2018 INVESTOR INFORMATION

Year ended 31 August 2018

BOQ GROUP – 2018 ANNUAL RESULTS

For the year ended 31 August 2018

ASX APPENDIX 4E

FOR THE YEAR ENDED 31 AUGUST 2018

RESULTS FOR ANNOUNCEMENT TO THE MARKET [1]

				$m
Revenues from ordinary activities [2]	Up	2%	to	1,121
Profit from ordinary activities after tax attributable to members [2]	Down	5%	to	336
Profit for the year attributable to members [2]	Down	5%	to	336

Dividends	Record Date	Paid or payable on	Amounts per security
ORDINARY SHARES (BOQ)			
Final ordinary dividend – fully franked	25 October 2018	14 November 2018	38 cents
Interim ordinary dividend – fully franked	27 April 2018	17 May 2018	38 cents
CONVERTIBLE PREFERENCE SHARES (CPS) (BOQPD)			
Final CPS dividend – fully franked	28 March 2018	16 April 2018	$2.44
WHOLESALE CAPITAL NOTES (WCN)			
Final WCN dividend – fully franked [3]	18 November 2018	26 November 2018	$223.90
Half-yearly WCN dividend – fully franked	20 May 2018	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	30 April 2018	15 May 2018	94.05 cents
Third quarter 2018 BOQPE distribution – fully franked	31 July 2018	16 August 2018	100.77 cents
Fourth quarter 2018 BOQPE distribution – fully franked [4]	31 October 2018	15 November 2018	99.56 cents

(1) Rule 4.2A.3. Refer to Appendix 5.1 for the cross reference index for ASX Appendix 4E.
(2) On prior corresponding year (twelve months ended 31 August 2017).
(3) Expected dates and values only, payment of any Distribution is subject to the Terms of the Capital Notes.
(4) Expected dates and values only, payment of any Distribution is subject to the Capital Note Terms.

BOQ GROUP – 2018 ANNUAL RESULTS

For the year ended 31 August 2018

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BOQ GROUP – 2018 ANNUAL RESULTS

For the year ended 31 August 2018

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

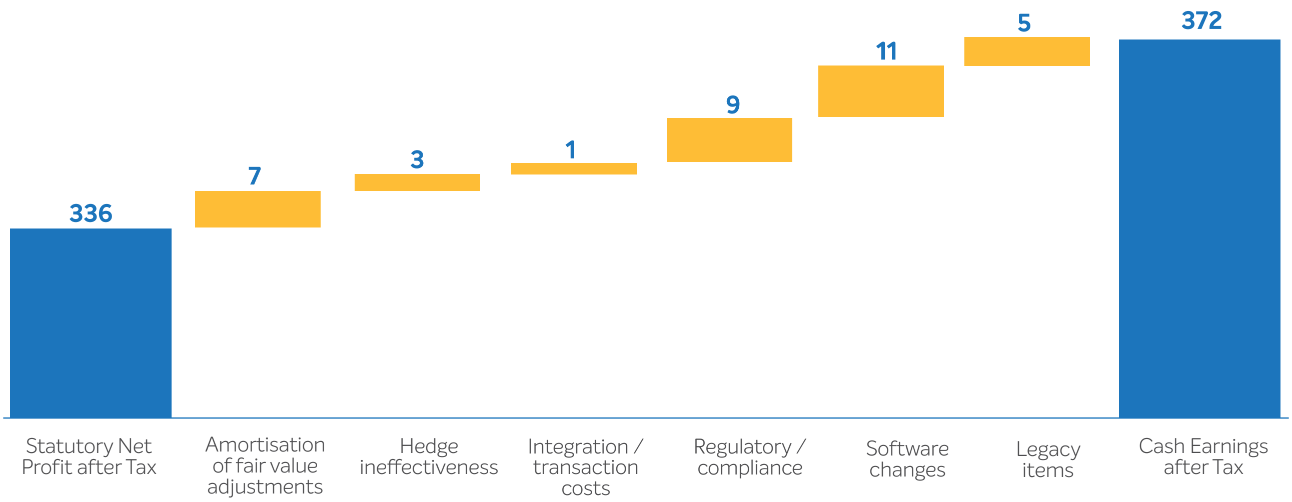
Statutory Profit is prepared in accordance with the *Corporations Act 2001* and the Australian Accounting Standards, which comply with International Financial Reporting Standards (**IFRS**). Cash Earnings is a non-Accounting Standards measure commonly used in the banking industry to assist in presenting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

The main exclusions relate to: Regulatory / compliance costs ($9 million after tax) which include external costs and other related costs associated with the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (**Royal Commission**), The Banking Executive Accountability Regime (**BEAR**), Code of Banking Practice and other regulatory matters; Legacy Items ($5 million after tax) which includes external legal and net settlement costs associated with the Petersen class action; and Software changes ($11 million after tax) which include a non-recurring adjustment due to a re-assessment of useful lives of existing assets aligned with the Group's Investment Roadmap and a change to the capitalisation policy. 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 (**1H18**), current half (**2H18**) and the prior year (**FY17**).

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

Reconciliation of Statutory Profit to Cash Earnings ($m)

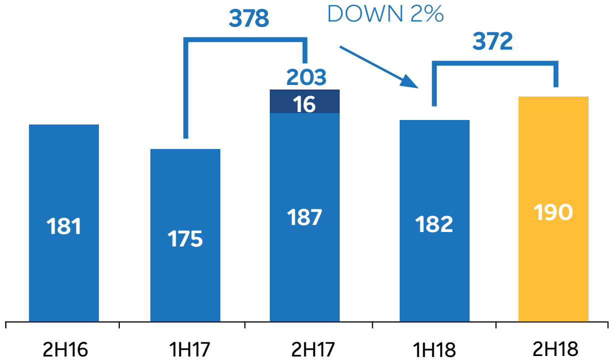


BOQ GROUP – 2018 ANNUAL RESULTS

For the year ended 31 August 2018

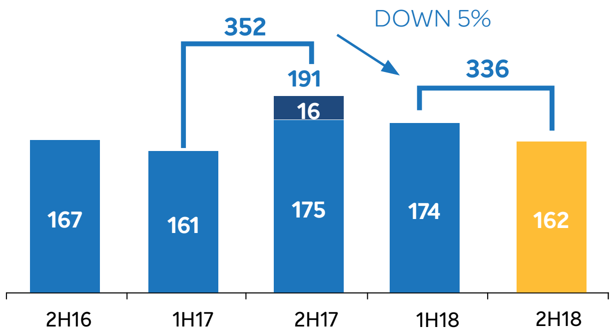
1.2 GROUP HIGHLIGHTS

Cash Earnings after Tax ($m)



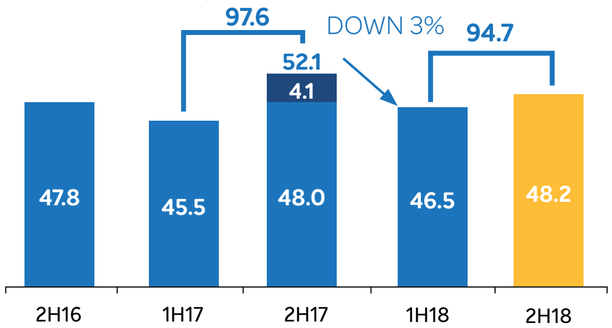
Impact of disposal of vendor finance entity

Statutory Profit after Tax ($m)



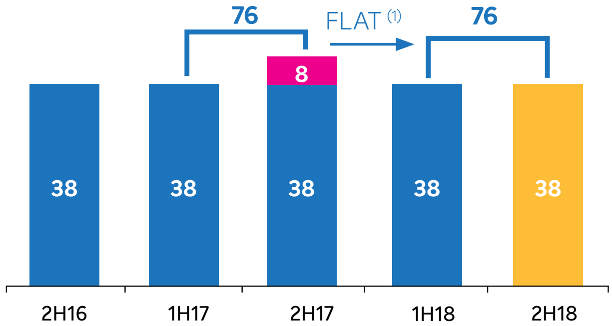
Impact of disposal of vendor finance entity

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



Impact of disposal of vendor finance entity

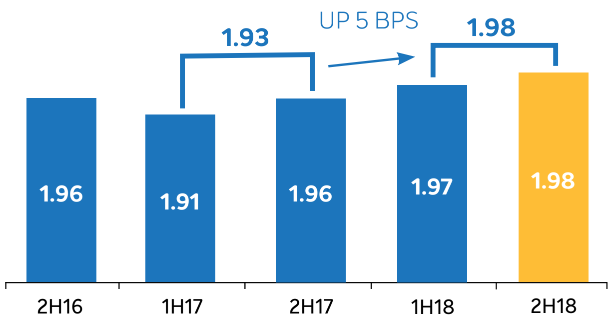
Dividends per ordinary share (cents)



(1) Excluding special dividend

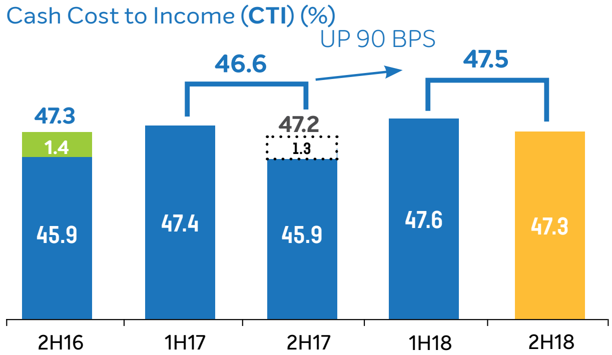
Special dividend

Cash Net Interest Margin (**NIM**) (%) (1)



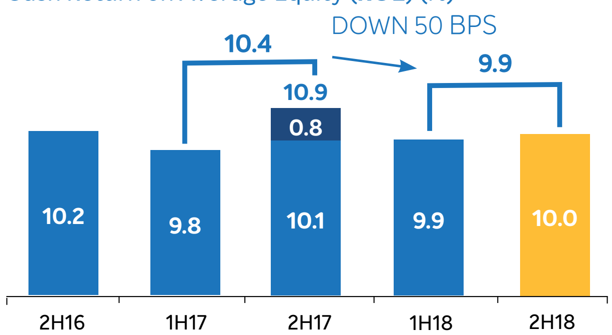
(1) NIM disclosed includes the impact of netting offset accounts against loan balances. Historical data has been previously disclosed excluding this netting.

Cash Cost to Income (**CTI**) (%)



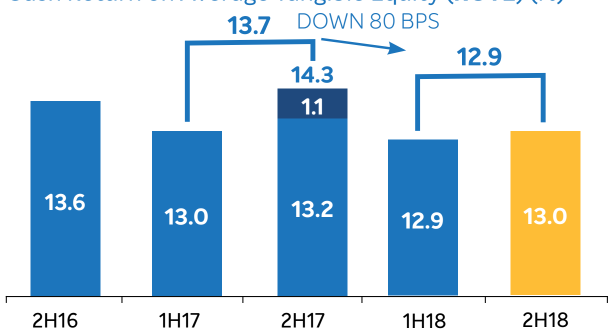
Restructuring   Impact of disposal of vendor finance entity

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



Impact of disposal of vendor finance entity

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



Impact of disposal of vendor finance entity

BOQ GROUP - 2018 ANNUAL RESULTS

For the year ended 31 August 2018

1.2 GROUP HIGHLIGHTS (CONTINUED)

CASH EARNINGS AFTER TAX

$372m

Decreased by two per cent on FY17. Excluding the impact of the disposal of a vendor finance entity, increased by three per cent on FY17

CASH NET INTEREST MARGIN

1.98%

Up 5 basis points over FY17 driven by improvements in asset and funding mix (1)

OPERATING EXPENSES

$527m

Three per cent increase on FY17 while investing in technology initiatives and expanding new business lines

LOAN IMPAIRMENT EXPENSE

$41m

Down 2 basis points to 9 basis points of lending and a 15 per cent reduction over FY17

COMMON EQUITY TIER 1

9.31%

Decrease of 8 basis points for the year as a result of capital initiatives offset by positive underlying capital generation

DIVIDENDS
FINAL & INTERIM

$0.76

Flat on FY17

(1) Includes a movement in the weighted average life of mortgages. Refer to Section 2.2 Net interest income.

BOQ has generated cash earnings of $372 million in FY18, representing a two per cent decrease on FY17. Statutory net profit after tax decreased of five per cent on FY17 to $336 million. Excluding the one-off $16 million profit on disposal of a vendor finance entity which occurred in FY17, cash earnings increased three per cent on FY17. Statutory profit after tax was reduced by a number of one-off items including accelerated amortisation expense to create capacity for additional capital initiatives in FY19-20 aligned with the Group's Investment Roadmap.

Total income grew by one per cent from FY17, or two per cent on an underlying basis (excluding the $16 million profit on sale in FY17). This was driven by net interest income growth of four per cent, while non-interest income contracted 17 per cent (nine per cent on an underlying basis).

The improvement in net interest income was driven by a combination of growth in total lending of $1.5 billion or three per cent and an increase in NIM of five basis points to 1.98 per cent. Lending growth was achieved across all major portfolios, with housing loan growth of $653 million or two per cent, commercial loan growth of $569 million or six per cent and BOQ Finance growth of $250 million or six per cent. Housing loan growth was driven by Virgin Money (Australia) (**VMA**) and BOQ Specialist. Commercial lending growth was delivered primarily through targeted niche segments.

The five basis point increase in NIM was achieved through improvements in funding mix, repricing of assets and an extension of the behavioural weighted average life of the home loan portfolio. These benefits were offset by ongoing price competition for new business and a higher bank bill swap rate relative to the cash rate, which increased basis risk and the cost of hedging interest rate risk during the year. Non-interest income was lower as fees, trading and insurance income all reduced from FY17 levels.

Operating expense growth was contained to three per cent despite the rising cost of regulatory compliance, technological change and a need to continue investing in the business to maintain competitiveness.

Asset quality metrics remained sound across the portfolio with impaired assets reducing 15 per cent to $164m and loan impairment expense reducing 15 per cent to $41m. Loan arrears also remained at low and steady levels throughout the year. This is a direct result of a prudent approach to risk management, assisted by benign economic conditions.

BOQ's capital position remains strong with a Common Equity Tier 1 ratio (**CET1**) of 9.31 per cent. 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, St Andrew's Insurance (Australia) Pty Ltd and St Andrew's Life Insurance Pty Ltd (**St Andrew's Group**), to Freedom Insurance Group Limited for total consideration of $65 million. The transaction remains subject to certain conditions including receipt of regulatory approvals. The capital released on the settlement of the transaction will be incremental to BOQ's CET1 ratio. Given BOQ's strong capital position, an increase in capital investment has been announced for FY19-20 to further enhance BOQ's digital platforms and customer experience.

The Board has determined to pay a final ordinary dividend of 38 cents per share. The total ordinary dividend for the year is 76 cents per share, unchanged from FY17.

BOQ GROUP – 2018 ANNUAL RESULTS

For the year ended 31 August 2018

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. The group is now comprised of a number of brands including BOQ, BOQ Specialist, BOQ Finance, VMA and St Andrew's Insurance.

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 specialisation and deep industry knowledge 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. More information on BOQ's approach to sustainability is available in the 2018 Sustainability Report and in the sustainability section of the BOQ website (*https://www.boq.com.au/Shareholder-centre/sustainability*).

Information on BOQ's corporate governance practices can be located in BOQ's Corporate Governance Statement available on the corporate governance page of the BOQ 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 VMA home loans, are distributed by more than 6,000 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 FY18, with 30 per cent of new home loans originated through mortgage brokers. In FY18 BOQ also launched a new website to improve customers' digital experience. This followed similar upgrades for the VMA and BOQ Specialist websites during 2017. BOQ also continued the roll out of its new 'ICON' branch format, with 21 branches now converted to the new format. A new Customer Connect team has also been established, bringing together customer service capability across the enterprise into one group.

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 $623 million in new lending growth in FY18. Together with BOQ Specialist, BOQ Finance and VMA businesses, 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. 81 per cent of owner managed branches are now on the new franchise agreement. The Bank continues to transition Franchisees to the new agreement and has taken steps to align the balanced scorecard and commission arrangements with the Sedgwick recommendations for banking industry remuneration and incentives.

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 contain expense growth to three per cent, 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 has 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. Investment in the 'Customer Heartbeat' program in 2018 also signifies BOQ's commitment to supporting its people to enhance customer experience.

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 ANNUAL RESULTS

For the year ended 31 August 2018

2. GROUP PERFORMANCE ANALYSIS

2.1 INCOME STATEMENT AND KEY METRICS

	Year End Performance			Half Year Performance		
$ million	**Aug-18**	Aug-17	Aug-18 vs Aug-17	**Aug-18**	Feb-18	Aug-18 vs Feb-18
Net Interest Income	965	926	4%	490	475	3%
Non-Interest Income	145	175	(17%)	70	75	(7%)
Total Income	1,110	1,101	1%	560	550	2%
Operating Expenses	(527)	(513)	3%	(265)	(262)	1%
Underlying Profit	583	588	(1%)	295	288	2%
Loan Impairment Expense	(41)	(48)	(15%)	(19)	(22)	(14%)
Profit before Tax	542	540	–	276	266	4%
Income Tax Expense	(170)	(162)	5%	(86)	(84)	2%
Cash Earnings after Tax	372	378	(2%)	190	182	4%
Statutory Net Profit after Tax [1]	336	352	(5%)	162	174	(7%)

[1] Refer to Section 5.2 of the Operating and Financial Review Appendices for the reconciliation of Statutory Profit to Cash Earnings.

		Year End Performance			Half Year Performance		
Key Metrics		**Aug-18**	Aug-17	Aug-18 vs Aug-17	**Aug-18**	Feb-18	Aug-18 vs Feb-18
SHAREHOLDER RETURNS							
Share Price	($)	11.49	12.59	(9%)	11.49	12.63	(9%)
Market Capitalisation	($ million)	4,565	4,932	(7%)	4,565	4,958	(8%)
Dividends per ordinary share (fully franked)	(cents)	76	76	–	38	38	–
Special dividend per ordinary share (fully franked)	(cents)	–	8	n/a	–	–	n/a
CASH EARNINGS BASIS							
Basic Earnings per Share (**EPS**)	(cents)	94.7	97.6	(3%)	48.2	46.5	4%
Diluted EPS	(cents)	89.3	93.9	(5%)	45.2	44.5	2%
Dividend payout ratio	(%)	80.7	78.3	240bps	79.5	82.0	(250bps)
STATUTORY BASIS							
Basic EPS	(cents)	85.5	90.9	(6%)	40.9	44.6	(8%)
Diluted EPS	(cents)	81.2	87.8	(8%)	38.8	42.7	(9%)
Dividend payout ratio	(%)	89.3	84.1	520bps	93.2	85.7	750bps

BOQ GROUP – 2018 ANNUAL RESULTS

For the year ended 31 August 2018

2.1 INCOME STATEMENT AND KEY METRICS (CONTINUED)

		Year End Performance			Half Year Performance		
Key Metrics		**Aug-18**	Aug-17	Aug-18 vs Aug-17	**Aug-18**	Feb-18	Aug-18 vs Feb-18
PROFITABILITY AND EFFICIENCY MEASURES							
Cash Earnings basis							
Net Profit After Tax	($ million)	**372**	378	(2%)	**190**	182	4%
Underlying Profit (1)	($ million)	**583**	588	(1%)	**295**	288	2%
NIM (2)	(%)	**1.98**	1.93	5bps	**1.98**	1.97	1bp
CTI	(%)	**47.5**	46.6	90bps	**47.3**	47.6	(30bps)
Loan Impairment Expense to Gross Loans and Advances (**GLA**)	(bps)	**9**	11	(2bps)	**8**	10	(2bps)
ROE	(%)	**9.9**	10.4	(50bps)	**10.0**	9.9	10bps
ROTE (3)	(%)	**12.9**	13.7	(80bps)	**13.0**	12.9	10bps
STATUTORY BASIS							
Net Profit After Tax	($ million)	**336**	352	(5%)	**162**	174	(7%)
Underlying Profit (1)	($ million)	**534**	555	(4%)	**256**	278	(8%)
NIM (2)	(%)	**1.98**	1.93	5bps	**1.98**	1.97	1bp
CTI	(%)	**52.4**	49.6	280bps	**54.8**	49.9	490bps
Loan Impairment Expense to GLA	(bps)	**9**	11	(2bps)	**8**	10	(2bps)
ROE	(%)	**8.9**	9.7	(80bps)	**8.5**	9.5	(100bps)
ROTE (3)	(%)	**11.6**	12.7	(110bps)	**11.1**	12.4	(130bps)
ASSET QUALITY							
30 days past due (**dpd**) Arrears	($ million)	**469**	470	-	**469**	493	(5%)
90dpd Arrears	($ million)	**260**	257	1%	**260**	237	10%
Impaired Assets	($ million)	**164**	192	(15%)	**164**	173	(5%)
Specific Provisions to Impaired Assets	(%)	**52.4**	55.1	(270bps)	**52.4**	57.6	(520bps)
Collective Provisions to Risk Weighted Assets (**RWA**)	(%)	**0.39**	0.42	(3bps)	**0.39**	0.42	(3bps)
CAPITAL							
CET1 Ratio	(%)	**9.31**	9.39	(8bps)	**9.31**	9.42	(11bps)
Total Capital Adequacy Ratio	(%)	**12.76**	12.37	39bps	**12.76**	12.78	(2bps)
RWA	($ million)	**29,669**	28,644	4%	**29,669**	28,859	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 preference shares and treasury shares) less goodwill and identifiable intangible assets (customer related intangibles/brands and computer software).

BOQ GROUP - 2018 ANNUAL RESULTS

For the year ended 31 August 2018

2.2 NET INTEREST INCOME

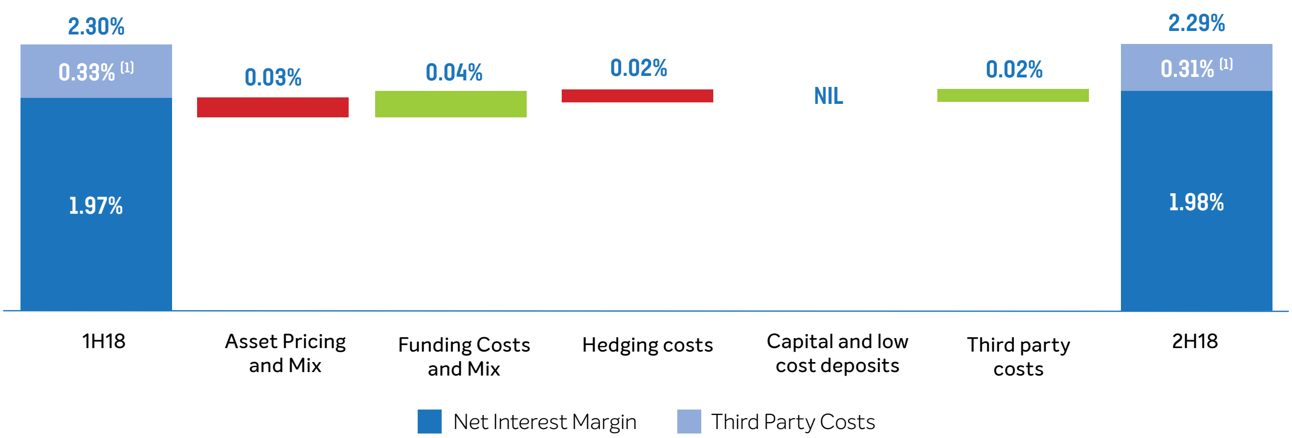
	Year End Performance			Half Year Performance		
$ million	**Aug-18**	Aug-17	Aug-18 vs Aug-17	**Aug-18**	Feb-18	Aug-18 vs Feb-18
Net Interest Income	**965**	926	4%	**490**	475	3%
Average Interest Earning Assets	**48,818**	47,891	2%	**49,159**	48,519	1%
Net Interest Margin	**1.98%**	1.93%	5bps	**1.98%**	1.97%	1bp

Net interest income increased by four per cent or $39 million from FY17. This was driven by a five basis point improvement in NIM over FY18 combined with a two per cent increase in average interest earnings assets. The margin improvement was primarily due to an improvement in funding costs.

2H18 performance saw net interest income increasing by three per cent. This was due to an increase in average interest earning assets over 2H18 of one per cent, a one basis point increase in net interest margin and a two per cent increase due to a higher number of days in 2H18 than 1H18.

NIM during 2H18 benefitted two basis points due to an extension in the behavioural term of the housing portfolio increasing the period over which origination costs were amortised. Underlying NIM was down one basis point driven by ongoing front to back competition for lending and the impact of increased basis costs outweighing the benefit from term deposit / spread reduction and the repricing actions undertaken in July 2018.

Net Interest Margin - February 2018 to August 2018



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

Underlying movements within the NIM between 1H18 and 2H18 included the following:

Asset Pricing and Mix: Asset pricing and mix (excluding the impact of basis) decreased by three basis points. Lower rates being offered on new loans, 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 NIM effect. This was partially mitigated by loan repricing actions in July 2018. Lower liquidity levels in 2H18 contributed to a one basis point positive impact which was offset by a lower yielding liquids mix.

Funding Costs and Mix: Funding cost benefits increased NIM by four basis points. The Bank took the opportunity early in the calendar year to take advantage of favourable wholesale funding conditions to pre-fund 2H18 growth. The increased sophistication in pricing of the Bank's term deposit portfolios combined with a change in mix allowed the Bank to extract funding cost benefits.

Hedging costs: The impact of basis increased in 2H18 largely with portfolio spreads increasing from an average of 23 basis points to 34 basis points compared to 1H18. This reduced NIM by two basis points in 2H18. This is likely to represent an ongoing headwind in the first half of FY19 if basis remains at current levels.

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) resulting in a one basis point reduction in NIM over 2H18. This was offset by an increase in non-invested capital due to a higher average three month BBSW rate.

Third party costs: Third party costs decreased two basis points in 2H18, largely a result of a one-off benefit arising from the extension of the behavioural weighted average life of the home loan portfolio reflecting lower customer attrition rates. This extended the period over which mortgage origination costs are amortised and contributed two basis points.

BOQ GROUP – 2018 ANNUAL RESULTS

For the year ended 31 August 2018

2.3 NON-INTEREST INCOME

	Year End Performance			Half Year Performance		
$ million	**Aug-18**	Aug-17	Aug-18 vs Aug-17	**Aug-18**	Feb-18	Aug-18 vs Feb-18
Banking Income	**93**	96	(3%)	**47**	46	2%
Insurance Income	**19**	21	(10%)	**9**	10	(10%)
Other Income	**32**	51	(37%)	**15**	17	(12%)
Trading Income	**1**	7	(86%)	**(1)**	2	(150%)
Total Non-Interest Income (1)	145	175	(17%)	70	75	(7%)

(1) Refer to Section 5.2 of the Operating and Financial Review Appendices (b) Non-Cash Earnings Reconciling Items for a reconciliation of Statutory Non-Interest Income to Cash Non-Interest Income.

Non-interest income of $145 million is down 17 per cent on FY17 ($14 million or nine per cent including the disposal of a vendor finance entity in FY17).

The industry-wide decline in income from interchange fees and lower merchant fees contributed to the three per cent reduction in banking income in FY18 combined with ongoing trends in customers choosing low or no fee banking products. There was some benefits in increased foreign exchange transactions with customers, particularly in 2H18, resulting in a two per cent increase in banking income over 1H18.

Other income decreased $19 million during FY18 and was 12 per cent lower in 2H18 versus 1H18. FY17 included a one-off benefit from the disposal of a vendor finance entity after the vendor partner exercised its option. This was combined with lower equipment sales income in the leasing entities in FY18.

The VMA white label product distribution business contributed $6 million to FY18, an increase of $1 million over FY17. This result was attributable to continued growth across its product lines particularly above system growth rates in credit card receivables during FY18.

The trading income contribution was down on FY17 as the Group held lower levels of traded liquidity instruments and 2H18 was impacted by elevated Cash/Bills basis spread.

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

2.4 INSURANCE OVERVIEW

	Year End Performance			Half Year Performance		
$ million	**Aug-18**	**Aug-17**	Aug-18 vs Aug-17	**Aug-18**	Feb-18	Aug-18 vs Feb-18
Gross Written Premium (net of refunds)	**72**	70	3%	**35**	37	(5%)
Net Earned Premium	**66**	68	(3%)	**32**	34	(6%)
Underwriting Result	**15**	17	(12%)	**6**	9	(33%)
Other Insurance Income	**3**	3	-	**2**	1	100%
Total Income	**18**	20	(10%)	**8**	10	(20%)
Consolidation Adjustment	**1**	1	-	**1**	-	-
Group Insurance Result	19	21	(10%)	9	10	(10%)

St Andrew's Insurance contributed $19 million or 13 per cent to Non-Interest Income, a $2 million or 10 per cent reduction from FY17.

Gross Written Premiums increased three per cent largely due to growth in wholesale partnerships, although Net Earned Premium did reduce due to lower consumer credit insurance sales levels and higher levels of reinsurance associated with the wholesale partnerships.

The Underwriting result decreased by $2 million to $15 million, with lower claims partly offsetting the decrease in net earned premium. The unemployment claims experience has improved notably in FY18 compared to FY17.

Whilst St Andrew's contribution has been steady over 1H18 and 2H18 across its existing lines of business, increased regulatory scrutiny continues to contribute to an uncertain performance outlook for the insurance sector.

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2.5 OPERATING EXPENSES

	Year End Performance			Half Year Performance		
$ million	Aug-18	Aug-17	Aug-18 vs Aug-17	Aug-18	Feb-18	Aug-18 vs Feb-18
Employee Expenses	263	257	2%	133	130	2%
Occupancy Expenses	44	42	5%	22	22	-
General Expenses	81	85	(5%)	40	41	(2%)
IT Expenses	119	108	10%	60	59	2%
Other Expenses	20	21	(5%)	10	10	-
Total Operating Expenses (1) (2)	527	513	3%	265	262	1%
CTI	47.5%	46.6%	90bps	47.3%	47.6%	(30bps)
Number of employees (FTE) (1)	2,039	2,031	-	2,039	2,046	-

(1) FTE numbers and Operating Expenses exclude VMA third party costs as the net result is included in Non-Interest Income. Expenses relating to the VMA mortgage offering have been included in the above table.

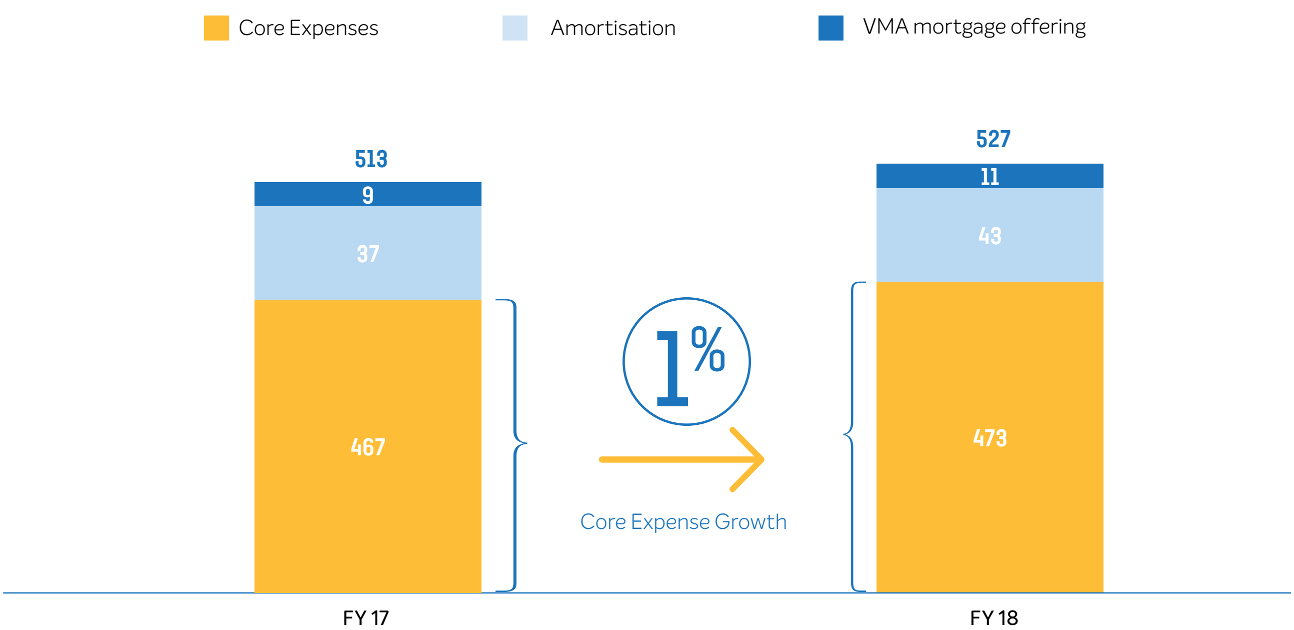
(2) Refer to Section 5.2 of the Operating and Financial Review Appendices (B) Non-Cash Earnings Reconciling Items for a reconciliation of Statutory Operating Expenses to Cash Operating Expense.

Operating expenses exclude expenses relating to the white label product distribution activities of VMA, where the net result is consolidated in non-interest income for the determination of cash earnings.

Operating expenses increased three per cent on FY17 to $527 million. On an underlying basis (per graph below), core operating expenses increased by one per cent compared to FY17. IT software amortisation expense associated with the Group's transformation agenda (refer Section 2.6 Capitalised Investment Expenditure) resulted in an additional $6 million being incurred in FY18.

A number of efficiency initiatives delivered in FY17 and FY18 have resulted in a reduction in the general expense profile in the provision of customer communications and increased digitisation within branches. This was achieved through leverage of existing partners' enhanced services with contemporary pricing. Increased investment in both strategic initiatives and regulatory compliance changes has resulted in an uplift to IT expenses above the $6 million increase in software amortisation.

Operating expenses analysis ($m)



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For the year ended 31 August 2018

2.6 CAPITALISED INVESTMENT EXPENDITURE

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

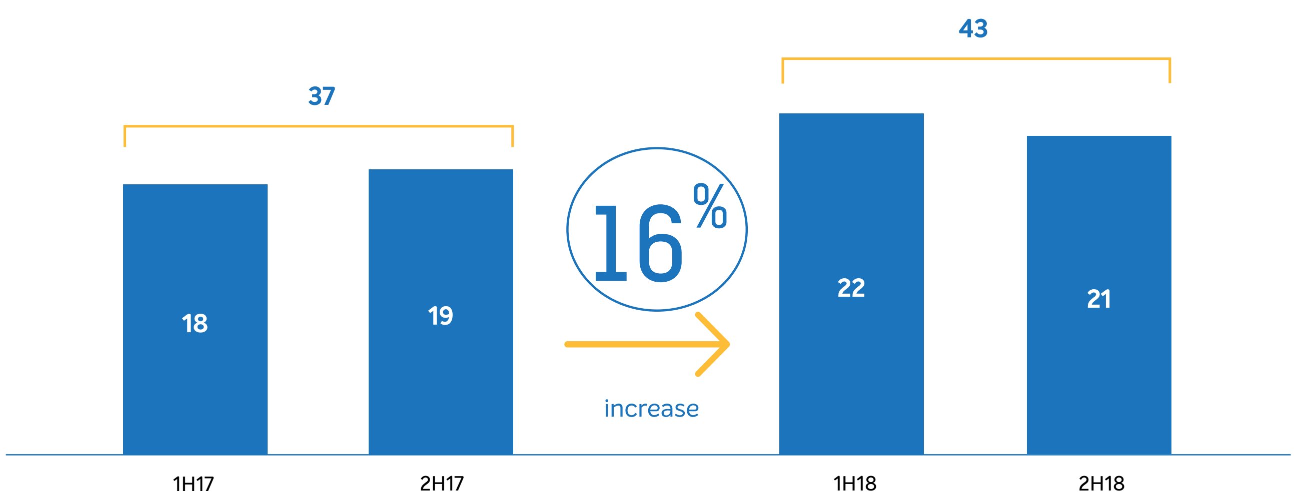
Investment continued into 2H18 across key programs of work including the New Payments Platform (**NPP**), a treasury & market risk systems upgrade, as well as developing capability for financial markets digital customer offerings and foreign currency accounts. These investments extend BOQ's digital banking capabilities, increase the Bank's ability to expand its product base and improve operational efficiency, whilst continuing to strengthen the Bank's risk management and control environment.

Infrastructure modernisation is a key pillar of the BOQ 2020 Technology Strategy, focused on improving capabilities, as well as removing technical complexity, and obsolescence risks.

Investment in assets under construction has accelerated in 2018, a direct result of the value in the key programs of work in progress, in addition to a general increase in the volume of assets under construction. The rate of growth in the carrying value of IT intangible assets has slowed over time reflecting an increasing annual amortisation charge. The software intangible asset balance was reduced by a one time expense of $16 million in 2H18, resulting from a policy change to increase minimum threshold for the capitalisation of intangible assets. In addition, a reassessment of the remaining useful life of intangible assets likely to be impacted by a roadmap of investment over the next three financial years was undertaken.

This approach considered intangible assets that were likely to be impacted with the deployment of additional capital across financial years 2019 and 2020 focused on delivering a contemporary digital banking experience, end-to-end lending process digitisation and enhanced customer omni-channel experiences.

IT intangible assets amortisation profile ($m)

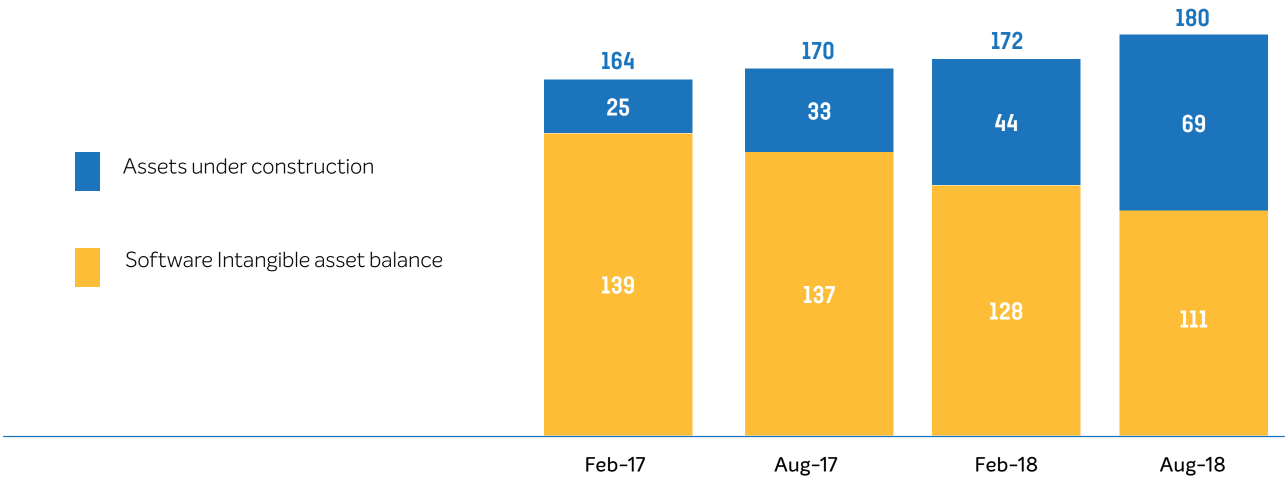


BOQ GROUP – 2018 ANNUAL RESULTS

For the year ended 31 August 2018

2.6 CAPITALISED INVESTMENT EXPENDITURE (CONTINUED)

Carrying value of IT intangible assets ($m)



2.7 LENDING

Lending growth improved in FY18. This was led by strong new business acquisition across the niche customer segments in BOQ Business and BOQ Finance with continued momentum in the VMA housing portfolio and improved retention across the BOQ branch network. BOQ balanced margin and asset quality during the year, with a focus on low cost deposit acquisition.

BOQ continues to maintain prudent credit standards, along with robust origination validation requirements in a market which is characterised by inconsistent application of evolving regulatory guidelines. The lending portfolio has maintained very low levels of arrears, an improving loan impairment expense profile and declining impaired asset balances reflecting adoption of prudent credit risk settings in prior years (refer Section 3.1 Asset Quality).

	As at				
$ million	Aug-18	Feb-18	Aug-17	Aug-18 vs Feb-18 (1)	Aug-18 vs Aug-17
Housing Lending	28,007	28,468	27,850	(3%)	1%
Housing Lending – APS 120 qualifying securitisation (2)	2,499	1,767	2,003	82%	25%
	30,506	30,235	29,853	2%	2%
Commercial Lending	9,881	9,589	9,312	6%	6%
BOQ Finance	4,595	4,360	4,345	11%	6%
Consumer	297	304	307	(5%)	(3%)
Gross Loans and Advances	45,279	44,488	43,817	4%	3%
Specific and Collective Provisions	(201)	(219)	(227)	(16%)	(11%)
Net Loans and Advances	45,078	44,269	43,590	4%	3%

(1) Growth rates have been annualised.
(2) Securitised loans subject to capital relief under APRA Prudential Standard APS 120 *Securitisation* (**APS 120**).

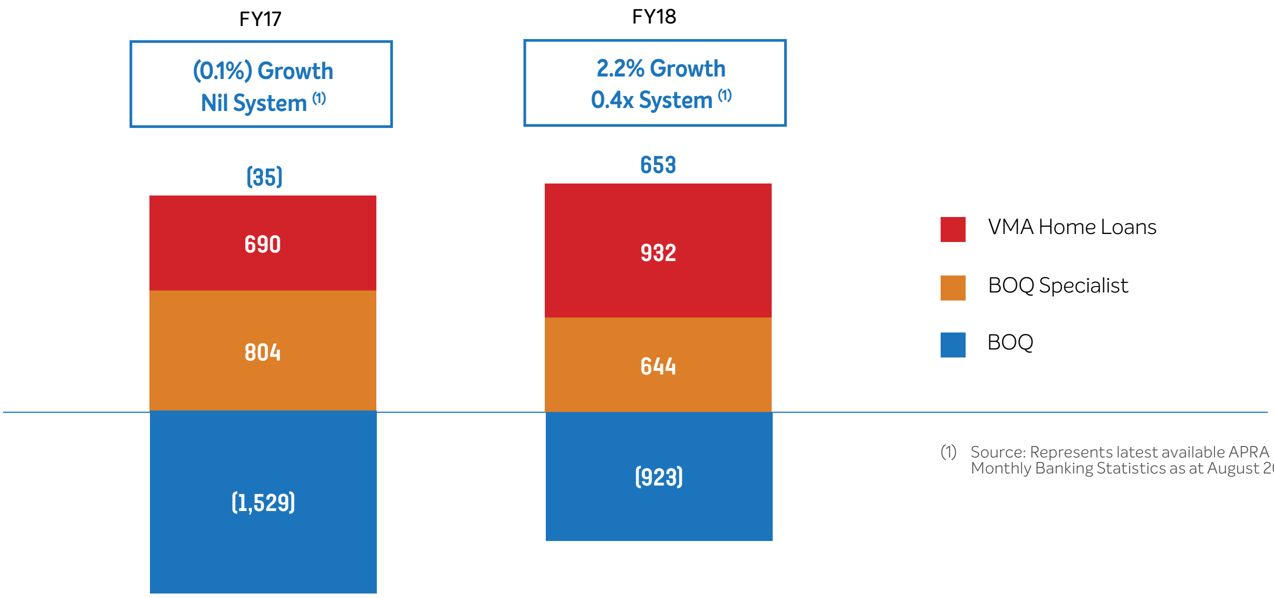
BOQ GROUP - 2018 ANNUAL RESULTS

For the year ended 31 August 2018

2.7 LENDING (CONTINUED)

Growth in Gross Loans & Advances

Growth in Housing ($m)



(1) Source: Represents latest available APRA Monthly Banking Statistics as at August 2018

Housing Lending

Total housing lending growth improved $688 million year on year in a market that is increasingly competitive. BOQ maintained prudent credit risk settings and took a conservative approach to regulatory compliance, moving earlier to adopt enhanced servicing, validation and responsible lending practices than many of its competitors. BOQ's relative under-representation in higher growth markets such as Sydney and Melbourne also constrained growth rates. BOQ's focus on building service and fulfillment capability through the retail lending origination platform and centralised mortgage processing capabilities, is delivering efficiencies and an improved customer experience.

The VMA mortgage offering is in its second year of operation and continued its growth profile over 2018 with over $1 billion in settlements taking the portfolio to $1.6 billion through its network of over 3,300 accredited brokers. The '*Reward Me*' mortgage product has resonated with a new customer demographic aligned to the Virgin brand, predominantly younger and geographically diversified from the traditional BOQ customer base. This year, VMA also introduced a direct online channel.

The BOQ Specialist mortgage offering to its niche, professional client base grew by 15 per cent in FY18. The portfolio had lower growth compared to prior years due to the maturing portfolio, however it continues to deliver solid above system growth. Momentum continued through a focus on building relationships with professionals in the early stages of their careers starting at university. The diversity offered through this portfolio in geography, profession and age, improves the overall risk profile of the housing lending portfolio in BOQ. It also creates future opportunities to meet the commercial lending needs of the targeted health professional market segments well into the future stages of career progression.

BOQ's branch network improved its housing performance, particularly across the Owner Manager channel, through improved retention rates whilst maintaining strong credit standards. BOQ has rebalanced the remuneration structure for its owner managers towards non-financial measures for 2019.

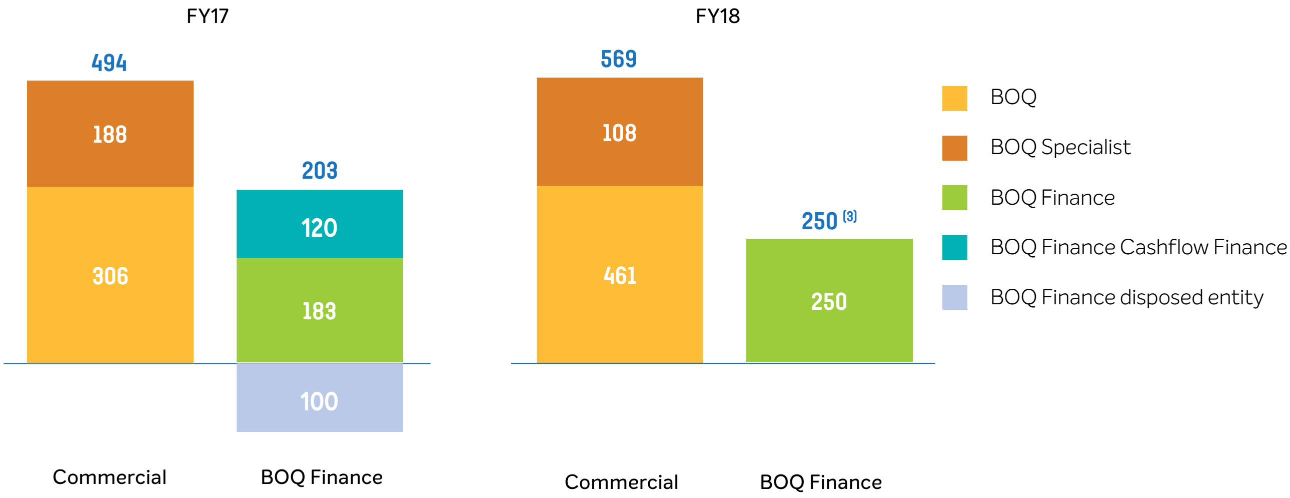
BOQ's growth through the mortgage broker channel improved in FY18 by $165 million. Flows returned as other market participants tightened their serviceability and validation practices. The broker support team has continued to work closely with key aggregator partners to further improve turnaround times and enhance the customer experience.

BOQ GROUP – 2018 ANNUAL RESULTS

For the year ended 31 August 2018

2.7 LENDING (CONTINUED)

Growth in Commercial & BOQ Finance ($m)



	FY17		FY18	
	Commercial	BOQ Finance	Commercial	BOQ Finance [2]
Growth rate	5.6%	4.4%	6.1%	5.8%
System growth [1]	6.3%	4.5%	5.1%	4.8%
Growth vs System	0.9x	1.0x	1.2x	1.2x

(1) Based on APRA and AFIA (previously known as AELA) system growth statistics as at August 2018.
(2) Excludes the acquisition of BOQF Cashflow Finance and disposal of a vendor finance entity.
(3) The FY18 BOQ Finance result includes the BOQF Cashflow Finance business following integration.

BOQ Business

The commercial lending portfolio grew by six per cent in FY18 to $10 billion continuing the momentum from FY17. Growth of 1.2x system was driven by strong existing banking relationships and targeted growth across niche segments.

BOQ Specialist delivered commercial loan book growth of four per cent in its core medical segment, maintaining an estimated market share of 22 per cent. Offering bespoke solutions to medical, dental and veterinary professionals results in building deeper customer relationships from graduation through to retirement. BOQ Specialist has captured a large part of the medical graduate market and is expected to sustain growth in the future as the lending needs of these customers transition through home lending to commercial lending over time.

BOQ Finance continues to provide profitable asset growth above system, growing six per cent to $4.6 billion in FY18. Investment in leasing systems has supported growth in novated leasing as well as new wholesale business. Growth in equipment finance, particularly in agricultural and structured finance solutions led to continued diversification of the exposures.

The BOQ branded commercial portfolio grew by $461 million or seven per cent with consistent performance over both 1H18 and 2H18. The Bank's niche segments of corporate healthcare & retirement living, hospitality & tourism and agribusiness all contributed strong levels of new customer acquisition. Diversification has improved significantly, with strong growth in New South Wales and a reduction in the Queensland concentration in the commercial book to 42 per cent.

The small business (**SME**) lending strategy continued to evolve, with strong referral volumes from the branch network to business bankers. The Bank's ongoing investment in the delivery of product and digital fulfillment capability was supported with the launch of the Square partnership, providing improved transactional capabilities for our small business clients.

Ongoing investment in developing financial markets services will support BOQ's SME and commercial offerings in the future.

BOQ GROUP – 2018 ANNUAL RESULTS

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3. BUSINESS SETTINGS

3.1 ASSET QUALITY

Loan impairment expense was down 15 per cent year on year to $41 million, or nine basis points of gross loans and advances. Impaired asset balances were $28 million lower than FY17 and BOQ maintains prudent provisioning coverage compared to industry peers. Arrears have remained largely flat from FY17 with only a slight increase in 90 dpd arrears attributable to the commercial portfolio.

		Year End Performance			Half Year Performance		
		Aug-18	**Aug-17**	Aug-18 vs Aug-17	**Aug-18**	Feb-18	Aug-18 vs Feb-18
Loan Impairment Expense	($ million)	**41**	48	(15%)	**19**	22	(14%)
Loan Impairment Expense / GLA	bps	**9**	11	(2bps)	**8**	10	(2bps)
Impaired Assets	($ million)	**164**	192	(15%)	**164**	173	(5%)
30dpd Arrears	($ million)	**469**	470	–	**469**	493	(5%)
90dpd Arrears	($ million)	**260**	257	1%	**260**	237	10%
Collective Provision & General Reserve for Credit Losses (**GRCL**) / RWA	bps	**67**	83	(16bps)	**67**	70	(3bps)

The table above summarises BOQ's key credit indicators with comparison against August 2017 and February 2018:

- Loan impairment expense reduced by $7 million (15 per cent) year on year to $41 million. This result includes the implementation of the Group's new collective provisioning and reserving model. Collective provisioning contributed $6 million to the decrease over the year and underlines the strong credit risk settings of the Bank. The result is supported by lower specific provisioning activity with only two large exposures contributing $4 million to impairment expense and $12 million in impaired asset balances.
- Impaired Assets decreased by $9 million (five per cent) over 2H18 and $28 million (15 per cent) for FY18 to $164 million. The decrease in impaired balances was driven by the partial settlement and clearance of the Group's largest impaired exposure for $11 million, with two exposures greater than $5 million moving to impaired status during 2H18. The impaired balances of these were $12 million in total. The Group now holds three exposures greater than $5 million in impaired status, totalling $25 million. At 1H18 the Group held one exposure for $28 million and at FY17 the Group held two exposures totalling $40 million.
- 30 day and 90 day arrears have decreased $1 million and increased $3 million year on year and the loan impairment expense to GLA percentage has declined by two basis points in both FY18 and 2H18. This includes three connections that have expired facilities in the 30 day arrears and 90 day arrears for a total of $15 million, and while all loans are being serviced and are considered performing, the full balance is considered in arrears. These are currently being renewed and equate to three basis points of GLAs.

BOQ GROUP - 2018 ANNUAL RESULTS

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3.1 ASSET QUALITY (CONTINUED)

Loan Impairment Expense

	Year End Performance				Half Year Performance			
	Aug-18		Aug-17		Aug-18		Feb-18	
	Expense ($m)	Expense/ GLA (bps)	Expense ($m)	Expense/ GLA (bps)	Expense ($m)	Expense/ GLA (bps)	Expense ($m)	Expense/ GLA (bps)
Retail Lending	15	5	20	7	4	3	11	7
Commercial Lending	11	11	13	14	1	3	10	21
BOQ Finance	15	33	13	30	14	60	1	5
Underlying Loan Impairment Expense	41	9	46	10	19	8	22	10
Large commercial exposure impairment	-	-	16	4	-	-	-	-
Collective provision model adjustment	-	-	(14)	(3)	-	-	-	-
Total Loan Impairment Expense	41	9	48	11	19	8	22	10

The table above highlights improvement across the Group's portfolios with impairment charges at historically low levels due to the low interest rate environment, prudent credit settings and active credit management. During 2H18, loan impairment expense in BOQ Finance returned to historical levels after two halves of unusually low loss performance.

The retail portfolio benefited from improved economic conditions through regional areas which resulted in lower provisioning activity through 2H18. The expense profile within BOQ Business (Commercial Lending and BOQ Finance) was affected by the Group's new collective provisioning model (**CP model**) driving movements between portfolios as performance and behaviour was enhanced following implementation of the new CP model.

FY17 includes the impact of a large commercial exposure impairment and a reduction in the CP model as outlined above.

Impaired Assets

$ million	As at Aug-18	Feb-18	Aug-17	Aug-18 vs Feb-18	Aug-18 vs Aug-17
Retail Lending	67	74	75	(9%)	(11%)
Commercial Lending	81	82	95	(1%)	(15%)
BOQ Finance	16	17	22	(6%)	(27%)
Total Impaired Assets	164	173	192	(5%)	(15%)
Impaired Assets / GLA	36bps	39bps	44bps	(3bps)	(8bps)

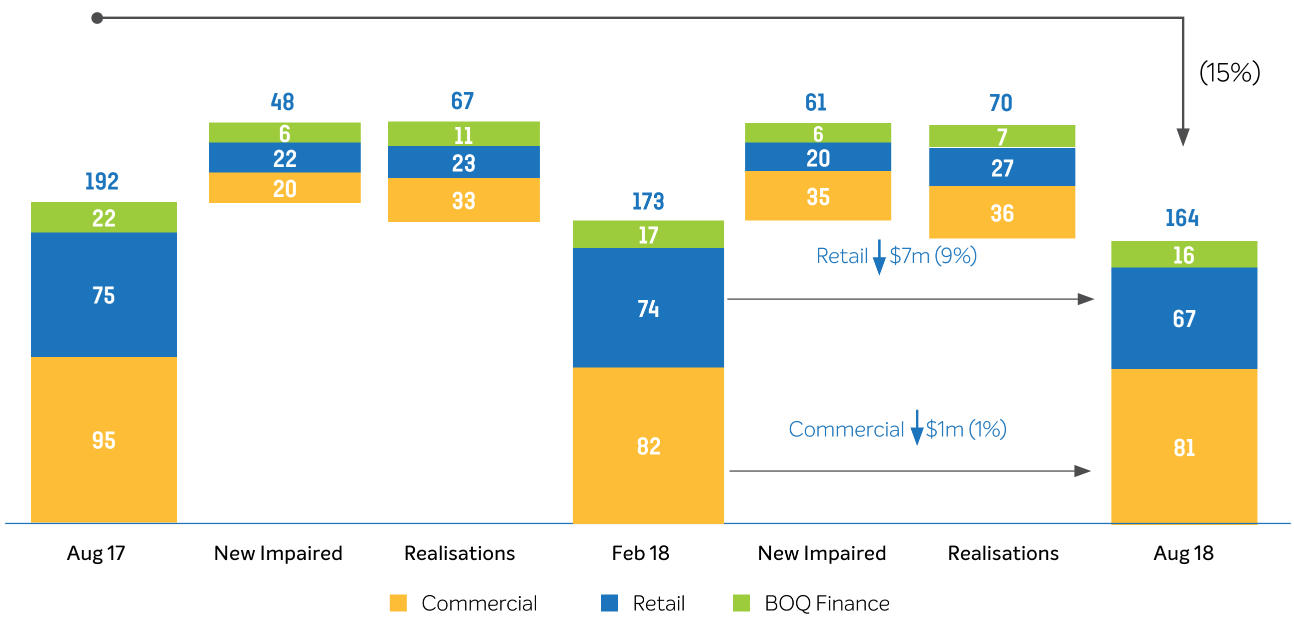
Impaired Assets decreased by $9 million or five percent from 1H18 and $28 million or 15 per cent from FY17 to $164 million with the specific provision coverage ratio reducing slightly to 52 per cent. This decline in impaired balances was driven by two connections being managed from the portfolio with $11 million clearing in 1H18 (the Group's second largest impaired connection), and $11 million clearing in 2H18 (the partial clearance of the Group's largest exposure). These were partially offset by two new large exposures for $6 million each. The Group now holds three exposures with impaired balances greater than $5 million for a combined total of $25 million. At 1H18 the Group held one exposure with an impaired balance greater than $5 million for $28 million and at FY17 the Group held two for a combined total of $40 million. The low impairment expense was supported by low specific provisioning activity which led to a lower level of new impairments recognised over FY18.

BOQ GROUP - 2018 ANNUAL RESULTS

For the year ended 31 August 2018

3.1 ASSET QUALITY (CONTINUED)

Impaired Assets ($m)



Provision Coverage

Total provisions decreased by $26 million or 11 per cent to $201 million during FY18. The majority of this reduction was due to the specific provisioning balance, which declined in line with the reduction in the impaired asset balance as realisations exceeded new specific provisioning. Specific provision coverage is at 52 per cent which is down three percentage points on FY17. The implementation of the new collective provisioning and reserving model was further refined over the year and is reflective of the Group's improved credit quality and model enhancements ahead of implementation of the requirements of AASB 9 *Financial Instruments* on 1 September 2018. Collective provision coverage reduced five per cent over FY18, with the GRCL reducing by $22 million (27 per cent), however, BOQ remains conservatively provisioned compared to industry peers.

	As at				
$ million	Aug-18	Feb-18	Aug-17	Aug-18 vs Feb-18	Aug-18 vs Aug-17
Specific Provision	86	99	106	(13%)	(19%)
Collective Provision	115	120	121	(4%)	(5%)
Total Provisions	201	219	227	(8%)	(11%)
GRCL	59	58	81	2%	(27%)
Specific Provisions to Impaired Assets	52%	57%	55%	(500bps)	(300bps)
Total Provisions and GRCL to Impaired Assets [1]	174%	175%	179%	(100bps)	(500bps)
Total Provisions and GRCL to RWA [1]	1.0%	1.0%	1.2%	(3bps)	(23bps)

(1) GRCL gross of tax effect.

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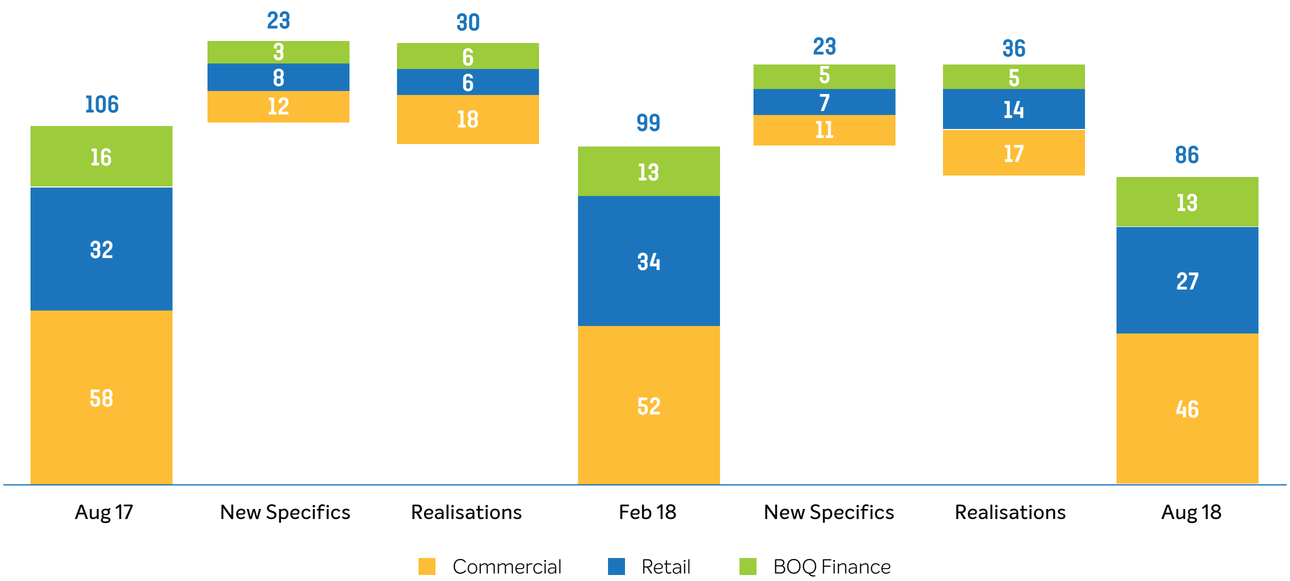
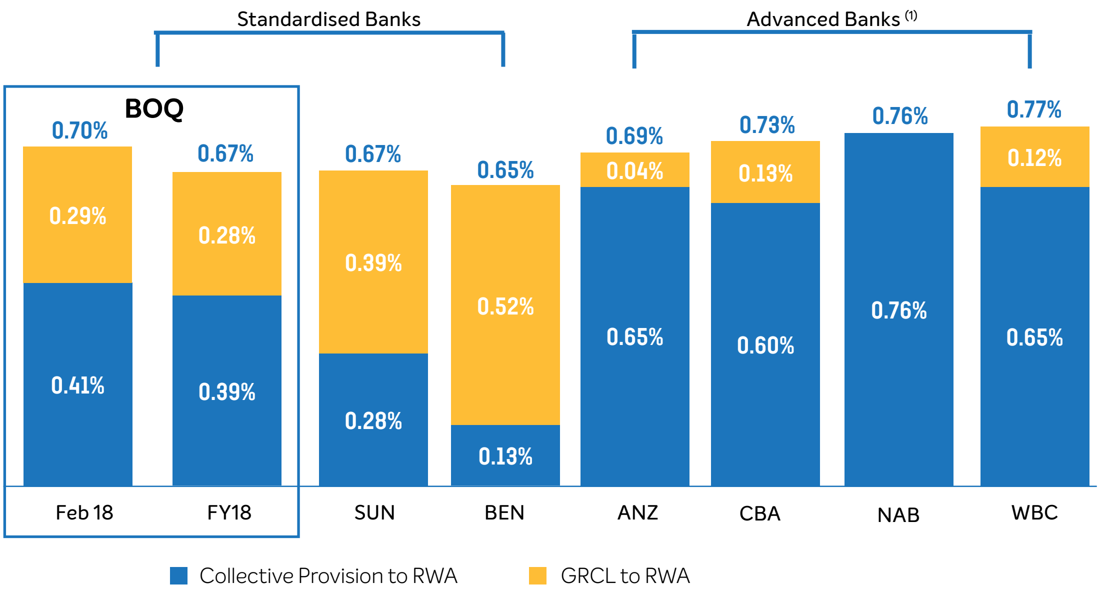
3.1 ASSET QUALITY (CONTINUED)

Specific Provisions ($m)



Collective Provision and GRCL/RWA vs Peers

The graph below provides BOQ's level of collective provisions and GRCL to RWA against the current levels of those of its peers, as published in their most recent financial reports. BOQ's coverage has dropped 16 basis points over FY18, however, BOQ remains prudently provisioned compared to industry peers.



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

BOQ GROUP – 2018 ANNUAL RESULTS

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3.1 ASSET QUALITY (CONTINUED)

Arrears

Key Metrics	Portfolio Balance ($m) Aug-18	Aug-18	Feb-18	Aug-17	Aug-18 vs Feb-18	Aug-18 vs Aug-17
Total Lending – Portfolio balance ($ million)		45,279	44,488	43,817	2%	3%
30 days past due ($ million)		469	493	470	(5%)	–
90 days past due ($ million)		260	237	257	12%	1%
		Proportion of Portfolio				
30 days past due: GLAs		1.04%	1.11%	1.07%	(7bps)	(3bps)
90 days past due: GLAs		0.57%	0.53%	0.59%	4bps	(2bp)
By Product						
30 days past due: GLAs (Housing)	28,618	0.92%	0.99%	1.02%	(7bps)	(10bps)
90 days past due: GLAs (Housing)		0.44%	0.45%	0.50%	(1bp)	(6bps)
30 days past due: GLAs (Line of Credit)	1,888	2.33%	2.54%	2.19%	(21bps)	14bps
90 days past due: GLAs (Line of Credit)		1.17%	1.07%	1.25%	10bps	(8bps)
30 days past due: GLAs (Consumer)	297	1.35%	1.64%	1.30%	(29bps)	5bps
90 days past due: GLAs (Consumer)		0.67%	0.99%	0.98%	(32bps)	(31bps)
30 days past due: GLAs (Commercial)	9,881	1.38%	1.26%	1.22%	12bps	16bps
90 days past due: GLAs (Commercial)		1.08%	0.82%	0.86%	26bps	22bps
30 days past due: GLAs (BOQ Finance)	4,595	0.47%	0.82%	0.47%	(35bps)	–
90 days past due: GLAs (BOQ Finance)		0.07%	0.10%	0.13%	(3bps)	(6bps)

Retail Arrears

Housing arrears have continued to improve throughout FY18 reflective of the Group's enhanced servicing, validation and responsible lending practices. This combined with prudent collection practices and the current low interest rate environment has resulted in the continued improvement in credit quality in the housing portfolio.

BOQ Business Arrears

Commercial arrears have tracked upwards over 2H18. This includes three facilities totalling $15 million in both the 30 and 90 days arrears categories that are expected to return to the performing category in 1Q19. If these facilities are excluded, the combined impact of 15 basis points would bring the underlying performance in line with previous periods.

BOQ Finance 30 day arrears ended the year at similar levels to 2H17 and decreased from 1H18 as expected following the usual seasonal increase while 90 day arrears remained low throughout FY18.

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3.2 FUNDING AND LIQUIDITY

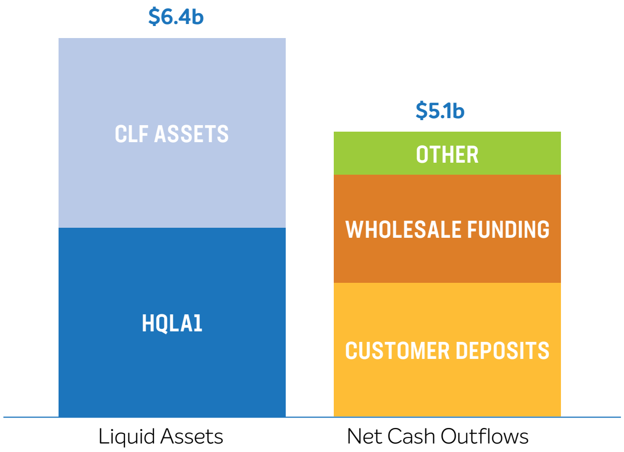
BOQ's liquidity strategy and risk appetite are designed to ensure it has the ability to meet payment obligations as and when they fall due. To manage liquidity risk BOQ maintains a portfolio of unencumbered, high quality liquid assets, giving the Bank a buffer to withstand a range of stress events, including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

Liquidity Coverage Ratio (LCR)

APRA requires LCR ADIs to maintain a minimum 100 per cent LCR. The LCR requires sufficient Tier 1 high quality liquid assets (**HQLA1**) and alternative liquid assets (covered by the Committed Liquidity Facility (**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 and actively maintains a buffer above the regulatory minimum in line with BOQ's prescribed risk appetite and management ranges.

The Bank's LCR at 31 August 2018 was 127 per cent , which is two per cent higher than 1H18 and down from the LCR at 31 August 2017 of 132 per cent. BOQ's net cash outflows increased over the year on the back of balance sheet growth and higher wholesale funding maturities in September 2018 rolling into the LCR window. BOQ averaged an LCR of 135 per cent for 1H18 and 136 per cent over FY18.

LCR – August 2018 (127%)



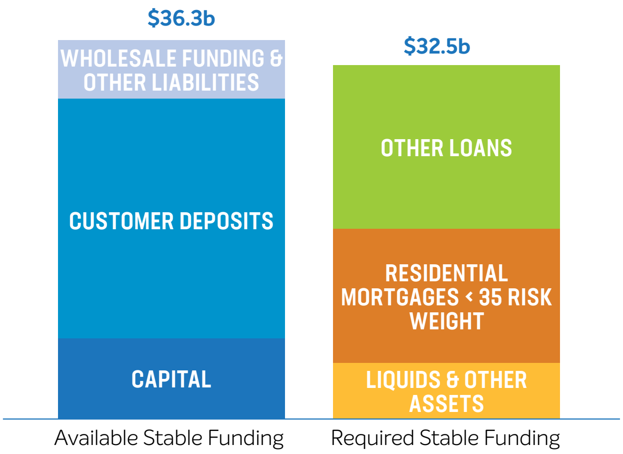
Net Stable Funding Ratio (NSFR)

APRA's objective in implementing the NSFR is to strengthen funding and liquidity resilience. The NSFR encourages ADIs to reduce the amount of liquidity transformation by funding their lending activities with more stable sources of funding, and thereby promoting greater balance sheet resilience.

The NSFR establishes a minimum stable funding requirement based on the liquidity characteristics of the ADI's assets and off-balance sheet activities over a one year time horizon. The NSFR is defined as the ratio of the amount of Available Stable Funding (**ASF**) to the amount of Required Stable Funding (**RSF**). APRA requires ADIs to maintain an NSFR of at least 100 per cent. BOQ manages its NSFR on a daily basis and actively maintains a buffer above the regulatory minimum in line with BOQ's prescribed risk appetite and management ranges.

BOQ's NSFR at 31 August 2018 was 112 per cent, which is a three per cent increase on the Bank's NSFR at the 1 January 2018 implementation. The main driver for the increase in NSFR has been growth in customer deposits. The average NSFR since inception on 1 January 2018 has been 110.7 per cent.

NSFR – August 2018 (112%)



BOQ GROUP – 2018 ANNUAL RESULTS

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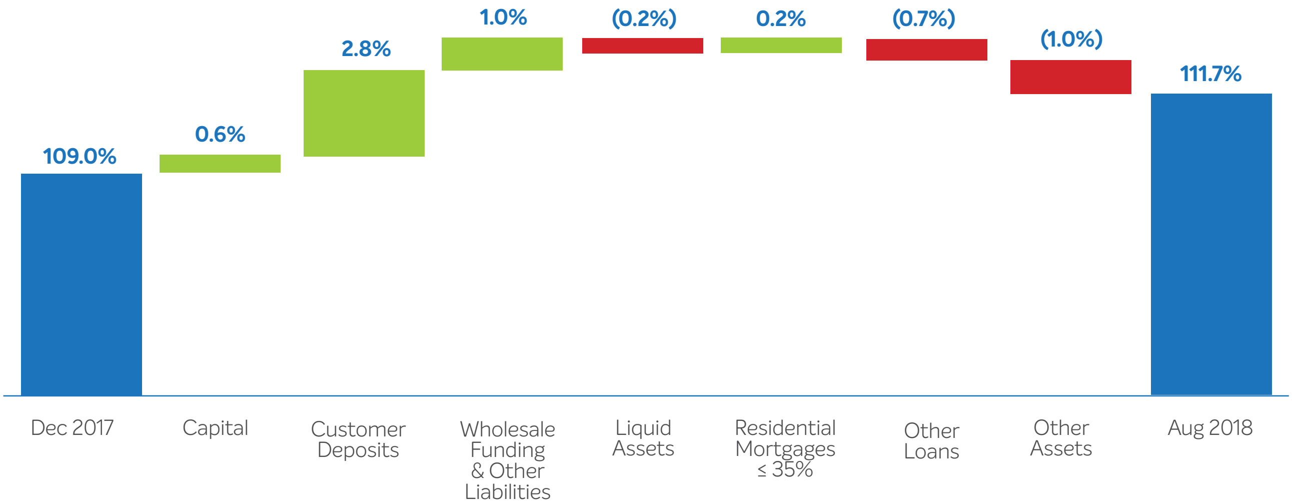
3.2 FUNDING AND LIQUIDITY (CONTINUED)

NSFR Waterfall 31 December 2017 – 31 August 2018

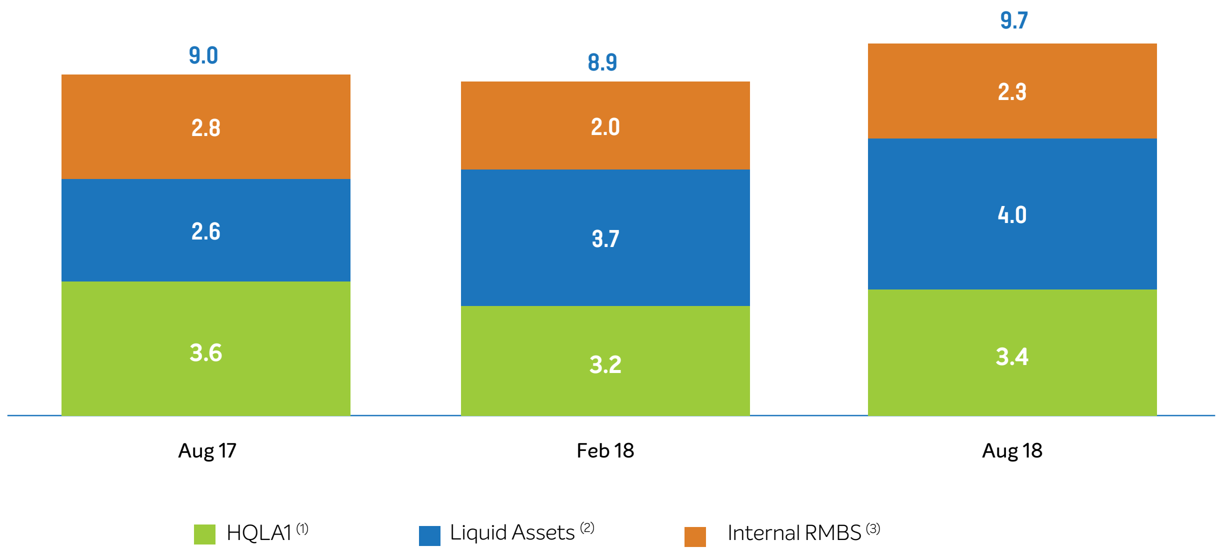


Liquid Assets

BOQ maintains a portfolio of high quality, diversified liquid assets to facilitate balance sheet liquidity and meet internal and regulatory requirements. Liquid assets are comprised of HQLA1 (cash, Australian Semi-Government and Commonwealth Government securities) and alternative liquid assets covered under the CLF from the Reserve Bank of Australia (**RBA**). CLF assets include senior unsecured bank debt, covered bonds, Asset Backed Securities (**ABS**) and Residential Mortgage Backed Securities (**RMBS**) that are eligible for repurchase with the RBA.

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. BOQ increased its contingent liquidity in line with the increase in CLF to ensure it maintains a sufficient buffer to its core liquidity.

Liquidity Composition ($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.

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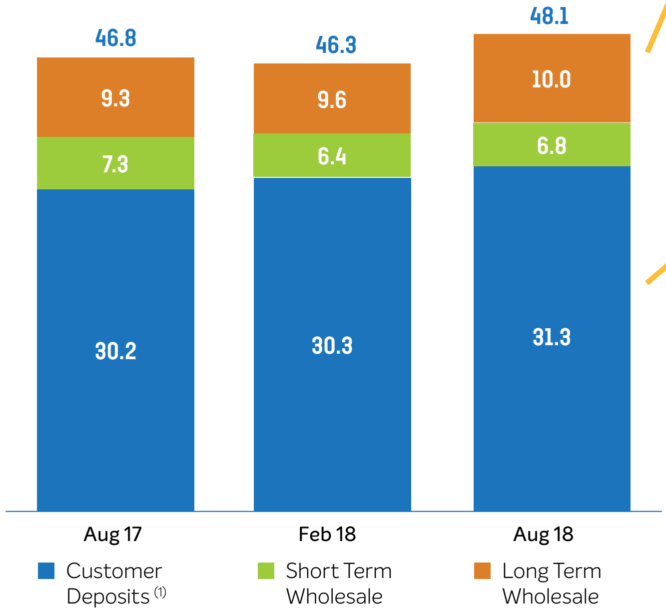
3.2 FUNDING AND LIQUIDITY (CONTINUED)

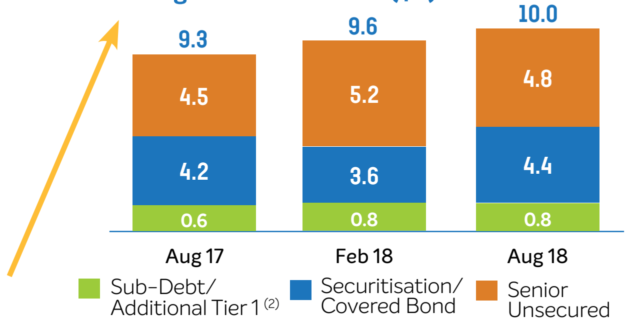
Funding

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.

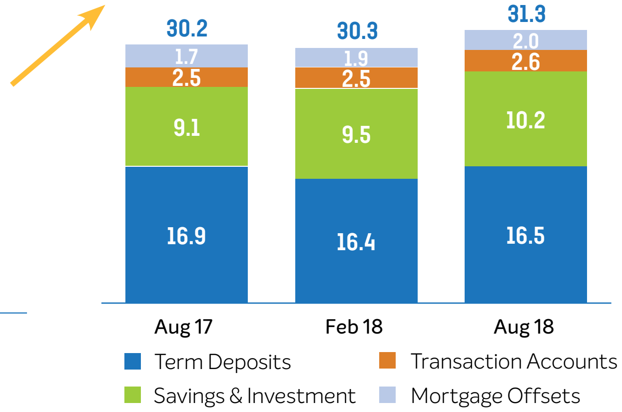
Funding Mix ($b)



Long Term Wholesale ($b)



Customer Deposits ($b)



(1) The classification of customer deposits is defined as all deposits excluding those from financial institutions as defined under APS 210 Liquidity.

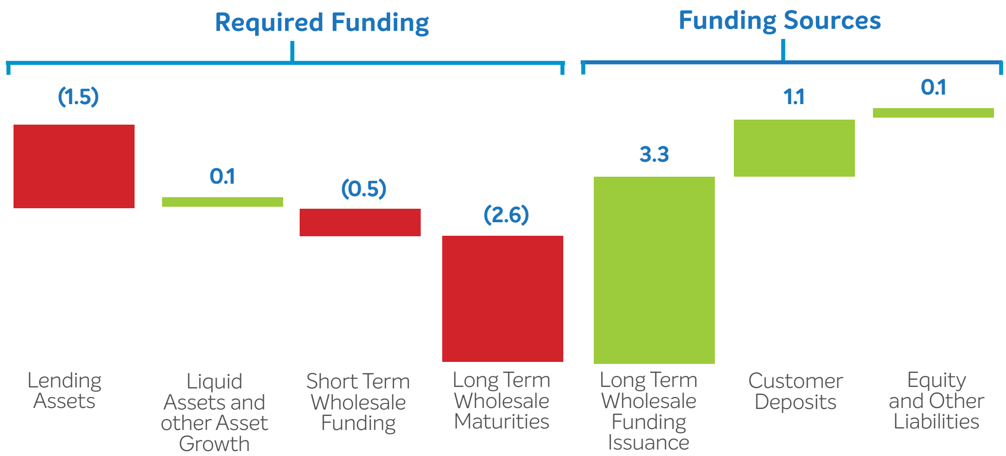
(2) Additional Tier 1 notes.

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 continues to focus on increasing longer dated, stable funding sources whilst reducing reliance on short dated wholesale funding. In FY18, customer deposit growth coupled with net long term wholesale funding growth predominantly funded lending growth and targeted runoff of short term wholesale funding. The Bank's deposit to loan ratio has increased to 69 per cent up one per cent from 1H18 and flat for FY18 through strong customer deposit growth in the Bank's retail channels.

2018 Funding Summary ($b)



BOQ GROUP - 2018 ANNUAL RESULTS

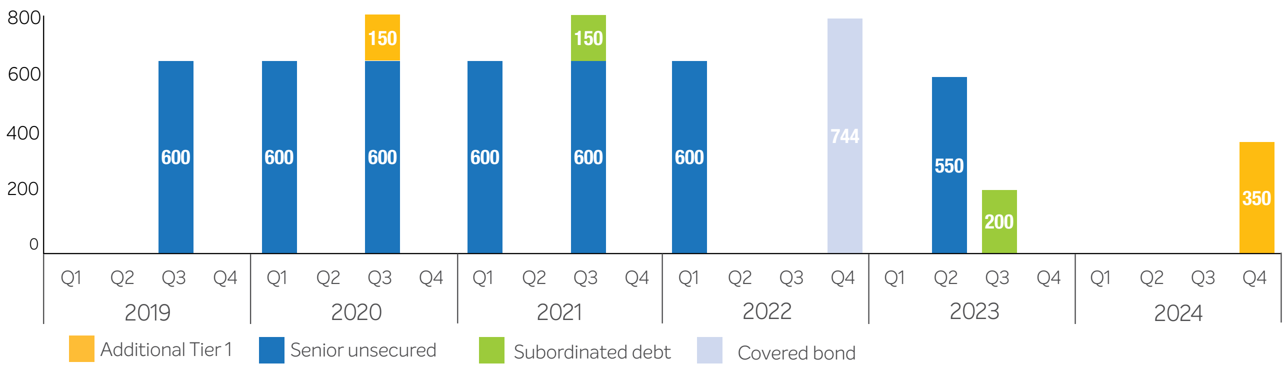
For the year ended 31 August 2018

3.2 FUNDING AND LIQUIDITY (CONTINUED)

Term funding issuance

During FY18, BOQ issued a combination of benchmark sized senior unsecured debt transactions and private placements (both domestically and offshore) to extend its senior unsecured credit curve. The Bank issued two senior unsecured debt transactions, $600 million for four years and $550 million for five years in November 2017 and February 2018 respectively, coupled with a $350 million Capital Notes transaction (December 2017), a $200 million subordinated debt transaction (May 2018) and a $1 billion RMBS capital relief securitisation (May 2018). These transactions have increased the tenor of the wholesale portfolio and provided diversification benefits whilst maintaining manageable refinancing towers over the next five years.

Major Maturities ($m) (1) (2) (3) (4)



(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 notes 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.

3.3 CAPITAL MANAGEMENT

Capital Adequacy

	As at				
$ million	Aug-18	Feb-18	Aug-17	Aug-18 vs Feb-18	Aug-18 vs Aug-17
Common Equity Tier 1 (**CET1**)	2,762	2,719	2,690	2%	3%
Additional Tier 1 Capital	500	641	450	(22%)	11%
Total Tier 2	524	328	402	60%	30%
Total Capital Base	3,786	3,688	3,542	3%	7%
Total RWA	29,669	28,859	28,644	3%	4%
CET1 Ratio	9.31%	9.42%	9.39%	(11bps)	(8bps)
Total Capital Adequacy Ratio	12.76%	12.78%	12.37%	(2bps)	39bps

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3.3 CAPITAL MANAGEMENT (CONTINUED)

The Group's CET1 ratio decreased by 11 basis points during 2H18 to 9.31 per cent.

Underlying Capital Generation was two basis points. Lending growth concentrated in higher risk weighted commercial and BOQ Finance assets was more pronounced in 2H18 which resulted in higher RWA Growth. The ordinary dividend impact was also slightly higher as the dividend reinvestment plan participation rate of 32% for the interim dividend was lower than previous periods.

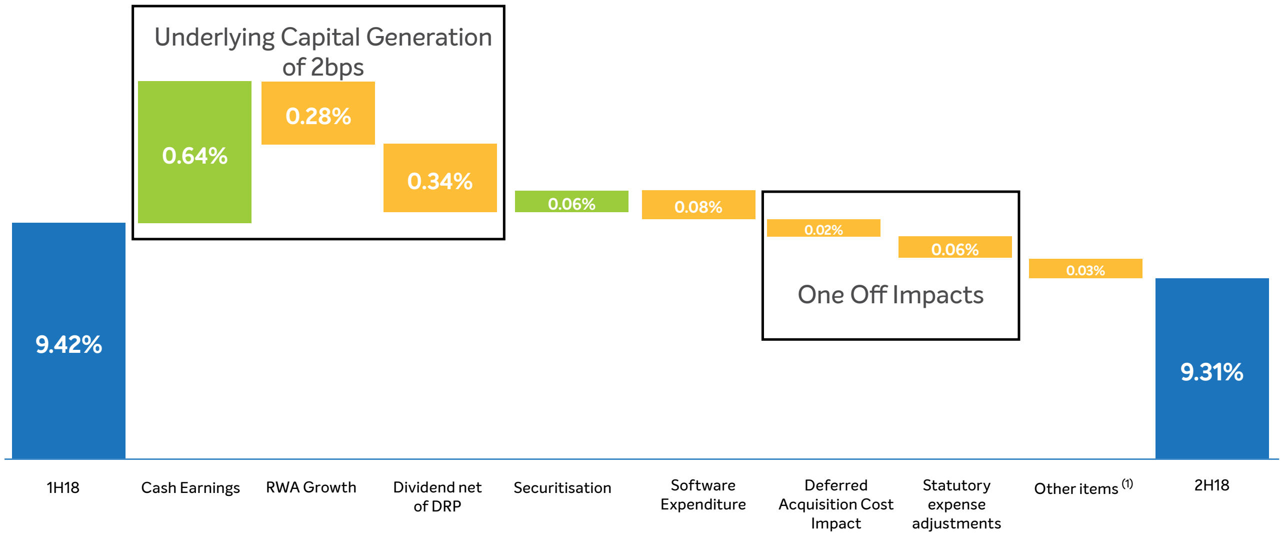
There was an eight basis points one-off impact to CET1 due to increased non-cash items attributed to regulatory/compliance costs, legacy items and increased deductions due to the behavioural life extension of housing loans which impacted deferred acquisition costs. A non-recurring adjustment to the carrying value of Intangible IT assets was offset by the statutory profit reduction associated with the accelerated amortisation, and the creation of a deferred tax asset (**DTA**).

During 2H18, there were CET1 deductions of eight basis points due to an increase in IT intangible asset investment (software spend) that occurred during FY18, which was more pronounced in 2H18.

This was largely offset by the completion of a one billion dollar capital efficient securitisation issue, providing a six basis points increase to CET1.

Other items included increased deferred acquisition costs, reductions in the Available-for-Sale reserve and increased off balance sheet risk weights through changed regulatory treatment. These items were only partially offset by reduced DTA balances.

Common Equity Tier 1 2H18 V 1H18



(1) Other items increased off balance sheet risk weights through changed regulatory treatment net of reduced deferred tax asset deductions.

3.4 TAX EXPENSE

Tax expense arising on cash earnings for FY18 amounted to $170 million. This represented an effective tax rate of 31.3 per cent. This rate is consistent with previous years , which is higher than the prima facie income tax expense rate of 30 per cent primarily due to the non-deductible interest payable on convertible preference shares issued in FY13 (redeemed during FY18), Wholesale Capital Notes issued in FY15 and Capital Notes issued in FY18, together with non-deductible accounting amortisation. The rate appears higher in comparison to FY17 (30.0 per cent), however the rate was unusually low in that year due to the utilisation of previously unrecognised capital losses against the profit on the disposal of a vendor finance entity.

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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 VMA distribution channels.

The Retail Banking division continued its strategy of expanding distribution channels during 2018, with solid growth in lending volumes through VMA and BOQ Broker channels with these channels contributing 40 per cent of housing loan settlements for Retail Banking during 2H18. Whilst the Branch network saw GLAs retreat over FY18, an improvement in customer retention over FY18 was evident across the Owner Manager network.

Retail asset growth was flat over FY18 with a continued focus on quality origination and managing margin in the current competitive landscape. BOQ's customer fulfilment proposition continues to improve as many competitors in the market revisit their lending standards. There has been a stabilisation in the consumer shift away from interest only loans following the introduction of macro prudential limits and investor lending continues to contract, leading to heightened price competition for new owner occupied principal and interest loans.

The VMA 'Reward Me' mortgage offering continues to be well received by customers and brokers, with the mortgage portfolio now exceeding $1.6 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 better reflecting 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 overall funding costs.

Retail Banking commenced the implementation of its digital enablement strategy with the launch of the new BOQ website, which provides a much improved user experience for customers. Retail Banking continues to invest in its digital program to better meet customer needs.

	Year End Performance			Half Year Performance		
$ million	**Aug-18**	Aug-17	Aug-18 vs Aug-17	**Aug-18**	**Feb-18**	Aug-18 vs Feb-18
Net interest income	458	446	3%	231	227	2%
Non-interest income	67	69	(3%)	34	33	3%
Total income	525	515	2%	265	260	2%
Operating expenses	(281)	(274)	3%	(140)	(141)	(1%)
Underlying profit	244	241	1%	125	119	5%
Loan impairment expense	(15)	(14)	7%	(5)	(10)	(50%)
Profit before tax	229	227	1%	120	109	10%
Income tax expense	(72)	(70)	3%	(38)	(34)	12%
Cash earnings after tax	157	157	-	82	75	9%

Cash earnings after tax of $157 million for FY18 was flat compared to FY17.

Net interest income of $458 million increased $12 million or three per cent over the year. This reflected higher GLA growth whilst managing margins through improved funding composition and product mix.

Non-interest income of $67 million for FY18 was $2 million or three per cent lower than FY17. This reflected lower ATM fees and costs relating to branch conversions offset by an improved contribution from the VMA credit card portfolio.

Operating expenses of $281 million increased $7 million during FY18 (three per cent) reflecting increased amortisation, compliance and branch distribution costs, though this was mitigated by tight cost disciplines across support functions and a reduction in non-lending losses.

Impairment expense of $15 million increased $1 million from FY17. Retail impairment expense reduced in 2H18 as realisations exceeded new impairments resulting in favourable write backs, and collective provision adjustments. Underlying specific provisions and arrears continue to trend lower as regional areas which had experienced economic declines in recent periods began to stablise.

BOQ GROUP - 2018 ANNUAL RESULTS

For the year ended 31 August 2018

4.1 RETAIL INCOME STATEMENT, KEY METRICS AND FINANCIAL PERFORMANCE REVIEW (CONTINUED)

		Year End Performance			Half Year Performance		
Key metrics		**Aug-18**	Aug-17	Aug-18 vs Aug-17	**Aug-18**	Feb-18	Aug-18 vs Feb-18
CASH EARNINGS BASIS							
CTI	(%)	53.5	53.2	30bps	52.8	54.2	(140bps)
ASSET QUALITY							
90dpd arrears	($ million)	148	163	(9%)	148	147	1%
Impaired assets	($ million)	59	68	(13%)	59	70	(16%)
Loan impairment expense / GLA	(bps)	6	6	-	4	8	(4bps)
BALANCE SHEET							
GLA	($ million)	25,252	25,265	-	25,252	25,258	-
Housing	($ million)	*25,170*	*25,171*	-	*25,170*	*25,167*	-
Other retail	($ million)	*82*	*94*	(13%)	*82*	*91*	(10%)
CREDIT RWA (1)	($ million)	8,841	9,755	(9%)	8,841	9,225	(4%)
CUSTOMER DEPOSITS (2)(3)	($ million)	15,192	14,490	5%	15,192	14,618	4%
Term Deposits	($ million)	*6,650*	*7,029*	(5%)	*6,650*	*6,770*	(2%)
Mortgage Offsets	($ million)	*1,329*	*1,153*	15%	*1,329*	*1,234*	8%
Savings & Investment	($ million)	*5,762*	*4,897*	18%	*5,762*	*5,199*	11%
Transaction Accounts	($ million)	*1,451*	*1,411*	3%	*1,451*	*1,415*	3%
DEPOSIT TO LOAN RATIO	(%)	71	68	300bps	71	68	300bps

(1) Housing Credit RWAs reduced in 1H18 as a result of the change in APS 120.
(2) Treasury managed deposits are included in Other Segment.
(3) August 2017 and February 2018 have been restated to reflect the new operating segment model implemented in FY18.

BOQ GROUP – 2018 ANNUAL RESULTS

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4.2 BOQ BUSINESS INCOME STATEMENT, KEY METRICS AND FINANCIAL PERFORMANCE REVIEW

BOQ Business includes the BOQ branded commercial lending activity, 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 for commercial customers.

The BOQ Business division has delivered on its strategy to grow in niche target segments in FY18, by providing a tailored relationship offering to customers with overall loan growth of $1.5 billion.

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 42 per cent.

BOQ Business has enhanced its focus on deposit growth through relationship banking (transaction and savings accounts) as well as moderate growth in Term Deposits. Capability in this area continues to improve with a number of transaction banking solutions being rolled out. These include the launch of the partnership with a digital payments provider (Square) and new merchant capability.

BOQ Specialist continued to drive increasing loan settlement activity whilst the maturing of both the commercial and home lending book has slowed overall growth from earlier periods. The mortgage offering delivered excellent new customer acquisition with housing loans up 15 per cent in the year. 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 cementing its strong position in the market with above system growth and diversification of product mix. Growth and profitability in this business continues to grow year on year, through structured programs in its target vendor & equipment finance customer segments.

	Year End Performance			Half Year Performance		
$ million	**Aug-18**	Aug-17 (1)	Aug-18 vs Aug-17	**Aug-18**	**Feb-18**	Aug-18 vs Feb-18
Net interest income	514	482	7%	263	251	5%
Non-interest income	59	78	(24%)	29	30	(3%)
Total income	573	560	2%	292	281	4%
Operating expenses	(228)	(220)	4%	(116)	(112)	4%
Underlying profit	345	340	1%	176	169	4%
Loan impairment expense	(26)	(34)	(24%)	(14)	(12)	17%
Profit before tax	319	306	4%	162	157	3%
Income tax expense	(100)	(90)	11%	(50)	(50)	-
Cash earnings after tax	219	216	1%	112	107	5%

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

Cash earnings after tax of $219 million for FY18 was $19 million higher than FY17 after adjusting for the $16 million profit on disposal of a vendor finance entity in 2H17.

Net interest income of $514 million for FY18 increased $32 million or seven per cent from FY17. This was driven by lending growth of eight per cent or $1.5 billion with all parts of the business delivering solid growth rates. Net interest spread reduced in line with the increasing cost of short term funding and the higher growth rate in BOQ Specialist mortgage lending relative to higher margin commercial lending.

Non-interest income of $59 million was $19 million lower than FY17, primarily due to the disposal of a vendor finance entity ($16 million). Non-interest income generated by financial markets activity has increased, however this was offset by a reduction in income from the sale of assets in equipment finance and lower corporate banking fees.

Operating expenses of $228 million have increased by four per cent from FY17 due to inflation, amortisation from investment in technology and salary costs associated with managing growing portfolio.

Impairment expense of $26 million continued the declining trend year on year following the continued strong performance in the BOQ Finance portfolio and improvement in mix in the commercial lending book. Specific provisions have decreased from FY17 with some small increases in other areas due to the changes in the CP model.

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4.2 BOQ BUSINESS INCOME STATEMENT, KEY METRICS AND FINANCIAL PERFORMANCE REVIEW (CONTINUED)

		Year End Performance			Half Year Performance		
Key metrics		**Aug-18**	Aug-17 [1]	Aug-18 vs Aug-17	**Aug-18**	Feb-18	Aug-18 vs Feb-18
CASH EARNINGS BASIS							
CTI	(%)	39.8	38.3	50bps	39.7	39.9	(20bps)
ASSET QUALITY							
90dpd arrears	($ million)	113	94	20%	113	90	26%
Impaired assets	($ million)	104	124	(16%)	104	103	2%
Loan impairment expense / GLA	(bps)	13	18	(5bps)	14	13	1bp
BALANCE SHEET							
GLA	($ million)	20,027	18,552	8%	20,027	19,230	4%
Housing	($ million)	*5,336*	*4,682*	14%	*5,336*	*5,068*	5%
Commercial and other	($ million)	*10,096*	*9,525*	6%	*10,096*	*9,802*	3%
BOQ Finance	($ million)	*4,595*	*4,345*	6%	*4,595*	*4,360*	5%
CREDIT RWA	($ million)	16,317	15,016	9%	16,317	15,627	4%
CUSTOMER DEPOSITS [2][3]	($ million)	8,004	7,363	9%	8,004	7,644	5%
Term Deposits	($ million)	*1,739*	*1,524*	14%	*1,739*	*1,596*	9%
Mortgage Offsets	($ million)	*671*	*523*	28%	*671*	*617*	9%
Savings & Investment	($ million)	*4,453*	*4,251*	5%	*4,453*	*4,346*	2%
Transaction Accounts	($ million)	*1,141*	*1,065*	7%	*1,141*	*1,085*	5%
DEPOSIT TO LOAN RATIO	(%)	68	70	(200bps)	68	69	(100bps)

(1) Includes the disposal of a vendor finance entity.
(2) Treasury managed deposits are included in Other Segment.
(3) August 2017 and February 2018 have been restated to reflect the new operating segment model implemented in FY18.

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4.3 OTHER SEGMENT INCOME STATEMENT AND FINANCIAL PERFORMANCE REVIEW

Other includes Group Treasury, St Andrew's Insurance and Group Head Office.

	Year End Performance			Half Year Performance		
$ million	**Aug-18**	Aug-17	Aug-18 vs Aug-17	**Aug-18**	**Feb-18**	Aug-18 vs Aug-17
Net interest income	(7)	(2)	250%	(4)	(3)	33%
Non-interest income	19	28	(32%)	7	12	(42%)
Total income	12	26	(54%)	3	9	(67%)
Operating expenses	(18)	(19)	(5%)	(9)	(9)	-
Underlying profit	(6)	7	(186%)	(6)	-	-
Loan impairment expense	-	-	-	-	-	-
Profit before tax	(6)	7	(186%)	(6)	-	-
Income tax expense	2	(2)	(200%)	2	-	-
Cash earnings / (loss) after tax	(4)	5	(180%)	(4)	-	-

Other segment cash loss after tax for FY18 is $4 million. Net interest income in 2H18 is largely in line with 1H18.

Non-interest income includes St Andrew's Insurance and trading income. The reduction from FY17 is largely attributed to reduced trading income in 2H18.

Operating expenses have remained relatively stable across periods.

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5. APPENDICES

5.1 ASX APPENDIX 4E

Cross Reference Index	Page
Details of reporting period and previous period (Rule 4.3A Item No. 1)	Inside front cover
Statement of Audit (Rule 4.3A Item No. 15)	Annual Report – Page 163-169
Results for Announcement to the Market (Rule 4.3A Item No. 2)	Inside front cover
Income Statement and Statement of Comprehensive Income (Rule 4.3A Item No. 3)	Annual Report – Page 93-94
Balance Sheet (Rule 4.3A Item No. 4)	Annual Report – Page 95
Statement of Cash Flows (Rule 4.3A Item No. 5)	Annual Report – Page 100
Statement of Changes in Equity (Rule 4.3A Item No. 6)	Annual Report – Pages 96-99
Notes to the Financial Statement	Annual Report – Pages 102-161
Dividends and Dividend dates (Rule 4.3A Item No. 7)	Annual Report – Page 108
Dividend Reinvestment Plan (Rule 4.3A Item No. 8)	Annual Report – Page 108
Net tangible assets per security (Rule 4.3A Item No. 9)	Page 32
Details of entities over which control has been gained or lost (Rule 4.3A Item No. 10)	Annual Report- Page 151-153
Details of associated and joint venture entities (Rule 4.3A Item No. 11)	Page 32
Foreign Entities (Rule 4.3A Item No. 13)	Not applicable
Earnings per share (Rule 4.3A Item No. 14.1)	Page 8, 36
Return to shareholders (Rule 4.3A Item No. 14.2)	Page 8-9
Commentary on performance (Rule 4.3A Item No. 14.3, 14.5, 14.6)	Page 6
Results of segments (Rule 4.3A Item No. 14.4)	Annual Report – Page 109-110

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 4.3A Item No. 9)	Aug-18	Feb-18	Aug-17
Net tangible assets per ordinary shares ($) (1)	7.50	7.44	7.44

(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.

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5.2 RECONCILIATION OF STATUTORY PROFIT TO CASH EARNINGS

Cash earnings is used to present a clear view of BOQ's underlying operating results. This excludes a number of items that introduce volatility 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 exclusions relate to: Regulatory / compliance costs ($9 million after tax) which include external costs and other related costs associated with the Royal Commission, BEAR, Code of Banking Practice and other regulatory matters; Legacy Items ($5 million after tax) which includes external legal and net settlement costs associated with the Petersen class action; and Software changes ($11 million after tax) which include a non-recurring adjustment due to a re-assessment of useful lives of existing assets aligned with the Group's Investment Roadmap and a change to the capitalisation policy.

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

	Year End Performance			Half Year Performance		
$ million	**Aug-18**	Aug-17	Aug-18 vs Aug-17	**Aug-18**	Feb-18	Aug-18 vs Feb-18
Cash Earnings after Tax	**372**	378	(2%)	**190**	182	4%
Amortisation of acquisition fair value adjustments	**(7)**	(13)	(46%)	**(2)**	(5)	(60%)
Hedge ineffectiveness	**(3)**	(9)	(67%)	**(2)**	(1)	100%
Integration / transaction costs	**(1)**	(1)	–	**(1)**	–	–
Regulatory / compliance	**(9)**	–	–	**(8)**	(1)	700%
Software changes	**(11)**	–	–	**(11)**	–	–
Legacy items	**(5)**	(3)	67%	**(4)**	(1)	300%
Statutory Net Profit after Tax	**336**	352	(5%)	**162**	174	(7%)

(B) NON-CASH EARNINGS RECONCILING ITEMS

$ million	**Cash Earnings Aug-18**	VMA	Amortisation of fair value adjustments	Hedge ineffectiveness	Integration/ transaction costs	Regulatory / compliance	Software changes	Legacy items	**Statutory Net Profit Aug-18**
Net Interest Income	**965**	–	–	–	–	–		–	**965**
Non-Interest Income	**145**	15	–	(4)	–	–		–	**156**
Total Income	**1,110**	15	–	(4)	–	–		–	**1,121**
Operating Expenses	**(527)**	(15)	(8)	–	(1)	(13)	(16)	(7)	**(587)**
Underlying Profit	**583**	–	(8)	(4)	(1)	(13)	(16)	(7)	**534**
Loan Impairment Expense	**(41)**	–	–	–	–	–	–	–	**(41)**
Profit before Tax	**542**	–	(8)	(4)	(1)	(13)	(16)	(7)	**493**
Income Tax Expense	**(170)**	–	1	1	–	4	5	2	**(157)**
Profit after Tax	**372**	–	(7)	(3)	(1)	(9)	(11)	(5)	**336**

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5.3 OPERATING CASH EXPENSES

	Year End Performance			Half Year Performance		
	Aug-18	Aug-17	Aug-18 vs Aug-17	**Aug-18**	Feb-18	Aug-18 vs Feb-18
EMPLOYEE EXPENSES						
Salaries	**214**	208	3%	**107**	107	–
Superannuation contributions	**20**	20	–	**11**	9	22%
Payroll tax	**13**	12	8%	**7**	6	17%
Employee Share Programs	**10**	11	(9%)	**5**	5	–
Other	**6**	6	–	**3**	3	–
	263	257	2%	**133**	130	2%
OCCUPANCY EXPENSES						
Lease expense	**32**	30	7%	**16**	16	–
Depreciation of Fixed Assets	**9**	9	–	**4**	5	(20%)
Other	**3**	3	–	**2**	1	100%
	44	42	5%	**22**	22	–
GENERAL EXPENSES						
Marketing	**15**	16	(6%)	**8**	7	14%
Commissions to Owner Managed Branches	**5**	6	(17%)	**2**	3	(33%)
Communications and postage	**17**	20	(15%)	**8**	9	(11%)
Printing and stationery	**3**	4	(25%)	**1**	2	(50%)
Impairment	**2**	1	100%	**1**	1	–
Processing costs	**15**	10	50%	**8**	7	14%
Other operating expenses	**24**	28	(14%)	**12**	12	–
	81	85	(5%)	**40**	41	(2%)
IT EXPENSES						
Data processing	**75**	70	7%	**39**	36	8%
Amortisation of Intangible Assets	**43**	37	16%	**21**	22	(5%)
Depreciation of Fixed Assets	**1**	1	–	**–**	1	(100%)
	119	108	10%	**60**	59	2%
OTHER EXPENSES						
Professional fees	**13**	13	–	**7**	6	17%
Directors' fees	**2**	2	–	**1**	1	–
Other	**5**	6	(17%)	**2**	3	(33%)
	20	21	(5%)	**10**	10	–
Total Operating Expenses	527	513	3%	265	262	1%

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For the year ended 31 August 2018

5.3 OPERATING CASH EXPENSES (CONTINUED)

Employee Expenses

Employee costs grew two per cent on FY17 with a relatively flat number of employees (FTE) over FY18.

Occupancy Expenses

Occupancy expenses have increased five per cent on FY17 with non-recurring lease benefits being recognised in 2H17.

General Expenses

General expenses have reduced $4 million or five per cent on FY17. A number of initiatives have delivered this outcome including a continued shift towards electronic provision of customer communications, digitisation of cheque processing reducing courier costs, renegotiated telecommunications contract for contemporary market pricing, upgraded services for branches and lower non-lending losses. Processing costs in FY17 included a non-recurring benefit.

IT Expenses

Capitalised investment expenditure (refer Section 2.6 Capitalised Investment Expenditure) has resulted in an uplift of $6 million in software amortisation in FY18. This increased expenditure covered both strategic and regulatory investment that was accompanied by an operating expense component which covers software licensing, external specialists and outsourced operations which is recognised within data processing costs.

5.4 PROPERTY, PLANT & EQUIPMENT (CONSOLIDATED)

$ million	Leasehold improvements $m	Plant furniture and equipment $m	IT equipment $m	Capital works in progress $m	Assets under Operating Lease $m	Total $m
COST						
Balance as at 31 August 2017	74	33	33	4	18	162
Additions	7	1	1	-	5	14
Disposals	(2)	(1)	-	-	(7)	(10)
Transfers between categories	3	-	-	(3)	-	-
Balance as at 31 August 2018	82	33	34	1	16	166
DEPRECIATION AND LOSS ON DISPOSAL / IMPAIRMENT						
Balance as at 31 August 2017	38	23	29	-	12	102
Depreciation for the year	7	2	1	-	5	15
Disposals	(2)	(1)	-	-	(5)	(8)
Balance as at 31 August 2018	43	24	30	-	12	109
Carrying amount as at 31 August 2017	36	10	4	4	6	60
Carrying amount as at 31 August 2018	39	9	4	1	4	57

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5.5 CASH EPS CALCULATIONS

		Year End Performance			Half Year Performance		
		Aug-18	Aug-17	Aug-18 vs Aug-17	**Aug-18**	Feb-18	Aug-18 vs Feb-18
Basic EPS	(cents)	**94.7**	**97.6**	(3%)	**48.2**	46.5	4%
Diluted EPS	(cents)	**89.3**	**93.9**	(5%)	**45.2**	44.5	2%
Reconciliation of Cash Earnings for EPS							
Cash Earnings available for ordinary shareholders	($ million)	**372**	**378**	(2%)	**190**	182	(6%)
Add: CPS Dividend	($ million)	**7**	**15**	(53%)	**1**	6	(86%)
Add: WCN	($ million)	**7**	**7**	–	**4**	3	–
Add: Capital Notes (1)	($ million)	**9**	**-**	–	**7**	2	–
Cash Diluted Earnings available for ordinary shareholders	($ million)	395	**400**	(1%)	**202**	193	(6%)
Weighted Average Number of Shares (**WANOS**)							
Basic WANOS	(million)	**393**	**387**	2%	**395**	392	1%
Add: Effect of award rights	(million)	**2**	**2**	–	**2**	2	–
Add: Effect of CPS	(million)	**12**	**25**	(52%)	**3**	20	(85%)
Add: Effect of WCN	(million)	**14**	**12**	17%	**14**	12	17%
Add: Effect of Capital Notes (1)	(million)	**21**	**-**	–	**32**	10	200%
Diluted WANOS for Cash Earnings EPS	(million)	442	**426**	3%	**446**	436	2%

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

5.6 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 (1)	**852,809**	11
Dividend reinvestment plan (2)	**4,719,312**	47
Balance at the end of the year – fully paid	397,311,850	3,454

(1) On 26 October 2017, 850,000 ordinary shares were issued at $13.28 and on 17 May 2018 2,809 ordinary shares were issued at $10.02 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) 32 per cent was taken up by shareholders on 17 May 2018 as part of the Dividend Reinvestment Plan.

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5.7 AVERAGE BALANCE SHEET AND MARGIN ANALYSIS

	August 2018 (Full Year)			August 2017 (Full Year) [1]		
$ million	Average Balance $m	Interest $m	Average Rate %	Average Balance $m	Interest $m	Average Rate %
INTEREST EARNING ASSETS						
Gross loans & advances at amortised cost	42,763	1,927	4.52	41,702	1,899	4.55
Investments & other securities	6,055	142	2.35	6,189	147	2.37
Total interest earning assets	48,818	2,069	4.25	47,891	2,046	4.27
Non-interest earning assets						
Property, plant & equipment	59			58		
Other assets	1,555			1,525		
Provision for impairment	(220)			(253)		
Total non-interest earning assets	1,394			1,330		
Total Assets	50,212			49,221		
INTEREST BEARING LIABILITIES						
Retail deposits	28,729	578	2.02	28,335	611	2.16
Wholesale deposits & borrowings	16,928	526	3.12	16,427	509	3.10
Total interest bearing liabilities	45,657	1,104	2.42	44,762	1,120	2.50
Non-interest bearing liabilities	755			783		
Total liabilities	46,412			45,545		
Shareholders' funds	3,800			3,676		
Total Liabilities & Shareholders' Funds	50,212			49,221		
INTEREST MARGIN & INTEREST SPREAD						
Interest earning assets	48,818	2,069	4.25	47,891	2,046	4.27
Interest bearing liabilities	45,657	1,104	2.42	44,762	1,120	2.50
Net interest spread			1.83			1.77
Benefit of net interest-free assets, liabilities and equity			0.15			0.16
NIM – on average interest earning assets	48,818	965	1.98	47,891	926	1.93

[1] NIM has been adjusted for mortgage offset balances to align with industry practice. Average mortgage offset balances were $1,506m in FY17.

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5.7 AVERAGE BALANCE SHEET AND MARGIN ANALYSIS (CONTINUED)

	August 2018 (Six month period)			February 2018 (Six month period)		
$ million	Average Balance $m	Interest $m	Average Rate %	Average Balance $m	Interest $m	Average Rate %
INTEREST EARNING ASSETS						
Gross loans & advances at amortised cost	43,227	980	4.50	42,427	947	4.50
Investments & other securities	5,932	72	2.41	6,092	70	2.32
Total interest earning assets	49,159	1,052	4.25	48,519	1,017	4.23
Non-interest earning assets						
Property, plant & equipment	58			59		
Other assets	1,566			1,534		
Provision for impairment	(214)			(226)		
Total non-interest earning assets	1,410			1,367		
Total Assets	50,569			49,886		
INTEREST BEARING LIABILITIES						
Retail deposits	28,907	290	1.99	28,659	288	2.03
Wholesale deposits & borrowings	17,139	272	3.15	16,649	254	3.08
Total interest bearing liabilities	46,046	562	2.42	45,308	542	2.41
Non-interest bearing liabilities	700			803		
Total liabilities	46,746			46,111		
Shareholders' funds	3,823			3,775		
Total Liabilities & Shareholders' Funds	50,569			49,886		
INTEREST MARGIN & INTEREST SPREAD						
Interest earning assets	49,159	1,052	4.25	48,519	1,017	4.23
Interest bearing liabilities	46,046	562	2.42	45,308	542	2.41
Net interest spread			1.83			1.82
Benefit of net interest-free assets, liabilities and equity			0.15			0.15
NIM – on average interest earning assets	49,159	490	1.98	48,519	475	1.97

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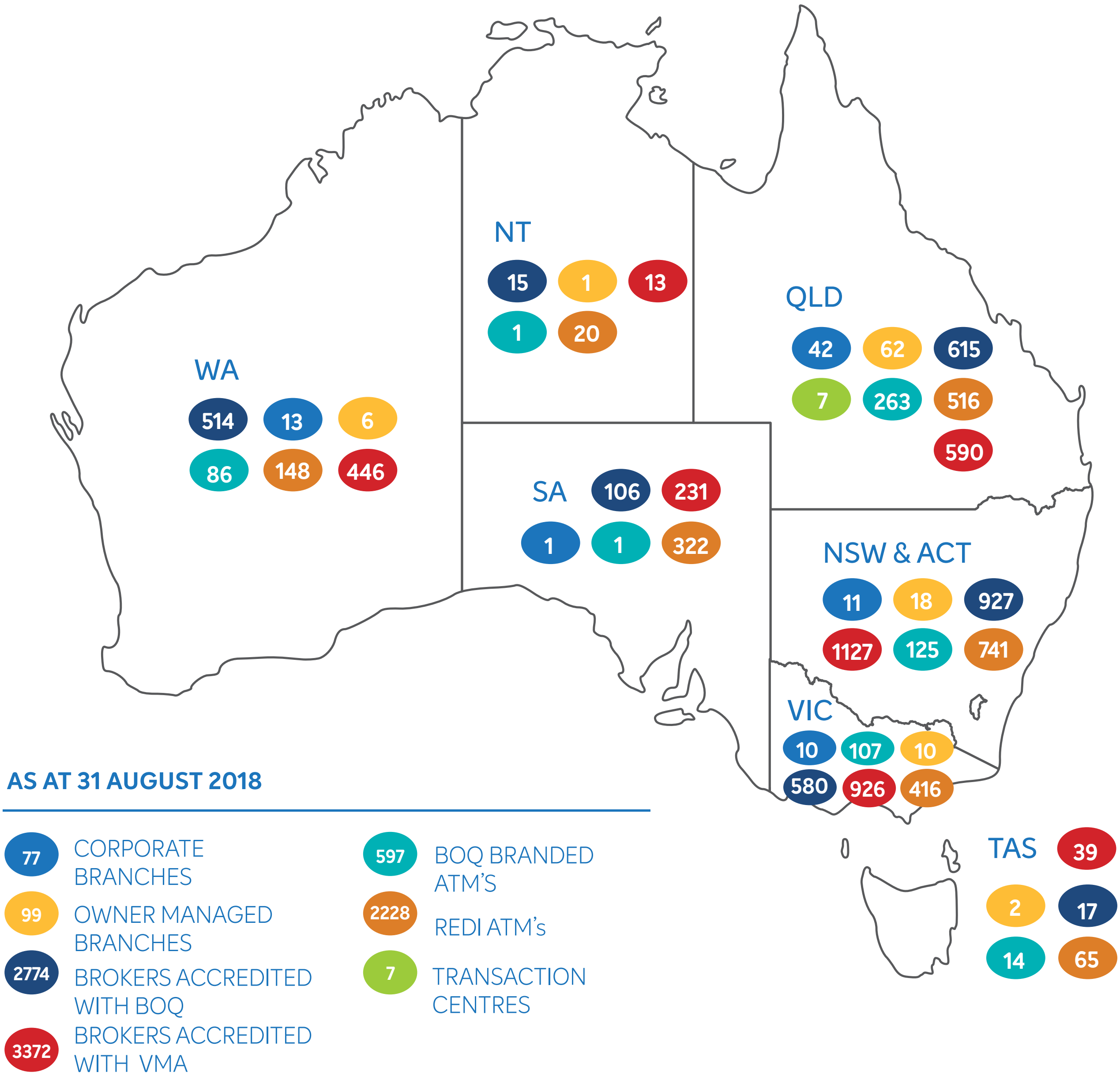
5.8 DISTRIBUTION FOOTPRINT

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 VMA), 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 seven during 2018. The majority of BOQ's owner managers (81 per cent) have transitioned to the new franchise agreement 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 continues to recruit experienced bankers and small business practitioners who are aligned to BOQ's service ethic to customers.

Accredited Broker numbers have reduced from last year as BOQ adopts a more targeted approach to growth through the third party channels which are continuing to grow at above system levels and where the Bank is historically under represented.

In a market where many customers prefer using third party channels, BOQ continued to build its broker presence during 2018 with 30 per cent of housing settlements being originated through the VMA and BOQ branded accredited brokers. The large majority of these brokers are domiciled outside of Queensland, which continues 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 ANNUAL RESULTS

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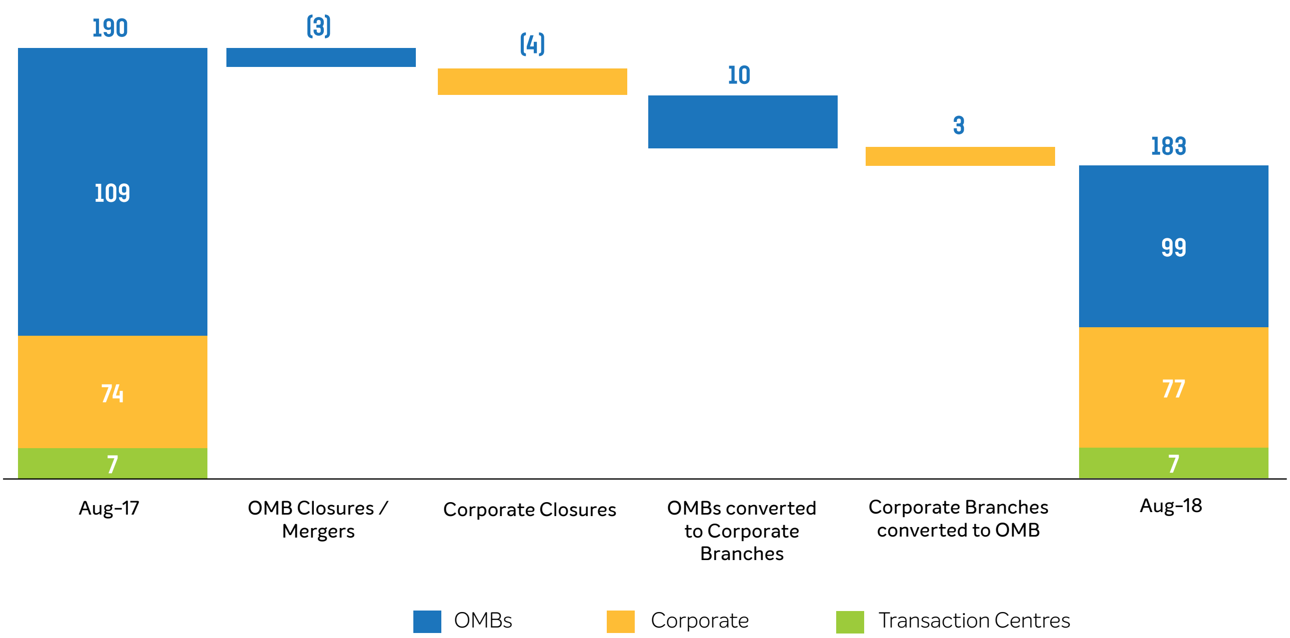
5.8 DISTRIBUTION FOOTPRINT (CONTINUED)

As at Aug-18	QLD	NSW / ACT	VIC	WA	NT	TAS	SA	Total
Corporate Branches	42	11	10	13	-	-	1	77
Owner Managed Branches	62	18	10	6	1	2	-	99
Transaction Centres	7	-	-	-	-	-	-	7
	111	**29**	**20**	**19**	**1**	**2**	**1**	**183**

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



5.9 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 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

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5.10 REGULATORY DISCLOSURES

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

https://www.boq.com.au/regulatory_disclosures

5.11 LIQUIDITY COVERAGE RATIO

APRA requires authorised deposit-taking institutions 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 in line with the BOQ prescribed risk appetite and management ranges. BOQ's average LCR over the August quarter was 136 per cent which is slightly higher than the previous May quarter average of 134 per cent. The increase in the average HQLA1 and cash inflows over the quarter was partly off-set by an increase in customer deposits. The following table presents detailed information on the average LCR composition for the two quarters. 92 data points were used in calculating the average figures for the two quarters.

BOQ maintains a portfolio of high quality, diversified liquid assets to facilitate balance sheet liquidity and meet internal and regulatory requirements. Liquid assets comprise of HQLA1 (cash, Australian Semi-Government and Commonwealth Government securities) and alternative liquid assets covered by the CLF from the RBA. Assets eligible for the CLF include senior unsecured bank debt, covered bonds, asset backed securities, RMBS and internal 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 instruments including customer deposits, securitisation and short term and long term wholesale debt instruments. The Group increased customer funding and 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, with short term wholesale funding primarily used to manage timing mismatches and fund liquid assets.

The liquid assets composition has remained relatively stable over the year, the allocation to HQLA1 as a percentage of Net Cash Outflows (**NCO**) for the August Quarter averaged 74 per cent. BOQ does not have significant derivative or currency exposures that could adversely affect its LCR.

BOQ GROUP – 2018 ANNUAL RESULTS

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5.11 LIQUIDITY COVERAGE RATIO (CONTINUED)

	Average Quarterly Performance			
	August Quarter		May 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	3,520	n/a	3,325
Alternative liquid assets	n/a	2,981	n/a	2,981
Total Liquid Assets	n/a	6,501	n/a	6,306
CASH OUTFLOWS				
Customer deposits and deposits from small branch customers, of which	15,141	1,521	14,780	1,464
stable deposits	*6,924*	*346*	*6,893*	*345*
less stable deposits	*8,217*	*1,175*	*7,887*	*1,119*
Unsecured wholesale funding, of which	4,123	2,511	4,044	2,415
non-operational deposits	*3,206*	*1,594*	*3,179*	*1,550*
unsecured debt	*917*	*917*	*865*	*865*
Secured wholesale funding	n/a	32	n/a	30
Additional requirements, of which	1,781	610	535	441
outflows related to derivatives exposures and other collateral requirements	*548*	*548*	*436*	*436*
credit and liquidity facilities	*1,233*	*62*	*99*	*5*
Other contractual funding obligations	1,016	663	946	638
Other contingent funding obligations	9,595	561	11,084	624
Total Cash Outflows	**31,656**	5,898	**31,389**	5,612
CASH INFLOWS				
Secured lending (e.g. reverse repos)	208	–	67	–
Inflows from fully performing exposures	790	437	650	341
Other cash inflows	680	680	578	578
Total Cash Inflows	**1,678**	1,117	**1,295**	919
Total Net Cash Outflows	**29,978**	4,781	**30,094**	4,693
Total Liquid Assets	n/a	6,501	n/a	6,306
Total Net Cash Outflows	n/a	4,781	n/a	4,693
Liquidity Coverage Ratio (%)	n/a	136%	n/a	134%

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5.12 NET STABLE FUNDING RATIO

APRA's objective in implementing the NSFR is to strengthen funding and liquidity resilience. The NSFR encourages ADIs to reduce the amount of liquidity transformation by funding their lending activities with more stable sources of funding, and thereby promoting greater balance sheet resilience.

The NSFR establishes a minimum stable funding requirement based on the liquidity characteristics of the ADI's assets and off-balance sheet activities over a one year time horizon. The NSFR is defined as the ratio of the amount of ASF to the amount of RSF. APRA requires ADIs to maintain an NSFR of at least 100 per cent. BOQ manages its NSFR on a daily basis and actively maintains a buffer above the regulatory minimum in line with BOQ's prescribed risk appetite and management ranges.

BOQ's NSFR at 31 August 2018 was 112 per cent, which is a 3 per cent increase at implementation on 1 January 2018. The main drivers for the increase in NSFR has been strong growth in customer deposits. The average NSFR since inception on 1 January 2018 has been 111 per cent.

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5.11 NET STABLE FUNDING RATIO (CONTINUED)

AUGUST 2018	Unweighted value by residual maturity				
	No maturity	< 6 months	6 months to < 1 year	> 1 year	Weighted value
AVAILABLE STABLE FUNDING (ASF) ITEM					
Capital	3,960	–	–	850	4,810
of which: Regulatory capital	*3,960*	–	–	*850*	*4,810*
Retail deposits and deposits from small business customers	14,018	8,480	–	–	20,708
of which: Stable deposits	*6,544*	*2,640*	–	–	*8,726*
of which: Less stable deposits	*7,474*	*5,840*	–	–	*11,982*
Wholesale funding	1,754	13,558	1,334	5,431	10,660
of which: Other wholesale funding	*1,754*	*13,558*	*1,334*	*5,431*	*10,660*
Other liabilities	785	58	–	73	73
of which: NSFR derivative liabilities	*n/a*	*53*	–	–	*n/a*
of which: All other liabilities and equity not included in the above categories	*785*	*5*	–	*73*	*73*
Total ASF	n/a	n/a	n/a	n/a	**36,251**
REQUIRED STABLE FUNDING (RSF) ITEM					
Total NSFR (HQLA)	n/a	n/a	n/a	n/a	150
ALA	n/a	n/a	n/a	n/a	320
Deposits held at other financial institutions for operational purposes	337	–	–	–	276
Performing loans and securities	–	3,096	2,274	35,691	29,173
of which: Performing loans to financial institutions secured by Level 1 HQLA	–	*100*	–	–	*10*
of which: Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	–	*441*	–	*173*	*239*
*of which: Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and public sector entities (**PSEs**) of which:*	–	*1,904*	*1,715*	*10,223*	*10,418*
With a risk weight of less than or equal to 35% under APS 112	–	*104*	*100*	*801*	*623*
of which: Performing residential mortgages, of which:	–	*651*	*559*	*25,295*	*18,507*
With a risk weight equal to 35% under APS 112	–	*165*	*177*	*20,148*	*13,698*
Other assets:	1,683	440	46	536	2,369
*of which: Assets posted as initial margin for derivative contracts and contributions to default funds of central counterparties (**CCPs**)*	*n/a*	–	–	*1*	*1*
of which: NSFR derivative assets	*n/a*	–	–	*16*	*16*
of which: NSFR derivative liabilities before deduction of variation margin posted	n/a	–	–	*59*	*59*
of which: All other assets not included in the above categories	*1,683*	*440*	*46*	*461*	*2,293*
Off-balance sheet items	–	–	–	*3,820*	*188*
Total RSF	n/a	n/a	n/a	n/a	**32,477**
Net Stable Funding Ratio (%)	n/a	n/a	n/a	n/a	**112%**

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5.11 NET STABLE FUNDING RATIO (CONTINUED)

	Unweighted value by residual maturity				
MAY 2018	No maturity	< 6 months	6 months to < 1 year	> 1 year	Weighted value
AVAILABLE STABLE FUNDING (ASF) ITEM					
Capital	3,986	–	–	850	4,746
of which: Regulatory capital	*3,986*	–	–	*850*	*4,746*
Retail deposits and deposits from small business customers	13,527	8,401	–	–	20,192
of which: Stable deposits	*6,537*	*2,588*	–	–	*8,669*
of which: Less stable deposits	*6,990*	*5,813*	–	–	*11,523*
Wholesale funding	1,677	13,957	1,078	5,551	10,526
of which: Other wholesale funding	*1,677*	*13,957*	*1,078*	*5,551*	*10,526*
Other liabilities	766	68	–	75	75
of which: NSFR derivative liabilities	*n/a*	*57*	–	–	*n/a*
of which: All other liabilities and equity not included in the above categories	*766*	*11*	–	*75*	*75*
Total ASF	n/a	n/a	n/a	n/a	**35,539**
REQUIRED STABLE FUNDING (RSF) ITEM					
Total NSFR (HQLA)	n/a	n/a	n/a	n/a	152
ALA	n/a	n/a	n/a	n/a	320
Deposits held at other financial institutions for operational purposes	379	–	–	–	320
Performing loans and securities	–	3,590	2,180	34,959	28,811
of which: Performing loans to financial institutions secured by Level 1 HQLA	–	*501*	–	–	*50*
of which: Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	–	*312*	–	*134*	*180*
*of which: Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and public sector entities (**PSEs**) of which:*	–	*2,143*	*1,542*	*9,875*	10,196
With a risk weight of less than or equal to 35% under APS 112	–	*97*	*124*	*670*	546
of which: Performing residential mortgages, of which:	–	*616*	*638*	*24,951*	*18,376*
With a risk weight equal to 35% under APS 112	–	*153*	*166*	*19,479*	*13,257*
of which: Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	–	*18*	–	–	*9*
Other assets:	1,557	414	44	493	2,237
*of which: Assets posted as initial margin for derivative contracts and contributions to default funds of central counterparties (**CCPs**)*	*n/a*	–	–	*1*	*1*
of which: NSFR derivative assets	*n/a*	–	–	*5*	*5*
of which: NSFR derivative liabilities before deduction of variation margin posted	*n/a*	–	–	*56*	*56*
of which: All other assets not included in the above categories	*1,557*	*414*	*44*	*431*	*2,175*
Off-balance sheet items	–	–	–	3,274	167
Total RSF	n/a	n/a	n/a	n/a	**32,007**
Net Stable Funding Ratio (%)	n/a	n/a	n/a	n/a	**111%**

GLOSSARY

TERM	DESCRIPTION
APRA Prudential Standard (**APS**)	Prudential standards issued by APRA which are applicable to ADIs.
Australian Accounting Standards (**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. Formerly Australian Equipment Lessors Association (**AELA**).
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.
Available Stable Funding (**ASF**)	Available State Funding is the portion of capital and liabilities expected to be reliable over the time horizon considered by the NSFR, which extends to one year.
Average interest earning assets	Average balance over the period for a bank's assets that accrue interest income.
Bank of Queensland Limited (**the Bank or BOQ**)	The Bank is a for-profit entity primarily involved in providing retail banking, leasing finance, and insurance products to its customers.
Basel II and 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 or Capital Notes**)	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 the Bank.
Cost to Income ratio (**CTI**)	Operating expenses divided by net operating income.
Corporations Act 2001	The *Corporations Act 2001* (Cth)
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.
Euro Medium Term Note (**EMTN**)	EMTN is an offshore medium term note program.
Full Time Equivalent (**FTE**)	A calculation based on number of hours worked by full and part time employees as part of their normal duties.

GLOSSARY

TERM	DESCRIPTION
General Reserve for Credit Losses (**GRCL**)	An estimate of the reasonable and prudent expected credit losses over the remaining life of the portfolio and on non-defaulted assets, not covered by provisions for impairment.
Gross Loans and Advances (**GLA**)	Initially recognised at fair value plus incremental direct transaction costs and subsequently measured at each reporting date at amortised cost using the effective interest method.
High Quality Liquid Asset (**HQLA1**)	Comprises of the Bank's notes and coins and marketable securities representing claims on or guaranteed by the Australian Government or Semi-Government authorities.
Impaired assets	Exposures that have deteriorated to the point where full collection of principal and interest is in doubt.
Interest bearing liabilities	The Bank's liabilities that accrue interest expense.
International Financial Reporting Standards (**IFRS**)	International Financial Reporting Standards and interpretations issued by the International Accounting Standards Board.
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 (OBS) 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 Bank's assets that do not accrue interest income.
Owner Managed Branch (**OMB**)	A branch which is run by a franchisee.
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**)	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.
Return on Average Equity (**ROE**)	Net profit attributable to the owners of the Bank divided by average ordinary equity.
Return on Average Tangible Equity (**ROTE**)	Net profit attributable to the owners of the Bank divided by average ordinary equity less goodwill and identifiable intangible assets.
Required Stable Funding (**RSF**)	Required Stable Funding is an input to the calculation of the net stable funding ratio (NSFR) for bank prudential management purposes. A bank's Required Stable Funding is calculated from its assets, weighted according to their maturity, credit quality and liquidity, together with an amount in relation to off balance sheet commitments.
Risk Weighted Assets (**RWA**)	A quantitative measure of various risks including credit, operational, market and securitisation as defined by APS.
Share / issued capital	Consolidated Entity'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 Bank has issued but are held by a trust included within the Bank's consolidated results. Treasury shares are not considered shares outstanding and are not included in 'per share' calculations.
Virgin Money Australia (**VMA**)	Virgin Money (Australia) Pty Ltd and its subsidiaries. The VMA entities are subsidiaries of the Group that engage in the provision of financial services (e.g. insurance, superannuation and home lending) on behalf of business partners, including BOQ.
Weighted Average Number of Shares (**WANOS**)	Calculated in accordance with AASB 133 *Earnings per share.*
Wholesale Capital Notes (**WCN**)	WCNs are similar to CPS as the notes may convert into common shares in certain circumstances as described in the offer documentation of the notes.

BOQ GROUP

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