it had entered into an agreement to sell the Group's controlled entities - St Andrew's Australia Services Pty Ltd and its subsidiaries, St Andrew's Insurance (Australia) Pty Ltd and St Andrew's Life Insurance Pty Ltd for proceeds of $65 million, subject to completion adjustments. The sale is subject to certain conditions including regulatory approvals. The profit on sale will be determined at completion and will be impacted by transaction costs and completion adjustments. The accounting profit on sale will not be material to the Group. The sale of these controlled entities would impact the operating segment, Other.

The Bank has determined to pay an interim dividend of 38 cents per ordinary share totalling $149 million, to be paid 17 May 2018. Further details with respect to the dividend amount per share, payment date and dividend reinvestment plan can be obtained from note 5.2.2.

In accordance with the ASX announcement dated 5 March 2018, the Bank confirmed the redemption of all outstanding CPS on the optional conversion/ redemption date of 16 April 2018 with the redemption price of $102.44 per CPS. The redemption reduces the Net Tier 1 Capital ratio and the Total Capital Adequacy ratio. Further details can be obtained from notes 5.2.2 and 5.3.5.

Management attestation

The Board has been provided with a joint written statement from the Group's Managing Director & CEO and Chief Financial Officer, confirming that, in their opinion, the accompanying financial statements and notes:

(i) have been prepared in accordance with the accounting standards; and

(ii) present a true and fair view of the Group's financial position and performance as at and for the half year ended 28 February 2018.

Further, that this opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

The Directors' Declaration can be found on page 51 of this document.

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

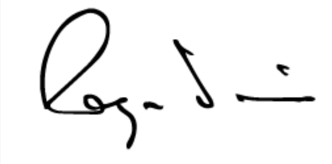
The lead auditor's independence declaration is set out on page 33 and forms part of the Directors' Report for the half year ended 28 February 2018.

Rounding of amounts

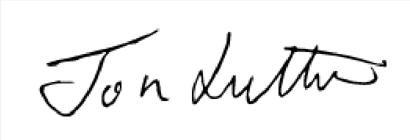
The Bank is a company of a kind referred to in ASIC Corporations Instrument 2016/191 dated 24 March 2016 and in accordance with that Instrument, amounts in this financial report and Directors' Report have been rounded off to the nearest million dollars, unless otherwise stated.

Dated this seventeenth day of April 2018.

Signed in accordance with a resolution of the directors:



Roger Davis
Chairman



Jon Sutton
Managing Director & 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 of Bank of Queensland Limited for the half year ended 28 February 2018 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
17 April 2018

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (**KPMG International**), a Swiss entity.

Liability limited by a scheme approved under Professional Standards Legislation.

Consolidated Income Statement

For the half year ended 28 February 2018

	Note	Feb-18 $m	Feb-17 $m
Interest income		**1,017**	1,011
Less: Interest expense		**542**	559
Net interest income		**475**	452
Other operating income		**70**	69
Net banking operating income		**545**	521
Premiums from insurance contracts		**34**	34
Investment revenue		**1**	1
Less: Claims and policyholder liability expense from insurance contracts		**25**	24
Net insurance operating income		**10**	11
Total operating income before impairment and operating expenses		**555**	532
Less: Expenses		**277**	271
Less: Impairment on loans and advances		**22**	27
Profit before income tax		**256**	234
Less: Income tax expense	5.2.1	**82**	73
Profit for the period		**174**	161
Profit attributable to:			
Equity holders of the parent		**174**	161
Earnings per share			
Basic earnings per share - Ordinary shares (cents)		**44.6**	41.8
Diluted earnings per share - Ordinary shares (cents)		**42.7**	40.3

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 2018

	Feb-18 $m	Feb-17 $m
Profit for the period	**174**	161
Other comprehensive income, net of income tax		
Items that may be reclassified subsequently to profit or loss		
Cash flow hedges:		
Net (losses) / gains taken to equity	**(4)**	17
Net losses transferred to profit or loss	**11**	11
Net change in fair value of financial assets available-for-sale	**3**	8
Net gains transferred to profit or loss for financial assets available-for-sale	**(7)**	(7)
Other comprehensive income, net of income tax	**3**	29
Total comprehensive income for the period	**177**	190
Total comprehensive income attributable to:		
Equity holders of the parent	**177**	190

The Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Consolidated Balance Sheet

As at 28 February 2018

	Note	Feb-18 $m	Aug-17 $m
Assets			
Cash and liquid assets		**1,012**	914
Due from other financial institutions - term deposits		**50**	58
Financial assets available-for-sale	5.3.3 (b)	**3,549**	3,934
Financial assets held for trading	5.3.3 (b)	**1,117**	1,837
Derivative financial assets	5.3.3 (b)	**103**	109
Loans and advances at amortised cost	5.3.3 (a); 5.3.4	**44,269**	43,590
Other assets		**155**	214
Property, plant and equipment		**59**	60
Deferred tax assets		**52**	55
Intangible assets		**871**	872
Investments in joint arrangements		**15**	15
Total assets		**51,252**	51,658
Liabilities			
Due to other financial institutions - accounts payable at call		**364**	262
Deposits	5.3.3 (a)	**36,777**	37,169
Derivative financial liabilities	5.3.3 (b)	**284**	333
Accounts payable and other liabilities		**356**	390
Current tax liabilities		**13**	7
Provisions		**39**	42
Insurance policy liabilities		**13**	16
Borrowings	5.3.3 (a); 5.3.5	**9,615**	9,651
Total liabilities		**47,461**	47,870
Net assets		**3,791**	3,788
Equity			
Issued capital		**3,370**	3,360
Reserves		**33**	57
Retained profits		**388**	371
Total equity		**3,791**	3,788

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 2018

	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 2018						
Balance at beginning of the period	3,360	26	81	(50)	371	3,788
Total comprehensive income for the period						
Profit for the period	-	-	-	-	174	174
Other comprehensive income, net of income tax						
Cash flow hedges:						
Net losses taken to equity	-	-	-	(4)	-	(4)
Net losses transferred to profit or loss	-	-	-	11	-	11
Net change in fair value of financial assets available-for-sale	-	-	-	3	-	3
Net gains transferred to profit or loss for financial assets available-for-sale	-	-	-	(7)	-	(7)
Transfers from equity reserve for credit losses	-	-	(23)	-	23	-
Total other comprehensive income	-	-	(23)	3	23	3
Total comprehensive income for the period	-	-	(23)	3	197	177
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Issues of ordinary shares (1)	11	-	-	-	-	11
Treasury shares (2)	(1)	-	-	-	-	(1)
Dividends to shareholders	-	-	-	-	(180)	(180)
Equity settled transactions	-	(4)	-	-	-	(4)
Total contributions by and distributions to owners	10	(4)	-	-	(180)	(174)
Balance at the end of the period	3,370	22	58	(47)	388	3,791

(1) On 26 October 2017, 850,000 ordinary shares were issued at $13.28 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 held by a subsidiary that the Bank is required to include in the Consolidated Entity's 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 Changes in Equity

For the half year ended 28 February 2018

	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 for the period	-	-	-	-	161	161
Other comprehensive income, net of income tax						
Cash flow hedges:						
Net gains taken to equity	-	-	-	17	-	17
Net losses transferred to profit or loss	-	-	-	11	-	11
Net change in fair value of financial assets available-for-sale	-	-	-	8	-	8
Net gains transferred to profit or loss for financial assets available-for-sale	-	-	-	(7)	-	(7)
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 Cash Flows

For the half year ended 28 February 2018

	Feb-18 $m	Feb-17 $m
Cash flows from operating activities		
Interest received	**1,032**	1,034
Fees and other income received	**89**	70
Interest paid	**(534)**	(564)
Cash paid to suppliers and employees	**(242)**	(242)
Income tax paid	**(72)**	(70)
	273	228
(Increase) / decrease in operating assets:		
Loans and advances at amortised cost	**(701)**	268
Other financial assets	**1,097**	(732)
Increase / (decrease) in operating liabilities:		
Deposits	**(279)**	326
Net cash outflow from operating activities	**390**	90
Cash flows from investing activities		
Acquisition of BOQF Cashflow Finance Pty Ltd	**-**	(14)
Payments for property, plant and equipment	**(10)**	(6)
Payments for intangible assets	**(31)**	(23)
Proceeds from sale of property, plant and equipment	**4**	7
Net cash outflow from investing activities	**(37)**	(36)
Cash flows from financing activities		
Proceeds from issue of ordinary shares	**11**	12
Proceeds from borrowings	**1,245**	1,932
Proceeds from issue of capital notes	**184**	-
Proceeds from foreign exchange instruments	**(2)**	-
Repayments of borrowings	**(1,502)**	(2,228)
Payments for treasury shares	**(11)**	(12)
Dividends paid	**(180)**	(92)
Net cash outflow from financing activities	**(255)**	(388)
Net increase / (decrease) in cash and cash equivalents	**98**	(334)
Cash and liquid assets at beginning of year	**914**	1,228
Cash and liquid assets at end of half year	**1,012**	894

The Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

For the half year ended 28 February 2018

5.1. Basis of preparation

5.1.1. Reporting entity

The Bank is a company domiciled in Australia. The Bank's registered office is located at Level 6, 100 Skyring Terrace, Newstead QLD 4006.

The consolidated interim financial report of the Bank as at and for the half year ended 28 February 2018 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.

5.1.2. Basis of accounting

The consolidated interim financial report is a general purpose interim 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 2017, 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.

This consolidated interim financial report is presented in Australian dollars which is the Bank's functional currency.

The consolidated interim financial report was approved by the Board of directors on 17 April 2018.

5.1.3. 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 2017.

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 2017. 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 2018.

- AASB 2016-1 *Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses*
- AASB 2016-2 *Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 107*
- AASB 2017-2 *Amendments to Australian Accounting Standards – Further Annual Improvements 2014-2016 Cycle*
- AASB 1048 *Interpretation of Standards*

The Bank has reviewed the impact of the new standards and determined there to be no material impact on the Consolidated Entity.

New accounting standards

The following standards and amendments have been identified as those which may impact the Consolidated Entity. The majority were available for early adoption at 28 February 2018, but have not been applied in these financial statements.

AASB 9 *Financial Instruments* (**AASB 9**)

This standard introduces changes in the classification and measurement of financial assets and liabilities, including a new expected credit loss (**ECL**) model for impairment and simplifications to hedge accounting. This standard will become mandatory for the Group in the financial year beginning 1 September 2018 and a program for AASB 9 implementation has commenced.

Hedging

The new accounting standard requirements allow for broader application of hedge accounting and to align it more closely with risk management. While the new model does not fundamentally change the types of hedging relationships, it simplifies the effectiveness testing by removing the 80 - 125 per cent threshold.

Impairment

An ECL model replaces the existing AASB *139 Financial Instruments: Recognition and Measurement* incurred loss model. The change in the standard will require entities to recognise expected credit losses based on unbiased forward looking information, instead of only recognising losses on the occurrence of the loss event.

Notes to the Financial Statements

For the half year ended 28 February 2018

5.1.3. Significant accounting policies (continued)

The Consolidated Entity will apply a three-stage approach to measuring the ECL based on credit exposures as they transition between the three stages. The Group will estimate ECL through modelling the probability of default, loss given default, exposure at default and further incorporate a present value adjustment.

- Stage 1 - Performing - This includes all financial instruments that have not seen a significant increase in credit risk, since their origination or purchase. For these financial instruments an allowance of the first 12 month ECL will be provided.
- Stage 2 - Under-performing - This includes all financial instruments that have experienced a significant increase in credit risk from origination or purchase, where the subsequent level of credit risk is not considered low. For these financial instruments an allowance for full lifetime expected credit losses will be provided.
- Stage 3 - Non-performing (impaired) - This is for financial instruments that are credit impaired and show objective evidence of impairment (default). The proportion of these that have not been individually assessed are to be included in the collective provision.

The Consolidated Entity has developed a new collective provisioning and reserving model that has been implemented in 1H18. No material impact to the collective provisioning and reserving model is expected as part of AASB 9 implementation.

The Group is currently assessing other impacts of AASB 9 and the implementation program is still in progress. A reliable estimate of the overall potential financial statement impacts is in the process of being determined.

AASB 15 *Revenue from Contracts with Customers* (**AASB 15**)

This standard introduces a single model for revenue recognition and will replace current guidance on revenue recognition from contracts with customers. It will become mandatory for the Group in the financial year commencing 1 September 2018.

The core principle of AASB 15 is that an entity is to recognise revenue to depict the transfer of promised goods or services to customers in amounts that reflect the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve this, the model features a contract based five-step analysis of transactions to determine the revenue recognition elements. A reliable estimate of the overall potential financial statement impacts is in the process of being determined.

AASB 16 *Leases* (**AASB 16**)

This standard will replace AASB 117 *Leases*. It will become mandatory for the Group in the financial year commencing 1 September 2019.

Lessees are required to recognise a right-of-use (**ROU**) asset and lease liability for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee measures ROU 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. It 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. A depreciation charge will be recognised on ROU assets, while interest expense will be recognised on lease liabilities.

AASB 16 substantially carries forward the lessor accounting requirements in AASB 117. Accordingly, a lessor continues to classify leases as operating leases or finance leases, accounting for the two types of leases differently. Initial assessment activities and discussions have occurred in order to identify the operating leases currently held and the system requirements. The Group is yet to evaluate the transition methods and the quantitative impact of AASB 16. Further review of leasing contracts, process and control changes, and future disclosure requirements will be undertaken.

AASB 17 *Insurance Contracts* (**AASB 17**)

This standard will replace AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*. It will become mandatory for the Group in the financial year commencing 1 September 2021. This standard introduces new measurement approaches to be used in valuing insurance contract liabilities. Under the new model, insurance contract liabilities will represent the present value of future cash flows including a provision for risk. The potential effects of this standard are yet to be determined.

5.1.4. 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 2017.

Notes to the Financial Statements

For the half year ended 28 February 2018

5.2. Financial performance

5.2.1. Income tax expense

The Consolidated Entity's effective tax rate for the six months ended 28 February 2018 was 31.9 per cent and for the six months ended 28 February 2017 was 31.2 per cent. This is above the corporate tax rate of 30 per cent and is primarily attributable to the non-deductibility of interest payable on convertible preference shares (**CPS**) and capital notes (refer to note 5.3.5 for details).

5.2.2. Dividends

	Feb-18		Feb-17	
	Cents per share	**$m**	Cents per share	$m
Ordinary shares				
Final 2017 dividend paid 23 November 2017 (2016: 22 November 2016)	**38**	**149**	38	145
Special 2017 dividend paid 23 November 2017 (2016: nil)	**8**	**31**	-	-
Convertible preference shares				
Second half 2017 CPS dividend paid on 16 October 2017 (2016: 17 October 2016)	**245**	**7**	268	8
Pro-rata CPS dividend paid on 28 December 2017 (2016: nil) (1)	**98**	**2**	-	-

(1) Under the capital notes issue completed on 28 December 2017, eligible CPS holders could apply to have their CPS bought back by BOQ and proceeds reinvested for the acquisition of capital notes. For those CPS holders who accepted the reinvestment offer, a pro-rata CPS dividend was paid in respect of reinvestment CPS on 28 December 2017.

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

	Cents per share	**$m**
Interim 2018 ordinary share dividend	38	149
Final 2018 CPS dividend	244	3

The interim ordinary share dividend payment will be fully franked and paid on 17 May 2018 to owners of ordinary shares at the close of business on 27 April 2018 (record date). Shares will be quoted ex-dividend on 26 April 2018.

The final CPS payment was fully franked and paid on 16 April 2018 to owners of convertible preference shares at the close of business on 28 March 2018 (record date). In accordance with the ASX announcement dated 5 March 2018, trading in CPS was suspended from the commencement of trading on 5 March 2018.

Dividend reinvestment plan

The dividend reinvestment plan (**DRP**) provides ordinary shareholders with the opportunity to reinvest all or part of their entitlement to a dividend into new ordinary shares. The price for shares issued or transferred under the DRP is an amount 1.5 per cent (2017: 1.5 per cent) less than 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 ASX 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.

Shares issued or transferred under the DRP will be fully-paid and rank equally in all respects with existing shares.

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

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 2018 interim dividend is 30 April 2018.

Notes to the Financial Statements

For the half year ended 28 February 2018

5.2.3. Operating segments

The Bank determines and presents operating segments based on the information that is provided internally to the Managing Director & CEO, the Bank's chief operating decision maker. Segment results that are reported to the Managing Director & CEO include items directly attributable to a segment, as well as those that can be allocated on a reasonable basis.

During the half year ended 28 February 2018, the Bank formally moved to an updated operating segment model. Specifically, the Bank has split its previously reported Banking segment into Retail Banking and BOQ Business segments. The insurance segment has now been included in the Other segment.

The Bank's operating segments comprise the following:

Retail Banking - Retail Banking solutions for personal customers managed through our owner managed and corporate branch network, third party intermediaries' and Virgin Money Australia distribution channels;

BOQ Business - BOQ Business, and it's BOQ Finance and BOQ Specialist brands, provide tailored business banking solutions with expertise across a range of segments including corporate property, small to medium enterprises, agribusiness, medical and dental professionals, financial markets, equipment finance and leasing; and

Other - Treasury, St Andrew's Insurance and Group head office.

Prior period comparatives have been restated to align with the current period presentation.

	6 months ended 28 February 2018			
	Retail Banking $m	BOQ Business $m	Other $m	Segment total $m
Net interest income [(1)]	227	251	(3)	475
Non interest income	33	30	12	75
Total income	260	281	9	550
Operating expenses	(141)	(112)	(9)	(262)
Underlying profit	119	169	-	288
Loan impairment expense	(10)	(12)	-	(22)
Cash profit before tax	109	157	-	266
Income tax expense	(34)	(50)	-	(84)
Segment cash profit after tax [(2)]	75	107	-	182
Statutory basis adjustments:				
Amortisation of acquisition of fair value adjustments	-	-	(5)	(5)
Hedge ineffectiveness	-	-	(1)	(1)
Regulatory / compliance	-	-	(1)	(1)
Legacy items	-	-	(1)	(1)
Statutory net profit after tax	75	107	(8)	174

(1) Interest income and interest expenses are disclosed in this note on a net interest income basis. This is in line with the information provided internally to the Managing Director & CEO.

(2) This excludes a number of items that introduce volatility and / or one-off distortions of the current period performance.

Inter-segment revenue and expenses and transfer pricing adjustments are reflected in the performance of each operating segment.

All inter-segment profits are eliminated on consolidation.

Notes to the Financial Statements

For the half year ended 28 February 2018

5.2.3. Operating segments (continued)

	6 months ended 28 February 2017			
	Retail Banking $m	BOQ Business $m	Other $m	Segment total $m
Net interest income [1]	217	234	1	452
Non interest income	34	30	16	80
Total income	251	264	17	532
Operating expenses	(136)	(107)	(9)	(252)
Underlying profit	115	157	8	280
Loan impairment expense	(11)	(16)	-	(27)
Cash profit before tax	104	141	8	253
Income tax expense	(32)	(44)	(2)	(78)
Segment cash profit after tax [2]	72	97	6	175
Statutory basis adjustments:				
Amortisation of acquisition of fair value adjustments	-	-	(6)	(6)
Hedge ineffectiveness	-	-	(5)	(5)
Integration / transaction costs	-	-	(1)	(1)
Legacy items	-	-	(2)	(2)
Statutory net profit after tax	72	97	(8)	161

(1) Interest income and interest expenses are disclosed in this note on a net interest income basis. This is in line with the information provided internally to the Managing Director & CEO.

(2) This excludes a number of items that introduce volatility and / or one-off distortions of the current period performance.

Notes to the Financial Statements

For the half year ended 28 February 2018

5.3. Capital and balance sheet management

5.3.1. 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 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 CET1 Capital target range to be between 8.0 and 9.5 per cent of Risk Weighted Assets and the total capital range to be between 11.5 and 14.5 per cent of Risk Weighted Assets.

	Level 2 entities (1)	
Qualifying capital	**Feb-18 $m**	Aug-17 $m
Common Equity Tier 1 Capital		
Paid-up ordinary share capital	**3,370**	3,360
Reserves	**2**	1
Retained profits, including current year profits	**385**	365
Total Common Equity Tier 1 Capital	**3,757**	3,726
Regulatory adjustments		
Goodwill and intangibles	**(869)**	(870)
Deferred expenditure	**(168)**	(168)
Other deductions	**(1)**	2
Total regulatory adjustments	**(1,038)**	(1,036)
Net Common Equity Tier 1 Capital	**2,719**	2,690
Additional Tier 1 Capital	**641**	450
Net Tier 1 Capital	**3,360**	3,140
Tier 2 Capital		
Tier 2 Capital	**150**	200
General reserve for credit losses	**178**	202
Net Tier 2 Capital	**328**	402
Capital base	**3,688**	3,542
Risk Weighted Assets	**28,859**	28,644
Common Equity Tier 1 Capital	**9.42%**	9.39%
Net Tier 1 Capital ratio (2)	**11.64%**	10.96%
Total Capital Adequacy ratio (2)	**12.78%**	12.37%

(1) APRA Prudential Standard *APS 001* defines Level 2 as the ADI and all of its subsidiary entities other than non-consolidated subsidiaries, as defined under the Prudential Standards. The non-consolidated subsidiaries excluded from Level 2 regulatory measurement at 28 February 2018 are BOQ Share Plans Nominee Pty Ltd, Home Credit Management Pty Ltd, St Andrew's Australia Services Pty Ltd, St Andrew's Life Insurance Pty Ltd, St Andrew's Insurance (Australia) Pty Limited, Series 2012-1E REDS Trust, Series 2013-1 REDS Trust, Series 2015-1 REDS Trust and Series 2017-1 REDS Trust. In addition, Series 2007-2 REDS Trust and REDS Warehouse Trust No.3., that have been closed prior to 28 February 2018, are excluded from Level 2 regulatory measurement at 31 August 2017.

(2) Refer to note 5.5.4.

Notes to the Financial Statements

For the half year ended 28 February 2018

5.3.2. Issued capital

	Feb-18 Number	Feb-17 Number
Movements during the period		
Balance at the beginning of the period – fully paid	**391,739,729**	380,995,702
Dividend reinvestment plan	**-**	5,278,750
Issue of ordinary shares (1) (2)	**850,000**	1,050,000
Balance at the end of the period – fully paid	**392,589,729**	387,324,452
Treasury shares (included in ordinary shares above)		
Balance at the beginning of the period	**565,308**	537,337
Net acquisitions and disposals during the period	**90,896**	117,799
Balance at the end of the period	**656,204**	655,136

(1) On 26 October 2017, 850,000 ordinary shares were issued at $13.28 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 the issue of shares under the BOQ Restricted Share Plan and the BOQ Employee Share Plan.

(2) 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 the issue of shares under the BOQ Restricted Share Plan and the BOQ Employee Share Plan.

5.3.3. 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 value:

	Carrying value		**Fair value**	
	Feb-18 $m	Aug-17 $m	**Feb-18 $m**	Aug-17 $m
Assets carried at amortised cost				
Loans and advances at amortised cost	**44,269**	43,590	**44,282**	43,623
	44,269	43,590	**44,282**	43,623
Liabilities carried at amortised cost				
Deposits	**(36,777)**	(37,169)	**(36,778)**	(37,174)
Borrowings	**(9,615)**	(9,651)	**(9,614)**	(9,650)
	(46,392)	(46,820)	**(46,392)**	(46,824)

Notes to the Financial Statements

For the half year ended 28 February 2018

5.3.3. 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 based on unadjusted quoted market prices 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. This includes the use of discounted cash flow analysis, option pricing models and other market accepted valuation models.
- Level 3: This category includes assets and liabilities for which the valuation includes inputs that are not based on observable market data.

The fair value hierarchy classification of instruments in Section 5.3.3 (a):

- Loans and advances - Level 3
- Deposits and borrowings - Level 2.

There was no movement in Level 3 during the period. The table below analyses financial instruments carried at fair value, by the valuation method.

	Feb-18			
	Level 1 $m	**Level 2 $m**	**Level 3 $m**	**Total $m**
Instruments carried at fair value				
Financial assets available-for-sale	**2,483**	**1,063**	**3**	**3,549**
Financial assets held for trading	**-**	**1,117**	**-**	**1,117**
Derivative financial assets	**-**	**103**	**-**	**103**
	2,483	**2,283**	**3**	**4,769**
Derivative financial liabilities	**-**	**(284)**	**-**	**(284)**
	2,483	**1,999**	**3**	**4,485**

	Aug-17			
	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Instruments carried at fair value				
Financial assets available-for-sale	2,261	1,670	3	3,934
Financial assets held for trading	53	1,784	-	1,837
Derivative financial assets	-	109	-	109
	2,314	3,563	3	5,880
Derivative financial liabilities	-	(333)	-	(333)
	2,314	3,230	3	5,547

(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 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. 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; and
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

Notes to the Financial Statements

For the half year ended 28 February 2018

5.3.4. Loans and advances at amortised cost

	Feb-18 $m	Aug-17 $m
Gross loans and advances at amortised cost	**44,846**	44,189
Less:		
Unearned lease finance income	**358**	372
Provisions for impairment	**219**	227
Gross loans and advances at amortised cost	**44,269**	43,590

	Feb-18 $m	Aug-17 $m (1)
Specific provision:		
Balance at the beginning of the period	**106**	115
Expensed during the period	**22**	36
Bad debts written off	**(27)**	(44)
Transfers from collective provision	**-**	2
Unwind of discount	**(2)**	(3)
Balance at the end of the period	**99**	106
Collective provision:		
Balance at the beginning of the period	**121**	137
Released during the year	**(1)**	(14)
Transfers to specific provision	**-**	(2)
Balance at the end of the period	**120**	121
Total provisions for impairment	**219**	227

(1) Six months to 31 August 2017.

Notes to the Financial Statements

For the half year ended 28 February 2018

5.3.5. Borrowings

The Consolidated Entity recorded the following movements on borrowings:

	Securitisation liabilities (1) $m	Covered bond liabilities (2) $m	Debt issues (3) $m	Subordinated notes $m	Convertible Preference Shares (4) $m	Capital notes(5) (6) $m	Total $m
Half year ended 28 February 2018							
Balance at the beginning of the period	**3,424**	**749**	**4,831**	**200**	**297**	**150**	**9,651**
Proceeds from issues	**-**	**-**	**1,247**	**-**	**-**	**191**	**1,438**
Conversion of CPS to Capital Notes	**-**	**-**	**-**	**-**	**(159)**	**159**	**-**
Repayments	**(574)**	**-**	**(878)**	**(50)**	**-**	**-**	**(1,502)**
Deferred establishment costs	**(1)**	**-**	**(1)**	**-**	**-**	**(7)**	**(9)**
Amortisation of deferred costs	**-**	**1**	**-**	**-**	**-**	**2**	**3**
Foreign exchange translation	**-**	**32**	**2**	**-**	**-**	**-**	**34**
Balance at the end of the period	**2,849**	**782**	**5,201**	**150**	**138**	**495**	**9,615**

	Securitisation liabilities (1) $m	Debt issues (3) $m	Subordinated notes $m	Convertible Preference Shares (4) $m	Capital notes (5) $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

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

(2) Covered bond liabilities are secured by a charge over a pool of loans and advances and guaranteed by the covered bond guarantor.

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

(4) On 24 December 2012, the Bank issued 3,000,000 CPS. CPS are fully paid, perpetual and convertible preference shares with preferred, discretionary, non-cumulative dividends. They are not guaranteed or secured. As at 28 February 2018, 1,412,942 CPS were outstanding with accrued distributions of $3 million, following the reinvestment offer in Capital Notes. In accordance with the ASX announcement dated 5 March 2018, BOQ confirmed the redemption of all outstanding CPS on the optional conversion/redemption date of 16 April 2018 with the redemption price of $102.44 per CPS, comprising the face value of $100 per CPS and a final dividend of $2.44 per CPS for the period from (and including) 16 October 2017 to (but excluding) the redemption date of 16 April 2018. CPS rank for payment of capital ahead of ordinary shareholders, equally with other securities or instruments ranking equally with CPS, but behind all other securities or instruments ranking ahead of CPS, and behind all depositors and other creditors.

(5) On 26 May 2015, the Bank issued 15,000 Wholesale Capital Notes (**WCN**) at a price of $10,000 per note. WCN are non-cumulative and fully paid and are issued by the Bank on a perpetual and subordinated basis. They are not guaranteed or secured. As at 28 February 2018, 15,000 WCN were outstanding with accrued distributions of $2 million. WCN must convert to ordinary shares on a mandatory conversion date of 26 May 2022 if certain mandatory conversion conditions are satisfied. Upon conversion, WCN holders will receive a number of ordinary shares based on the value weighted average price during a specified period. The WCN must also convert to ordinary shares of the Bank with the occurrence of a non-viability event, a capital trigger event or an acquisition event. BOQ may elect to redeem or resell the WCN on 26 May 2020 or following a regulatory or tax event. These options are subject to APRA's prior written approval and certain conditions being satisfied. In a winding up of the Bank, if the WCN have not been converted or written off on account of a non-viability trigger event or capital trigger event, the WCN will rank for payment of capital ahead of ordinary shareholders, equally with other securities or instruments ranking equally with WCN, but behind all other securities or instruments ranking ahead of WCN, and behind all senior creditors.

(6) On 28 December 2017, the Bank issued 3,500,000 Capital Notes at a price of $100 per note. Capital Notes are perpetual and convertible notes issued by BOQ, with preferred, discretionary, non-cumulative distributions. They are not guaranteed or secured. As at 28 February 2018, 3,500,000 Capital Notes were outstanding with accrued distributions of $1 million. Capital Notes must convert into ordinary shares on 15 August 2026 if certain mandatory conversion conditions are satisfied, unless they are converted or redeemed earlier. Where the mandatory conversion conditions are satisfied, a holder will receive a number of ordinary shares per Capital Note based on the value weighted average price of ordinary shares during a specified period. The Capital Notes must also convert to ordinary shares of the Bank with the occurrence of a loss absorption event or an acquisition event. BOQ may elect to convert, redeem or resell Capital Notes on 15 August 2024 or following a regulatory or tax event. BOQ may also elect to convert all Capital Notes following a potential acquisition event. These options are subject to APRA's prior written approval and certain conditions being satisfied. In a winding up of the Bank, Capital Notes will rank for payment of capital ahead of ordinary shares, equally with CPS, WCN and other equal ranking instruments, but behind the claims of all senior ranking creditors, including depositors and unsubordinated and subordinated creditors.

Notes to the Financial Statements

For the half year ended 28 February 2018

5.4. Controlled entities

5.4.1. Disposal of controlled entities

Series 2007-2 REDS Trust was closed on 4 December 2017.

5.5. Other notes

5.5.1. Intangible assets

No impairment of goodwill has been recognised by the Group for the half year ended 28 February 2018.

5.5.2. Related parties

The terms of arrangements for all related parties are consistent with those disclosed in the 31 August 2017 Annual Report.

5.5.3. 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 were commenced by Petersen Superannuation Fund Pty Ltd (the Applicant) on behalf of an open class against Bank of Queensland Limited and DDH Graham Limited. The claims made in the class action 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.

On 26 February 2018, BOQ announced that a settlement had been reached in relation to the class action. The terms of the settlement are confidential. The settlement is also subject to approval by the Court. If approved by the Court, the settlement will not have a material impact on BOQ's statutory profit.

5.5.4. Events subsequent to balance date

On 17 April 2018, the Bank announced it had entered into an agreement to sell the Group's controlled entities - St Andrew's Australia Services Pty Ltd and its subsidiaries, St Andrew's Insurance (Australia) Pty Ltd and St Andrew's Life Insurance Pty Ltd for proceeds of $65 million, subject to completion adjustments. The sale is subject to certain conditions including regulatory approvals. The profit on sale will be determined at completion and will be impacted by transaction costs and completion adjustments. The accounting profit on sale will not be material to the Group. The sale of these controlled entities would impact the operating segment, Other.

The Bank has determined to pay an interim dividend of 38 cents per ordinary share totalling $149 million, to be paid 17 May 2018. Further details with respect to the dividend amount per share, payment date and dividend reinvestment plan can be obtained from note 5.2.2.

In accordance with the ASX announcement dated 5 March 2018, the Bank confirmed the redemption of all outstanding CPS on the optional conversion/redemption date of 16 April 2018 with the redemption price of $102.44 per CPS. The redemption reduces the Net Tier 1 Capital ratio and the Total Capital Adequacy ratio. Further details can be obtained from notes 5.2.2 and 5.3.5.

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 34 to 50 are in accordance with sections 302 to 306 of the *Corporations Act 2001* (Cth), including that they:

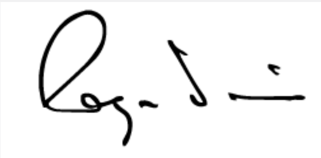
(i) give a true and fair view of the financial position of the Consolidated Entity as at 28 February 2018 and of its performance, for the half-year ended on that date;

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

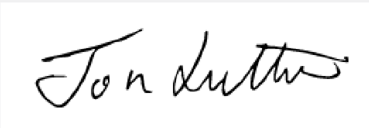
(b) there are reasonable grounds to believe that the Bank will be able to pay its debts as and when they become due and payable.

Dated this seventeenth day of April 2018.

Signed in accordance with a resolution of the directors:



Roger Davis
Chairman



Jon Sutton
Managing Director & CEO

Independent Auditor's Report

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 2018 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 2018;
- 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 5.1.1 to 5.5.4 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 period 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; and*
- for 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 2018 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 a 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 requirements of the *Corporations Act 2001.*

KPMG

Robert Warren
Partner
Sydney
17 April 2018

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (**KPMG International**), a Swiss entity.
Liability limited by a scheme approved under Professional Standards Legislation.

BOQ GROUP - 2018 HALF YEAR RESULTS

6. Appendices

6.1 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 53
Details of entities over which control has been gained or lost (Rule 4.2A.3 Item No. 4)	Page 50
Dividends and dividend dates (Rule 4.2A.3 Item No. 5)	Inside front cover and Page 42
Dividend reinvestment plan (Rule 4.2A.3 Item No. 6)	Page 42
Details of associated and joint venture entities (Rule 4.2A.3 Item No. 7)	Page 53
Foreign entities (Rule 4.2A.3 Item No. 8)	Not applicable
Independent audit report subject to modified opinion (Rule 4.2A.3 Item No. 9)	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-18**	Aug-17	Feb-17
Net tangible assets per ordinary shares ($) (1)	**7.44**	7.44	7.28

(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.

BOQ GROUP - 2018 HALF YEAR RESULTS

6.2 Reconciliation of statutory profit to cash earnings

The cash earnings provided is used by management to present a clear view of BOQ'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 exclusion relates 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-18	Aug-17	Feb-17	Feb-18 vs Aug-17	Feb-18 vs Feb-17
Cash earnings after tax	**182**	203	175	(10%)	4%
Amortisation of acquisition fair value adjustments	**(5)**	(7)	(6)	(29%)	(17%)
Hedge ineffectiveness	**(1)**	(4)	(5)	(75%)	(80%)
Integration / transaction costs	**-**	-	(1)	-	(100%)
Regulatory / compliance	**(1)**	-	-	-	-
Legacy items	**(1)**	(1)	(2)	-	(50%)
Statutory net profit after tax	**174**	191	161	(9%)	8%

(B) NON-CASH EARNINGS RECONCILING ITEMS

$ million	Cash earnings Feb-18	Virgin Money Australia	Amortisation of acquisition fair value adjustments	Hedge ineffectiveness	Regulatory/ compliance	Legacy items	Statutory net profit Feb-18
Net interest income	**475**	-	-	-	-	-	**475**
Non-interest income	**75**	7	-	(2)	-	-	**80**
Total income	**550**	7	-	(2)	-	-	**555**
Operating expenses	**(262)**	(7)	(5)	-	(2)	(1)	**(277)**
Underlying profit	**288**	-	(5)	(2)	(2)	(1)	**278**
Loan impairment expense	**(22)**	-	-	-	-	-	**(22)**
Profit before tax	**266**	-	(5)	(2)	(2)	(1)	**256**
Income tax expense	**(84)**	-	-	1	1	-	**(82)**
Profit after tax	**182**	**-**	**(5)**	**(1)**	**(1)**	**(1)**	**174**

BOQ GROUP - 2018 HALF YEAR RESULTS

6.3 Operating cash expenses

	Half Year Performance				
	Feb-18	Aug-17	Feb-17	Feb-18 vs Aug-17	Feb-18 vs Feb-17
Employee expenses					
Salaries	**107**	107	101	-	6%
Superannuation contributions	**9**	10	10	(10%)	(10%)
Payroll tax	**6**	5	7	20%	(14%)
Employee share programs	**5**	6	5	(17%)	-
Other	**3**	3	3	-	-
	130	131	126	(1%)	3%
Occupancy expenses					
Lease expense	**16**	14	16	14%	-
Depreciation of fixed assets	**5**	5	4	-	25%
Other	**1**	2	1	(50%)	-
	22	21	21	5%	5%
General expenses					
Marketing	**7**	11	5	(36%)	40%
Commissions to owner managed branches	**3**	3	3	-	-
Communications and postage	**9**	10	10	(10%)	(10%)
Printing and stationery	**2**	2	2	-	-
Impairment	**1**	-	1	100%	-
Processing costs	**7**	6	4	17%	75%
Other operating expenses	**12**	14	14	14%	14%
	41	46	39	(11%)	5%
IT expenses					
Data processing	**36**	33	37	9%	(3%)
Amortisation of Intangible Assets	**22**	19	18	16%	22%
Depreciation of fixed assets	**1**	1	-	-	-
	59	53	55	11%	7%
Other expenses					
Professional fees	**6**	6	7	-	(14%)
Directors' fees	**1**	1	1	-	-
Other	**3**	3	3	-	-
	10	10	11	-	(9%)
Total operating expenses	**262**	261	252	-	4%

BOQ GROUP - 2018 HALF YEAR RESULTS

6.3 Operating cash expenses (continued)

Employee expenses

Employee costs have reduced slightly on 2H17 and increased three per cent on 1H17. Investment in the Virgin Money Australia mortgage offering, digital & transformation and heightened regulatory oversight has been mostly funded through operational efficiencies.

Occupancy expenses

Occupancy expenses have remained relatively flat with non-recurring lease benefits being recognised in 2H17.

General expenses

Marketing activity for the group traditionally increases in the second half driving an increase in costs, although the seasonality in the 2018 financial year is expected to be less pronounced than in 2017. Efficiency initiatives have assisted in delivering lower communication & postage and other operating costs.

IT expenses

Contract renegotiation outcomes resulted in a lower data processing cost profile in 2H17 and a lower ongoing profile. Capitalised investment spend (refer section 2.6) has resulted in an uplift of $3 million in software amortisation in 1H18, which is in line with Group expectations.

6.4 Cash EPS calculations

		Half Year Performance				
		Feb-18	Aug-17	Feb-17	Feb-18 vs Aug-17	Feb-18 vs Feb-17
Basic EPS	(cents)	**46.5**	52.1	45.5	(11%)	2%
Diluted EPS	(cents)	**44.5**	49.9	43.7	(11%)	2%
Reconciliation of cash earnings for EPS						
Cash earnings available for ordinary shareholders	($ million)	**182**	203	175	(10%)	4%
Add: CPS dividend	($ million)	**6**	7	8	(14%)	(25%)
Add: WCN	($ million)	**3**	4	3	(25%)	-
Add: Capital Notes [(1)]	($ million)	**2**	-	-	-	-
Cash diluted earnings available for ordinary shareholders	($ million)	**193**	214	186	(10%)	4%
Weighted average number of shares (**WANOS**)						
Basic WANOS	(million)	**392**	389	384	1%	2%
Add: Effect of award rights	(million)	**2**	2	1	-	100%
Add: Effect of CPS	(million)	**20**	25	27	(20%)	(26%)
Add: Effect of WCN	(million)	**12**	12	13	-	(8%)
Add: Effect of Capital Notes [(1)]	(million)	**10**	-	-	-	-
Diluted WANOS for cash earnings EPS	(million)	**436**	428	425	(1%)	(0%)

(1) On 28 December 2017, the Bank issued 3,500,000 Capital Notes at a price of $100 per note.

6.5 Issued Capital

Ordinary shares

	Consolidated	
	2018 Number	2018 $m
Movements during the year		
Balance at the beginning of the year – fully paid	**391,739,729**	3,396
Issue of ordinary shares – 26 October 2017 [(1)]	**850,000**	11
Balance at the end of the period – fully paid	**392,589,729**	3,407

(1) On 26 October 2017, 850,000 ordinary shares were issued at $13.28 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.

BOQ GROUP - 2018 HALF YEAR RESULTS

6.6 Average balance sheet and margin analysis

	February 2018 (Half Year)			August 2017 (Half Year)		
$ million	Average balance $m	Interest $m	Average rate %	Average balance $m	Interest $m	Average rate %
Interest earning assets						
Gross loans & advances at amortised cost	42,427	947	4.50	41,811	960	4.55
Investments & other securities	6,092	70	2.32	6,231	75	2.39
Total interest earning assets	48,519	1,017	4.23	48,042	1,035	4.27
Non-interest earning assets						
Property, plant & equipment	59			57		
Other assets	1,534			1,535		
Provision for impairment	(226)			(250)		
Total non-interest earning assets	1,367			1,342		
Total assets	49,886			49,384		
Interest bearing liabilities						
Retail deposits	28,659	288	2.03	28,569	298	2.07
Wholesale deposits & Borrowings	16,649	254	3.08	16,344	263	3.19
Total interest bearing liabilities	45,308	542	2.41	44,913	561	2.48
Non-interest bearing liabilities	803			749		
Total liabilities	46,111			45,662		
Shareholders' funds	3,775			3,722		
Total liabilities & shareholders' funds	49,886			49,384		
Interest margin & interest spread						
Interest earning assets	48,519	1,017	4.23	48,042	1,035	4.27
Interest bearing liabilities	45,308	542	2.41	44,913	561	2.48
Net interest spread			1.82			1.79
Benefit of net interest-free assets, liabilities and equity			0.15			0.17
NIM - on average interest earning assets	48,519	475	1.97	48,042	474	1.96

BOQ GROUP - 2018 HALF YEAR RESULTS

6.7 Distribution footprint

BOQ has evolved its Customer in Charge strategic pillar to allow customers to engage through the channel of their choice. This could be through a preferred broker (aligned to BOQ or Virgin Money Australia), directly with BOQ through its owner managed and corporate branches, online via digital, social media and mobile banking, or on the phone to BOQ's customer contact centres.

Branch numbers reduced by three during 1H18. The majority of BOQ's owner managers (75 per cent) have transitioned to the new franchise proposition which better aligns the network with the strategic objectives of the Bank and has delivered significant operational performance improvements. The Bank remains committed to support its unique owner manager franchise model and welcomed five new owner managers in 1H18.

The broker strategy expansion continued to accelerate during 1H18, with 25 per cent of settlements in the BOQ branded retail segment for 1H18 originated through accredited brokers, as well as driving volumes in the Virgin Money Australia brand. 81 per cent of accredited brokers are located outside of Queensland, which will continue to accelerate the geographic diversification of the portfolio and provide deeper access to the Sydney and Melbourne markets, where the Group has traditionally been under represented.

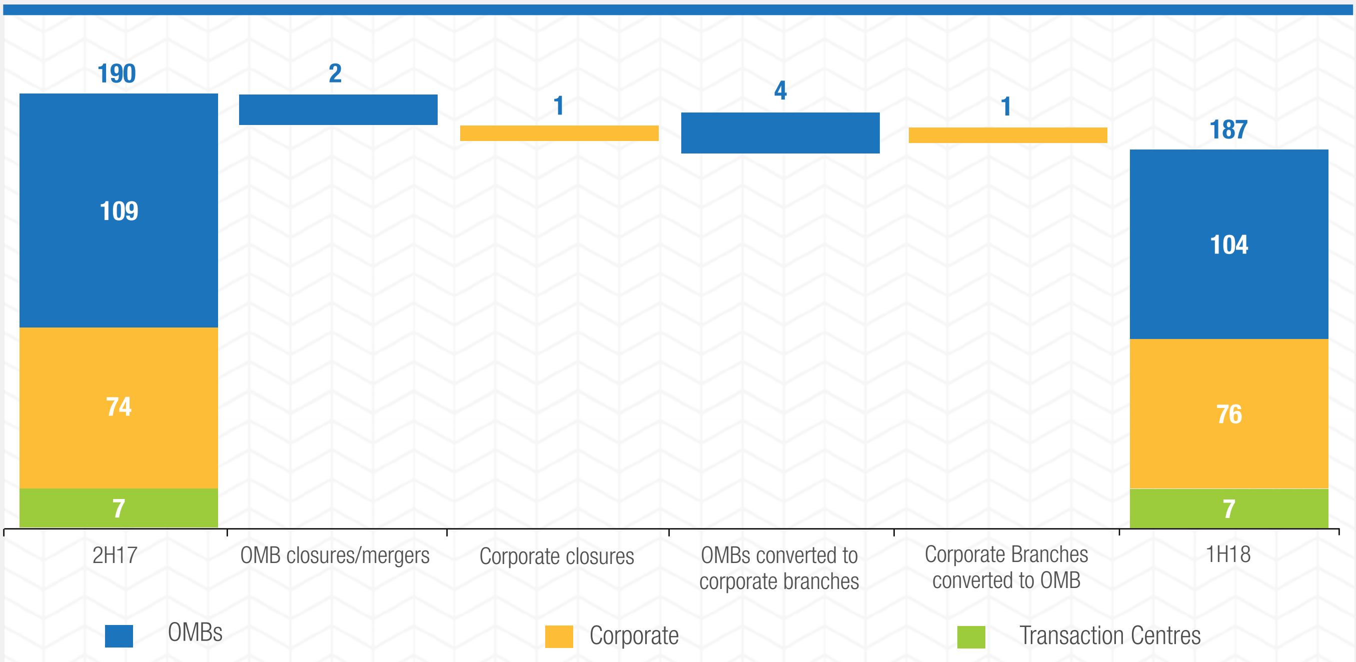
BOQ GROUP - 2018 HALF YEAR RESULTS

6.7 Distribution footprint (continued)

As at Feb-18	QLD	NSW / ACT	VIC	WA	NT	TAS	SA	Total
Corporate branches	41	11	10	13	-	-	1	76
Owner managed branches	65	18	10	8	1	2	-	104
Transaction centres	7	-	-	-	-	-	-	7
	113	**29**	**20**	**21**	**1**	**2**	**1**	**187**

As at Aug-17	QLD	NSW / ACT	VIC	WA	NT	TAS	SA	Total
Corporate branches	41	11	8	13	-	-	1	74
Owner managed branches	68	18	12	8	1	2	-	109
Transaction centres	7	-	-	-	-	-	-	7
	116	**29**	**20**	**21**	**1**	**2**	**1**	**190**

Corporate, owner managed branches (OMB) & transaction centres



6.8 Credit rating

The Bank monitors rating agency developments closely. Entities in the Group are rated by S&P, Moody's Investor Service and Fitch ratings. BOQ's current long term debt ratings are shown below.

Rating agency	Short term	Long term	Outlook
S&P	A2	BBB+	Stable
Fitch	F2	A-	Stable
Moody's	P2	A3	Stable

BOQ GROUP - 2018 HALF YEAR RESULTS

6.9 Regulatory disclosures

The APS 330 Public Disclosure capital disclosure template, regulatory capital reconciliation (included in the relevant Pillar 3 disclosures document) and 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

6.10 Liquidity coverage ratio

APRA requires ADIs to maintain a minimum 100 per cent LCR. The LCR requires sufficient HQLA1 and alternative liquid assets (covered by the CLF) 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 and in line with the BOQ prescribed risk appetite and management ranges. BOQ's average LCR was elevated over the February quarter at 145 per cent (30 November 2017 quarter: 134 per cent) due to low wholesale maturities over the month of December and January, in addition to holding elevated liquid assets against upcoming term funding maturities. The following table presents detailed information on the average LCR composition for the two quarters.

BOQ maintains a portfolio of high quality, diversified liquid assets to facilitate balance sheet liquidity and meet its internal and regulatory requirements. Liquid assets comprise HQLA1 (cash, Australian Commonwealth Government and semi-government securities) and alternate liquid assets covered by the CLF from the RBA. Assets eligible for the CLF include senior unsecured bank debt, covered bonds and RMBS that are eligible for repurchase with the RBA.

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 uses a range of funding tools including customer deposits, securitisation, short term and long term wholesale debt instruments. The Group increased long term wholesale issuance in the period as part of its overall funding strategy to lengthen tenor and add to its stable funding base. Bank lending is predominantly funded from stable funding sources; short term wholesale funding is primarily used to manage timing mismatches and fund liquid assets.

The liquid assets composition has remained relatively stable over the year with the allocation to HQLA1 over net cash outflows for the February quarter averaging 82 per cent (30 November 2017: 82 per cent). BOQ does not have significant derivative or currency exposures that could adversely affect its LCR.

BOQ GROUP - 2018 HALF YEAR RESULTS

6.10 Liquidity coverage ratio (continued)

	Average Quarterly Performance			
	February Quarter		November Quarter	
$ million	Total unweighted value $m	Total weighted value $m	Total unweighted value $m	Total weighted value $m
Liquid assets, of which				
High quality liquid assets	n/a	3,508	n/a	3,583
Alternative liquid assets	n/a	2,732	n/a	2,281
Total liquid assets		**6,240**		**5,864**
Cash outflows				
Customer deposits and deposits from small branch customers, of which	14,675	1,433	14,044	1,341
stable deposits	*6,920*	*346*	*6,910*	*346*
less stable deposits	*7,755*	*1,087*	*7,134*	*995*
Unsecured wholesale funding, of which	4,286	2,596	4,071	2,450
non-operational deposits	*3,246*	*1,556*	*3,189*	*1,568*
unsecured debt	*1,040*	*1,040*	*882*	*882*
Secured wholesale funding	n/a	31	n/a	35
Additional requirements, of which	535	468	511	446
outflows related to derivatives exposures and other collateral requirements	*464*	*464*	*443*	*443*
credit and liquidity facilities	*71*	*4*	*68*	*3*
Other contractual funding obligations	603	301	605	289
Other contingent funding obligations	10,766	611	10,840	643
Total cash outflows	**30,865**	**5,440**	**30,071**	**5,204**
Cash inflows				
Secured lending	55	-	-	-
Inflows from fully performing exposures	678	376	648	332
Other cash inflows	771	771	501	501
Total cash inflows	**1,504**	**1,147**	**1,149**	**833**
Total net cash outflows	**29,361**	**4,293**	**28,922**	**4,371**
Total liquid assets	n/a	**6,240**	n/a	**5,864**
Total net cash outflows	n/a	**4,293**	n/a	**4,371**
LCR (%)	n/a	**145%**	n/a	**134%**

BOQ GROUP - 2018 HALF YEAR RESULTS

Glossary

Term	Description
APRA Prudential Standard (**APS**)	Prudential standards issued by APRA which are applicable to ADIs.
Australian Accounting Standards Board (**AASB**)	The AASB produces 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 Finance Industry Association (**AFIA**)	AFIA is the national association for the equipment leasing and financing industry.
Australian Prudential Regulation Authority (**APRA**)	APRA is the prudential regulator of the Australian financial services industry. APRA oversees banks, insurance companies, credit unions, building societies, friendly societies and most of the superannuation society.
Australian Securities Exchange (**ASX**)	Australian Securities Exchange or ASX Limited (ABN 98 008 624 691) and the market activities operated by ASX Limited.
Authorised Deposit-Taking Institution (**ADI**)	A corporation 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**)	BOQ is a for-profit entity primarily involved in providing retail banking, commercial 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%).
Capital Notes (**BOQPE**)	Capital Notes are perpetual, convertible, unguaranteed and unsecured notes issued by BOQ, with preferred, discretionary, non-cumulative distributions. Capital Notes may convert into common shares in certain circumstances as described in the offer documentation of the notes.
Cash earnings	Cash Earnings is a non-accounting standards measure commonly used in the banking industry to assist in presenting a clear view of underlying earnings.
Committed liquidity facility (**CLF**)	The RBA provides a CLF to certain ADIs as part of Australia's implementation of the Basel III liquidity standards. The facility 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 RWA calculated in accordance with relevant APS.
Consolidated entity (**the Group**)	BOQ 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 BOQ.
Cost to income ratio (**CTI**)	Operating expenses divided by operating income.
Corporations Act 2001	The *Corporations Act 2001* (Cth).
Covered bond guarantor	Perpetual Corporate Trust Limited ABN 99 000 341 533, incorporated with limited liability in the Commonwealth of Australia and having its registered office at Level 18, 123 Pitt Street, Sydney, NSW 2000, as trustee of the BOQ Covered Bond Trust (the Trustee).
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.
Dividend Reinvestment Plan (**DRP**)	A plan which provides shareholders with the opportunity to convert all or part of their entitlement to a dividend into new shares.
Earnings per share (**EPS**)	Measures of earnings attributed to each equivalent ordinary share over a twelve month period. This is calculated by dividing the company's earnings by the weighted average number of shares on issue in accordance with AASB 133 *Earnings per share.*
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.
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 acquisition costs and subsequently measured at each reporting date at amortised cost using the effective interest rate method.

Glossary (continued)

Term	Description
High quality liquid asset (**HQLA1**)	Tier 1 assets comprised 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 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 APS.
Net interest margin (**NIM**)	Net interest income divided by average interest-earning assets.
Net stable funding ratio (**NSFR**)	The NSFR is defined as the amount of available stable funding relative to the amount of required stable funding. This ratio should be equal to at least 100% on an on going basis. Available stable funding is defined as the portion of capital and liabilities expected to be reliable over the time horizon considered by the NSFR, which extends to one year. The amount of such stable funding required of a specific institution is a function of the liquidity characteristics and residual maturities of the various assets held by that institution as well as those of its off-balance sheet exposures.
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 Group's assets that do not accrue interest income.
Owner managed branch (**OMB**)	A branch which is run by a franchisee.
REDS	BOQ's securitisation programme which enables the trustee to issue debt securities backed by assets originated by the Group such as mortgages and equipment finance receivables.
Reserve Bank of Australia (**RBA**)	The RBA is Australia's central bank and derives its functions and powers from the Reserve Bank Act 1959 (Cth). Its stated duty is to contribute to the stability of the currency, full employment, and the economic prosperity and welfare of the Australian people.
Residential Mortgage Backed Securities (**RMBS**)	A reference to a financial debt security that is secured by a pool of mortgages on residential property. Mortgages with varying credit ratings are grouped together and sold in tranches to investors by issuers as a source of funding.
Return on average equity (**ROE**)	Net profit attributable to the owners of BOQ divided by average ordinary equity.
Return on average tangible equity (**ROTE**)	Net profit attributable to the owners of BOQ 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 APS.
Share capital	The Group's issued and paid-up capital.
Total capital adequacy ratio	Total capital divided by total RWA calculated in accordance with relevant APS.
Treasury shares	Shares that the Group has issued but are held by a trust included within the Group's consolidated results. Treasury shares are not considered shares outstanding and are not included in 'earnings per share' calculations.
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. WCNs are fully paid, non-cumulative, perpetual, subordinated, unguaranteed and unsecured notes that may convert into common shares in certain circumstances as described in the offer documentation of the notes.