BOQ GROUP

BOQ Investor Information

2019 HALF YEAR RESULTS

Incorporating the requirements of Appendix 4D

BOQ GROUP - 2019 HALF YEAR RESULTS

ASX APPENDIX 4D

FOR THE HALF YEAR PERIOD ENDED 28 FEBRUARY 2019

RESULTS FOR ANNOUNCEMENT TO THE MARKET [1]

				$m
Revenues from ordinary activities [2]	Down	2%	to	544
Profit from ordinary activities after tax attributable to members [2]	Down	10%	to	156
Profit for the year attributable to members [2]	Down	10%	to	156

Dividends	Record Date	Paid or payable on	Amounts per security
ORDINARY SHARES (BOQ)			
Interim ordinary dividend – fully franked	2 May 2019	22 May 2019	34 cents
WHOLESALE CAPITAL NOTES (WCN)			
Half-yearly WCN dividend – fully franked [3]	17 May 2019	27 May 2019	$225.71
CAPITAL NOTES (BOQPE)			
November 2018 BOQPE distribution – fully franked	31 October 2018	15 November 2018	99.56 cents
February 2019 BOQPE distribution – fully franked	31 January 2019	15 February 2019	100.39 cents
May 2019 BOQPE distribution – fully franked [3]	29 April 2019	15 May 2019	97.65 cents

(1) Rule 4.2A.3. Refer to *Appendix 6.1* for the cross reference index for *ASX Appendix 4D.*

(2) On prior corresponding period (six months ended 28 February 2018).

(3) Expected dates and values only, payment of any distribution is subject to the terms of the Capital Notes and Capital Note Terms.

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OPERATING AND FINANCIAL REVIEW

1. HIGHLIGHTS AND STRATEGY

1.1 DISCLOSURE CONSIDERATIONS

Future performance

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

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

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

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

Rounding

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

Note on statutory profit and cash earnings

Statutory profit is prepared in accordance with the *Corporations Act 2001* and the Australian Accounting Standards, which comply with International Financial Reporting Standards (**IFRS**). Cash earnings is a non-accounting standards measure commonly used in the banking industry to assist in presenting a clear view of the Bank's underlying earnings. Refer to Section 6.2 of the *Appendices* for the *Reconciliation of statutory profit to cash earnings*.

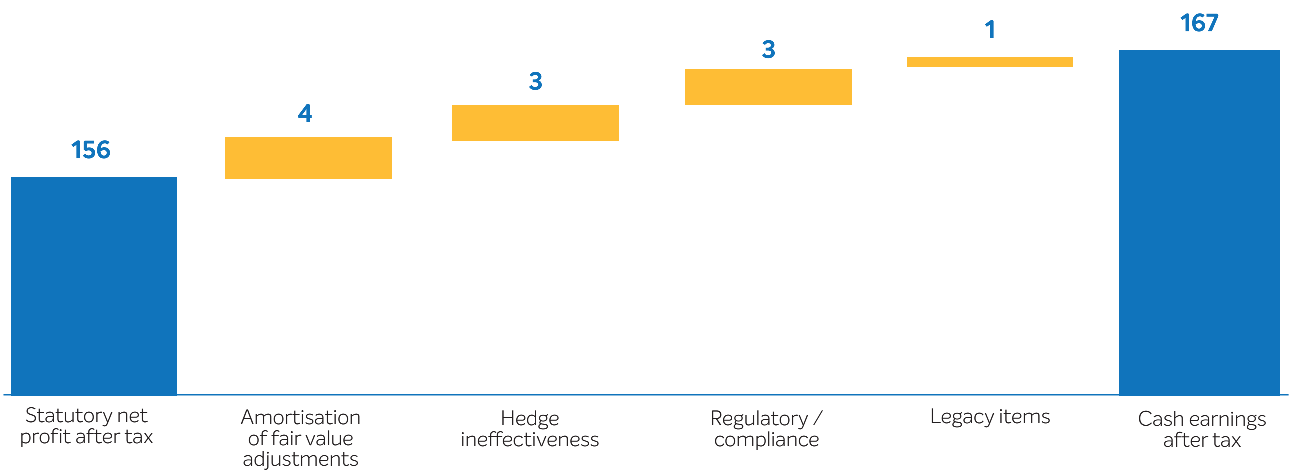
Refer to the *Reconciliation of statutory profit to cash earnings* chart below. The main exclusions relate to:

- Regulatory / compliance costs includes external costs and other related 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 of an extraordinary nature consistent with prior periods;
- Amortisation of acquisition fair value adjustments arising from the historical acquisition of subsidiaries; and
- Hedge ineffectiveness which represents earnings volatility from hedges that are not fully effective and create a timing difference in reported profit. These hedges remain economically effective.

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 (**2H18**) and the prior corresponding period (**1H18**).

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

Reconciliation of statutory profit to cash earnings ($m)



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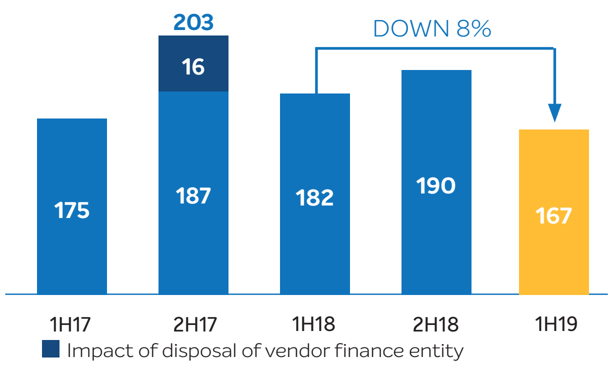
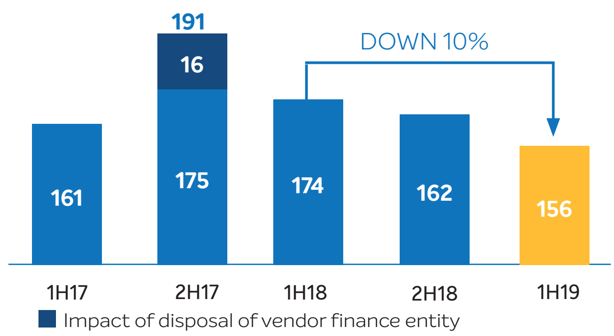
1.2 GROUP HIGHLIGHTS

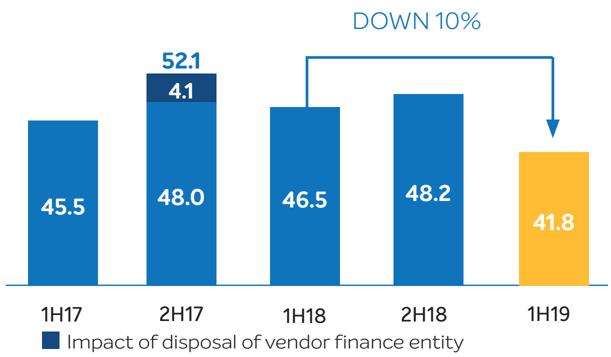
Cash earnings after tax ($m)



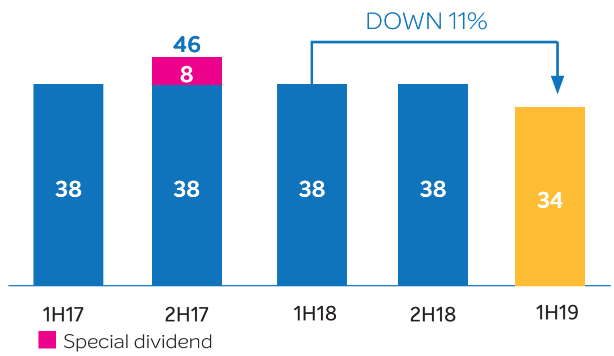
Statutory profit after tax ($m)



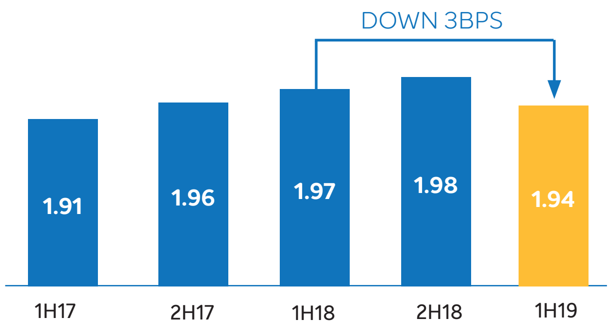
Cash basic earnings per share (**EPS**) (cents)



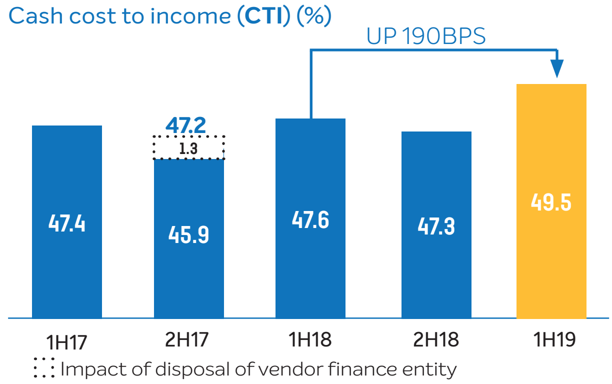
Dividends per ordinary share (cents)



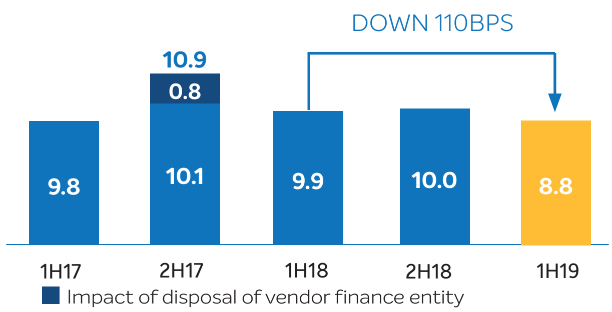
Cash net interest margin (**NIM**) (%)



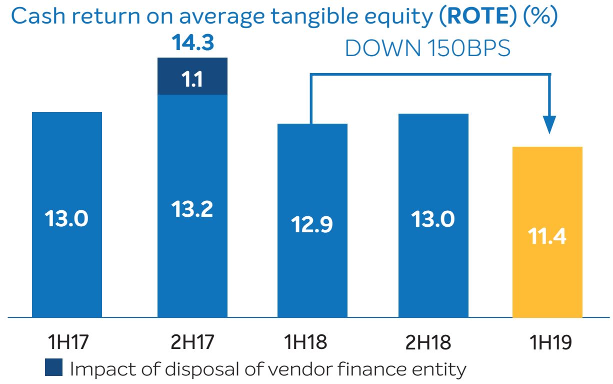
Cash cost to income (**CTI**) (%)



Cash return on average equity (**ROE**) (%)



Cash return on average tangible equity (**ROTE**) (%)



BOQ GROUP - 2019 HALF YEAR RESULTS

1.2 GROUP HIGHLIGHTS (CONTINUED)

CASH EARNINGS AFTER TAX

$167m

Decreased by eight per cent on 1H18. Statutory profit down 10 per cent on 1H18

CASH NET INTEREST MARGIN

1.94%

Down three basis points over 1H18 driven primarily by competition and hedging costs

CASH OPERATING EXPENSES

$268m

Two per cent increase from 1H18

LOAN IMPAIRMENT EXPENSE

$30m

Up three basis points from 1H18 to 13 basis points of lending due to higher collective provisions

COMMON EQUITY TIER 1

9.26%

Decrease of five basis points on 2H18 due to increased software spend and transition to new accounting standards

CASH RETURN ON AVERAGE EQUITY

8.8%

110 basis points reduction on 1H18 due to lower earnings

BOQ has delivered a cash earnings after tax result of $167 million for 1H19, which is eight per cent lower than the 1H18 result. Statutory net profit after tax of $156 million was ten per cent lower than 1H18. The reduction in earnings was driven by a combination of lower income, higher operating expenses and higher loan impairment expense.

Total income reduced two per cent compared to 1H18, with net interest income flat and non-interest income down 13 per cent. The flat net interest income result was due to lending growth of $500 million or two per cent (annualised) in the half being offset by a four basis point reduction in net interest margin from 2H18 to 1.94 per cent. Strong levels of lending growth in BOQ Finance ($303 million), Virgin Money Australia (**VMA** or **Virgin Money**) ($469 million) and BOQ Specialist ($364 million) in the half were partially offset by a contraction in branch network lending balances. The four basis point reduction in net interest margin was driven primarily by competition and discounting for new business as well as the higher bank bill swap rate and associated increase in hedging costs. This was partially offset by retail funding optimisation. Non-interest income was lower due to a combination of reduced fee, insurance and trading income.

Operating expense growth was contained to two per cent. Following the final report from the Royal Commission, it is expected that regulatory and compliance costs will continue to rise and industry participants will need to deploy significantly more resources in the periods ahead to meet heightened regulatory expectations. As announced in the FY18 results, BOQ is also embarking on an increase in capitalised investment in order to improve technology platforms, meet new regulatory and industry requirements, and improve the customer experience. This will lead to a higher level of amortisation in future years as these projects are completed and new functionality deployed. Opportunities to improve efficiency continue to be explored to reduce the impact of these expense headwinds.

Asset quality remains a key strength for BOQ with impaired assets reducing a further seven per cent from 2H18 to $152 million and arrears remaining at low levels. Despite this, there has been an increase in collective provisions reflecting the impact of the new provisioning model, following the implementation of AASB 9 *Financial Instruments* (**AASB 9**). Under the new model, the impact of less certain general economic conditions, more dynamic provisioning for arrears and other forward looking assumptions are more pronounced. This has in turn led to a $12 million increase in loan impairment expense to $30 million from 2H18, or 13 basis points of gross loans. Despite this increase, BOQ's portfolio remains sound with no significant areas of concern emerging.

BOQ also remains strongly capitalised with a common equity tier one ratio of 9.26 per cent. This is lower than the 9.31 per cent reported at the end of FY18, due to higher growth in more capital-intensive commercial lending and leasing, higher capitalised investment, and a reduction in dividend reinvestment plan participation. Additionally, the transition to AASB 9 *Financial Instruments* and AASB 15 *Revenue from Contracts with Customers* resulted in a five basis point reduction in the common equity tier one ratio due to retained profits adjustments effective 1 September 2018.

The Board has determined to pay an interim ordinary dividend of 34 cents per share, a four cent reduction from 1H18 and 2H18.

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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**).

BOQ was established in 1874 as the first Permanent Building Society in Queensland. It has evolved into a national institution with a network of retail branches and brokers across Australia. The group is now comprised of a number of brands including BOQ, BOQ Specialist, BOQ Finance, VMA and St Andrew's Insurance.

As one of Australia's leading regional banks, BOQ aims to build a differentiated position in the Australian financial services sector by focusing on niche customer segments that value a more intimate banking relationship. Many 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 understand what it means to deliver personal service. Through specialisation and deep industry knowledge in niche commercial segments, including medical & dental, corporate healthcare and retirement living, hospitality and tourism, and agribusiness, BOQ provides a level of support to business banking customers unique to that offered by other banks.

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 1H19, with 30 per cent of new home loans originated through mortgage brokers. BOQ has also been working to streamline customer experience across channels through the development of a new customer engagement platform and consolidation of customer touchpoints. A number of projects are also underway to improve the digital experience for BOQ customers, including upgrades to internet and mobile banking platforms.

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 $94 million in new lending growth in 1H19 which demonstrates BOQ's niche strategy is delivering.

BOQ has continued its conservative approach to lending, maintaining a high quality lending portfolio. BOQ adheres to a robust application of APRA's serviceability and validation guidelines and the delivery of the lending transformation program will deliver an improved customer experience. BOQ has also been selective in the commercial industry segments it lends to. It has clearly defined risk appetite statements which take into account geographic, industry and a number of other risk factors.

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 continuing to make investments to retail, commercial and lease management lending systems. Ongoing focus on efficiency across the Group has contained expense growth to two per cent, whilst investing in new technology aligned to a simplified and business enabled target architecture will enable BOQ 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.

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. It has also introduced a range of initiatives that bring BOQ's purpose to life, embed BOQ's values and drive a customer centric culture. BOQ continues to demonstrate its commitment to a diverse and inclusive workforce through a number of internal diversity initiatives and by making significant progress on its reconciliation journey. By focusing on the four strategic pillars, BOQ aims to deliver robust and sustainable financial performance, consistent growth in returns to shareholders and superior service to customers and the wider community.

BOQ 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 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*).

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2. GROUP PERFORMANCE ANALYSIS

2.1 INCOME STATEMENT AND KEY METRICS

	Half Year Performance				
$ million	**Feb-19**	Aug-18	Feb-18	Feb-19 vs Aug-18	Feb-19 vs Feb-18
Net interest income	476	490	475	(3%)	-
Non-interest income	65	70	75	(7%)	(13%)
Total income	541	560	550	(3%)	(2%)
Operating expenses	(268)	(265)	(262)	1%	2%
Underlying profit	273	295	288	(7%)	(5%)
Loan impairment expense	(30)	(19)	(22)	58%	36%
Profit before tax	243	276	266	(12%)	(9%)
Income tax expense	(76)	(86)	(84)	(12%)	(10%)
Cash earnings after tax	**167**	190	182	(12%)	(8%)
Statutory net profit after tax (1)	**156**	162	174	(4%)	(10%)

(1) Refer to Section 6.2 of the *Appendices* for the *Reconciliation of statutory profit to cash earnings.*

		Half Year Performance				
Key metrics		**Feb-19**	Aug-18	Feb-18	Feb-19 vs Aug-18	Feb-19 vs Feb-18
SHAREHOLDER RETURNS						
Share price	($)	9.01	11.49	12.63	(22%)	(29%)
Market capitalisation	($ million)	3,620	4,565	4,958	(21%)	(27%)
Dividends per ordinary share (fully franked)	(cents)	34	38	38	(11%)	(11%)
CASH EARNINGS BASIS						
Basic EPS	(cents)	41.8	48.2	46.5	(13%)	(10%)
Diluted EPS	(cents)	39.0	45.2	44.5	(14%)	(12%)
Dividend payout ratio	(%)	81.8	79.5	82.0	230bps	(20bps)
STATUTORY BASIS						
Basic EPS	(cents)	39.0	40.9	44.6	(5%)	(13%)
Diluted EPS	(cents)	36.4	38.8	42.7	(6%)	(15%)
Dividend payout ratio	(%)	87.6	93.2	85.7	(560bps)	190bps

BOQ GROUP - 2019 HALF YEAR RESULTS

2.1 INCOME STATEMENT AND KEY METRICS (CONTINUED)

Key metrics		Half Year Performance Feb-19	Aug-18	Feb-18	Feb-19 vs Aug-18	Feb-19 vs Feb-18
PROFITABILITY AND EFFICIENCY MEASURES						
CASH EARNINGS BASIS						
Net profit after tax	($ million)	167	190	182	(12%)	(8%)
Underlying profit [1]	($ million)	273	295	288	(7%)	(5%)
NIM [2]	(%)	1.94	1.98	1.97	(4bps)	(3bps)
CTI	(%)	49.5	47.3	47.6	220bps	190bps
Loan impairment expense to gross loans and advances (**GLA**)	(bps)	13	8	10	5bps	3bps
ROE	(%)	8.8	10.0	9.9	(120bps)	(110bps)
ROTE [3]	(%)	11.4	13.0	12.9	(160bps)	(150bps)
STATUTORY BASIS						
Net profit after tax	($ million)	156	162	174	(4%)	(10%)
Underlying profit [1]	($ million)	257	256	278	-	(8%)
NIM [2]	(%)	1.94	1.98	1.97	(4bps)	(3bps)
CTI	(%)	52.8	54.8	49.9	(200bps)	290bps
Loan impairment expense to GLA	(bps)	13	8	10	5bps	3bps
ROE	(%)	8.2	8.5	9.5	(30bps)	(130bps)
ROTE [3]	(%)	10.6	11.1	12.4	(50bps)	(180bps)
ASSET QUALITY						
30 days past due (**dpd**) arrears	($ million)	505	469	493	8%	2%
90dpd arrears	($ million)	287	260	237	10%	21%
Impaired assets	($ million)	152	164	173	(7%)	(12%)
Specific provisions to impaired assets	(%)	50.4	52.4	57.6	(200bps)	(720bps)
Collective provisions to risk weighted assets (**RWA**)	(%)	0.46	0.39	0.42	7bps	4bps
CAPITAL						
Common equity tier 1 (**CET1**) ratio	(%)	9.26	9.31	9.42	(5bps)	(16bps)
Total capital adequacy ratio	(%)	12.68	12.76	12.78	(8bps)	(10bps)
RWA	($ million)	29,978	29,669	28,859	2% [4]	4%

(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 treasury shares less goodwill and identifiable intangible assets (customer related intangibles/brands and computer software).

(4) Annualised.

BOQ GROUP - 2019 HALF YEAR RESULTS

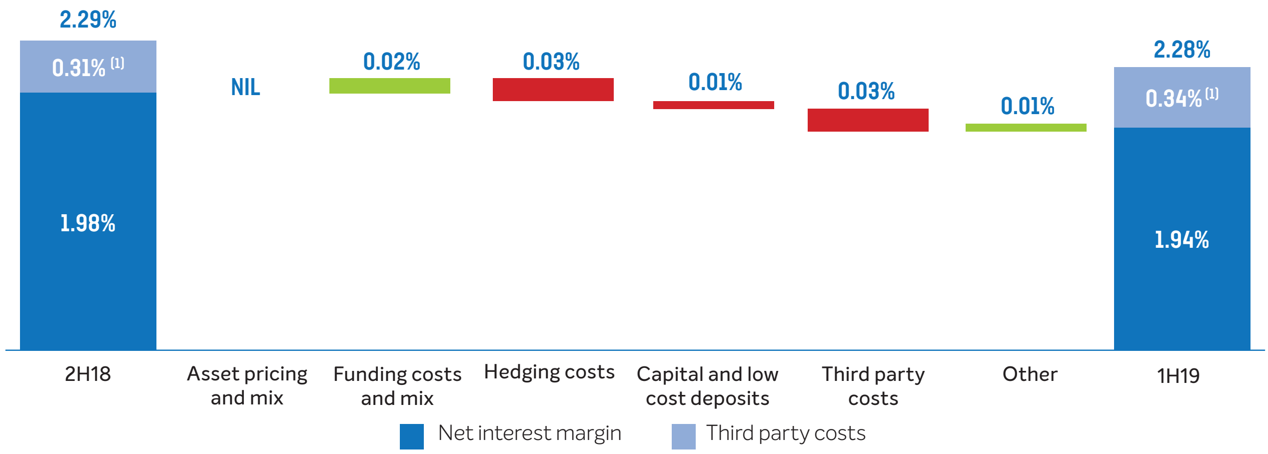
2.2 NET INTEREST INCOME

	Half Year Performance				
$ million	Feb-19	Aug-18	Feb-18	Feb-19 vs Aug-18	Feb-19 vs Feb-18
Net interest income	476	490	475	(3%)	-
Average interest earning assets	49,441	49,159	48,519	1%	2%
NIM	1.94%	1.98%	1.97%	(4bps)	(3bps)

Net interest income decreased by $14 million from 2H18 and increased $1 million from 1H18. This was driven by a four basis point decrease in NIM from 2H18 and three basis points decrease compared to 1H18. Average interest earning assets were one per cent higher than 2H18, and two per cent higher than 1H18. Adjusting for the lower number of days in 1H19 compared to 2H18 (184 days compared to 181 days) would contribute an additional $8 million or a two per cent increase in underlying net interest income in 1H19.

Margin pressure in 1H19 included intensifying competition for new lending as a result of lower system credit growth, and increased hedging costs resulting from the elevated bank bill swap rate. These impacts were partially mitigated by the mortgage repricing undertaken in July 2018 and January 2019 and lower funding costs. The net result was a decrease in NIM in 1H19.

Net interest margin - August 2018 to February 2019



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

Underlying movements within the NIM between 1H19 and 2H18 included the following:

Asset pricing and mix: Asset pricing and mix was flat over 1H19. Loan repricing actions contributed positively to NIM by four basis points. Offsetting the re-pricing impact benefits were the increased competition for new loans particularly in key owner occupied segments, increased retention discounting, and lower interest income on assets.

Funding costs and mix: Funding costs (excluding the impact of basis) increased NIM by two basis points. The continued optimisation of the Bank's retail deposit portfolio, combined with a deposit growth strategy focused on transaction and savings accounts, improved funding costs. Wholesale funding costs were marginally lower, with the Bank taking the opportunity to increase its long term wholesale issuance in the early part of 1H19, prior to an increase in long term wholesale credit spreads.

Hedging costs: The impact of hedging costs increased in 1H19 largely due to basis hedging costs, with basis portfolio spreads increasing from an average of 34 basis points to 46 basis points compared to 2H18. This drove a three basis points reduction in NIM.

Capital and low cost deposits: The lower interest rate environment reduced the returns on BOQ's $4.4 billion replicating portfolio (covering BOQ's capital and low cost deposits) causing a one basis point reduction in NIM over 1H19.

Third party costs: Third party costs increased three basis points in 1H19. Changes to weighted average life estimates of the Bank's mortgage portfolio reduced amortised costs by two basis points in 2H18 with a similar benefit not present in the current half. Higher commission payments due to an increased proportion of broker flows, resulted in a one basis point increase in third party costs.

BOQ GROUP - 2019 HALF YEAR RESULTS

2.3 NON-INTEREST INCOME

	Half Year Performance				
$ million	**Feb-19**	Aug-18	Feb-18	Feb-19 vs Aug-18	Feb-19 vs Feb-18
Banking income	**43**	47	46	(9%)	(7%)
Insurance income	**7**	9	10	(22%)	(30%)
Other income	**15**	15	17	-	(12%)
Trading income	**-**	(1)	2	100%	(100%)
Total non-interest income (1)	65	70	75	(7%)	(13%)

(1) Refer to Section 6.2 (B) *Non-cash earnings reconciling items* of the *Appendices* for a reconciliation of statutory non-interest income to cash non-interest income.

Non-interest income of $65 million decreased $10 million or 13 per cent compared to 1H18 and $5 million or seven per cent below the 2H18 level.

Banking income was $3 million or seven per cent below 1H18 and $4 million or nine per cent below 2H18. The reduction in banking income was largely due to the transition of the BOQ Business merchant offering to a new third party arrangement, combined with the continuing customer trends towards lower or no fee products.

Other income was in line with 2H18 but decreased $2 million from 1H18 due in part to BOQ Finance equipment realisation income being lower than 1H18 with reduced end of term contract volumes.

The Virgin Money third party product distribution business contributed $3.5 million to the result in 1H19 experiencing continued momentum across all product lines (up 16 per cent on 1H18).

No trading income was generated in the half compared to a $2 million contribution in 1H18 and $1 million loss in 2H18, due to credit spread volatility.

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

2.4 INSURANCE OVERVIEW

	Half Year Performance				
$ million	**Feb-19**	Aug-18	Feb-18	Feb-19 vs Aug-18	Feb-19 vs Feb-18
Gross written premium (net of refunds)	**31**	35	37	(11%)	(16%)
Net earned premium	**29**	32	34	(9%)	(15%)
Underwriting result	**6**	6	9	-	(33%)
Other insurance income	**1**	2	1	(50%)	-
Total income	**7**	8	10	(13%)	(30%)
Consolidation adjustment	**-**	1	-	(100%)	-
Group insurance result	7	9	10	(22%)	(30%)

St Andrew's contributed $7 million or 11 per cent to non-interest income, a $2 million reduction from 2H18 and a $3 million reduction from 1H18.

Gross written premium has declined compared to prior periods due to the cessation of arrangements between St Andrew's and three distributors of consumer credit insurance and wholesale direct life insurance, as well as decreased volumes of insurance sales through existing corporate partners. While new distributors have been added in the period, additional channels are being pursued to replace sales volumes lost.

Net earned premium has declined due to lower consumer credit insurance and wholesale direct life insurance portfolios.

The underwriting result of $6 million was in line with 2H18 with the $3 million reduction in net earned premium offset by lower commission, claims, and acquisition expenses.

An ongoing environment of regulatory change continues to contribute to an uncertain performance outlook for the insurance sector.

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2.5 OPERATING EXPENSES

	Half Year Performance				
$ million	Feb-19	Aug-18	Feb-18	Feb-19 vs Aug-18	Feb-19 vs Feb-18
Employee expenses	132	133	130	(1%)	2%
Occupancy expenses	21	22	22	(5%)	(5%)
General expenses	44	40	41	10%	7%
IT expenses	60	60	59	-	2%
Other expenses	11	10	10	10%	10%
Total operating expenses (1) (2)	268	265	262	1%	2%
CTI	49.5%	47.3%	47.6%	220bps	190bps
Number of employees (**FTE**) (1)	2,073	2,039	2,046	2%	1%

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

(2) Refer to Section 6.2 (B) *Non-cash earnings reconciling items* of the *Appendices* for a reconciliation of statutory operating expenses to cash operating expense.

Operating expenses increased only one per cent on 2H18 to $268 million, despite a requirement to invest to meet the increased pace of technological and regulatory change.

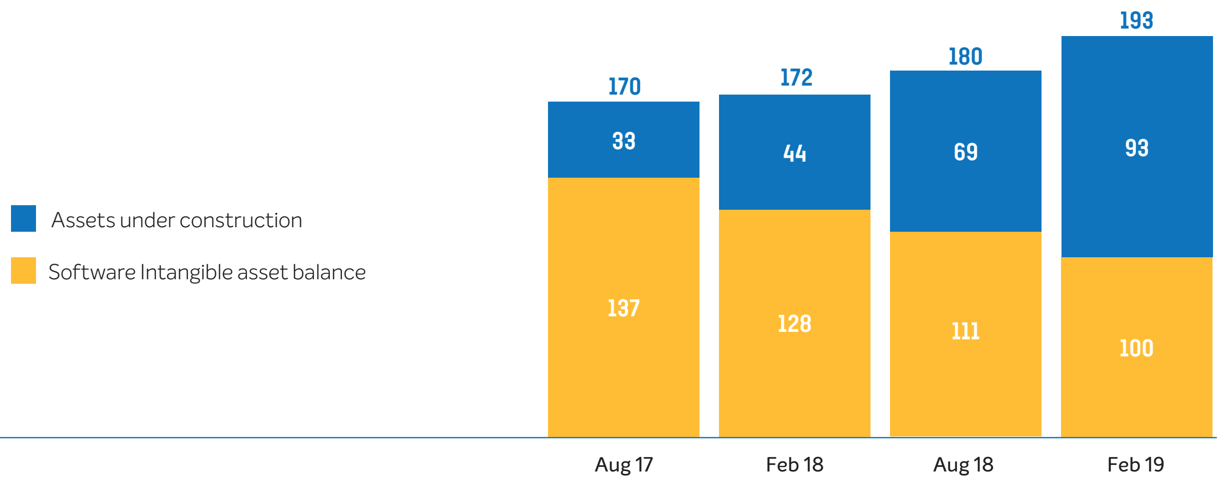
Increased IT support costs were offset by reduced software amortisation ($2 million), following the change to useful life which occurred in FY18. The complex, multi-year investment programs under way have contributed a larger asset under construction balance.

2.6 CAPITALISED INVESTMENT SPEND

Key investments continue to include building functionality required for the industry's New Payments Platform, a treasury and market risk systems upgrade, developing capability for digital offerings for financial markets customers as well as infrastructure modernisation. The Group also continues to invest in strengthening risk management and controls. In 1H19 the Group's transformation program was expanded, commencing a program of accelerated investment to ensure the delivery of a contemporary digital banking experience for customers, process digitisation and enhancement of customer relationships through a new customer engagement platform.

Investment in assets under construction is higher in comparison to 2H18, a direct result of an increase in the number of significant investment programs underway. The assets under construction balance will be reduced as these programs are delivered, some of which anticipate delivery in 2H19.

Carrying value of IT intangible assets ($m)



BOQ GROUP - 2019 HALF YEAR RESULTS

2.7 LENDING

Loan growth was two per cent (annualised) in 1H19 in a market characterised by slowing credit growth, strong competition and a shifting regulatory landscape. BOQ continues to balance growth with margin and asset quality. The strategy of targeting niche customer segments has delivered strong growth across BOQ Finance, BOQ Specialist and niche segments in the BOQ branded commercial portfolio. Virgin Money mortgage offering continued to grow strongly and now comprises a home loan portfolio of more than $2.1 billion.

	As at				
$ million	Feb-19	Aug-18	Feb-18	Feb-19 vs Aug-18 [1]	Feb-19 vs Feb-18
Housing lending	28,330	28,007	28,468	2%	-
Housing lending - APS 120 qualifying securitisation [2]	2,215	2,499	1,767	(23%)	25%
	30,545	30,506	30,235	-	1%
Commercial lending	10,040	9,881	9,589	3%	5%
BOQ Finance	4,898	4,595	4,360	13%	12%
Consumer	296	297	304	(1%)	(3%)
Gross loans and advances	45,779	45,279	44,488	2%	3%
Provision for impairment	(214)	(201)	(219)	13%	(2%)
Net loans and advances	45,565	45,078	44,269	2%	3%

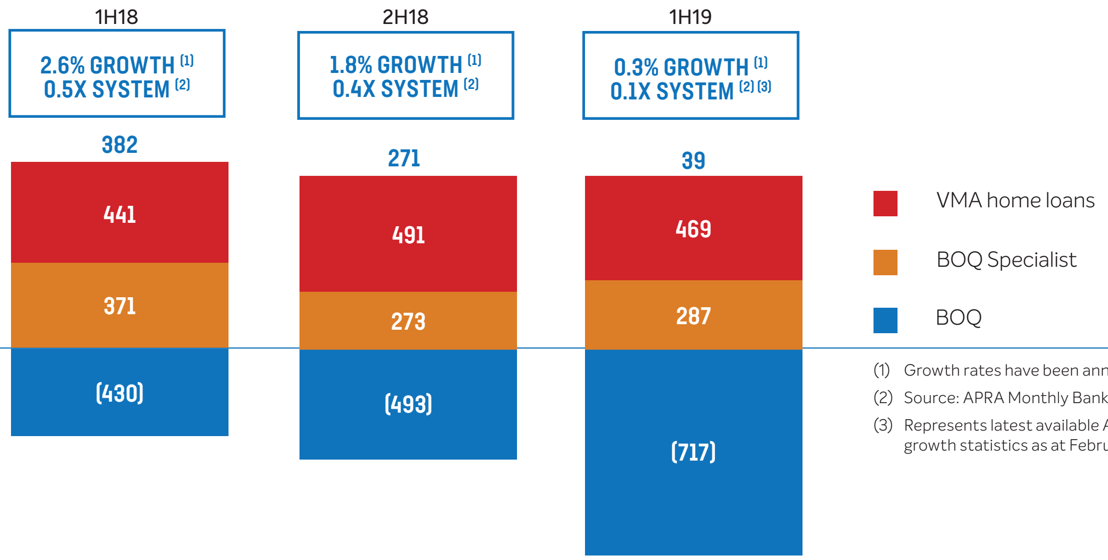
(1) Growth rates have been annualised.

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

BOQ GROUP - 2019 HALF YEAR RESULTS

2.7 LENDING (CONTINUED)

Growth in housing gross loans & advances ($m)



(1) Growth rates have been annualised.
(2) Source: APRA Monthly Banking Statistics.
(3) Represents latest available APRA System growth statistics as at February 2019.

Housing

Housing loan growth was constrained by the slowing mortgage market and an increasingly competitive environment for new lending assets. BOQ has continued to maintain prudent credit settings with enhanced servicing, validation, and responsible lending practices. The Bank continues to invest in lending fulfilment capability to align to the higher compliance requirements, which should deliver improved customer outcomes and operational efficiencies.

The Housing loan portfolio grew 0.3 per cent (annualised) over 1H19, with continued growth across the Virgin Money and BOQ Specialist channels. The portfolio continues to benefit from geographic diversification with settlements outside of Queensland providing more than half of new business flows. Whilst distribution through third party channels for the Group grew to 30 per cent of new business settlements, BOQ remains under-represented relative to the industry average of nearly 60 per cent.

In the branch network new business acquisition remains challenging in a market that is aggressively competing for a shrinking level of demand. Reflecting this, there is a strong focus on retention. BOQ continues to build a more efficient network, and a robust risk and compliance framework. The Owner Manager network remains a strong differentiator for the Bank.

The Virgin Money mortgage offering continues to perform strongly, providing a channel to engage with a complimentary customer demographic. In 1H19, Virgin Money grew by $469 million with the portfolio now over $2 billion. This growth supports the Bank's geographic diversification, with more than 80 per cent of the Virgin Money portfolio based outside of Queensland. Virgin Money continues to expand its broker presence and build its direct online capability in 1H19, leveraging the investment in enhancing the digital offering.

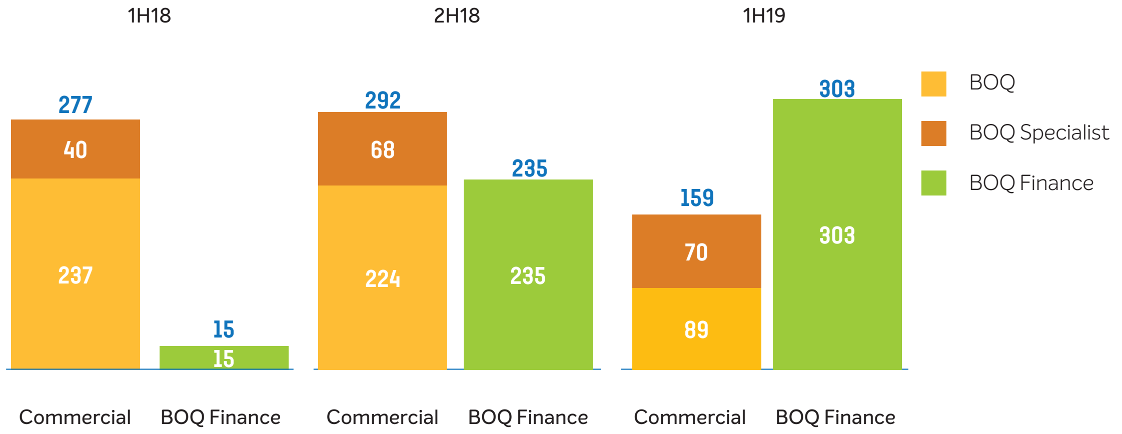
BOQ growth through the broker channel reduced in line with the softening housing markets in southern states and the continued adherence to responsible lending practices for customers.

The BOQ Specialist mortgage offering to its professional client base, grew by 13 per cent (annualised) in 1H19. This continued the strong momentum from prior periods, despite the portfolio maturing. BOQ Specialist continues to deliver sound, above system growth by focusing on building relationships with professionals in the early stages of their careers or starting at university. The diversity offered through this portfolio in geography, profession, and age improves the overall risk profile of the housing lending portfolio. The mortgage offering 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 GROUP - 2019 HALF YEAR RESULTS

2.7 LENDING (CONTINUED)

Growth in Commercial & BOQ Finance ($m)



	Feb-18		Aug-18		Feb-19	
	Commercial	BOQ Finance	Commercial	BOQ Finance	Commercial	BOQ Finance
Growth rate (1)	5.9%	0.7%	6.0%	10.7%	3.2%	13.3%
System growth (1) (2)	3.6%	4.0%	6.4%	5.5%	5.4%	(0.5%)
Growth vs System	1.6x	0.2x	0.9x	1.9x	0.6x	n/a

(1) Growth rates have been annualised.

(2) Based on APRA and AFIA system growth statistics.

(3) Represents latest available APRA and AFIA system growth statistics as at February 2019.

BOQ Business

The commercial lending portfolio grew three per cent (annualised) in the half to $10 billion, with slower momentum than 2H18 due to seasonality and $150 million of paydowns attributable to a small number of large client exposures.

The BOQ branded commercial portfolio grew by $89 million. The Bank's niche segment strategy is delivering, with the segments of corporate healthcare and retirement living, hospitality and tourism delivering new customer acquisition. The agribusiness niche segment has slowed due to the unfavourable weather conditions and BOQ's focus on supporting customers for long term financial stability rather than growth. The small business lending strategy continued to evolve and while higher new customer enquiry levels and improved processes for customers were positives in this segment, lending growth remains elusive in the context of a mature book. Geographic diversification remains strong with the Queensland concentration in the BOQ branded commercial book sitting at 49 per cent.

BOQ Specialist delivered commercial loan book growth of six per cent annualised in its core medical segment, maintaining an estimated 24 per cent market share in healthcare. 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 provided strong, profitable asset growth of 13 per cent annualised to $4.9 billion, continuing the momentum from 2H18 in what is traditionally a seasonally slow period. Investment in systems has supported growth in the equipment finance business and new strategic partnerships in the wholesale business. Diversification of the exposure has continued, with growth in all finance lines including structured finance solutions and wholesale solutions.

BOQ GROUP - 2019 HALF YEAR RESULTS

3. BUSINESS SETTINGS

3.1 ASSET QUALITY

Loan impairment expense increased to $30 million, or 13 basis points of gross loans and advances in 1H19. Impaired assets decreased by seven per cent from 2H18 as BOQ continues to maintain prudent provisioning coverage. A less certain economic outlook and increase in arrears impacted the Group's new collective provisioning model which is a forward-looking, expected credit loss model. On transition to AASB 9 (1 September 2018) a $10 million increase in the collective provision was recognised as an adjustment to retained profits.

The increase in BOQ arrears was caused by seasonality commonly seen in the first half as well as slowing general economic conditions. Higher arrears levels have also impacted the loan impairment expense as key inputs underlying the expected credit loss model which has consequently increased the collective provision and the General Reserve for Credit Losses (**GRCL**) coverage in 1H19.

		Half Year Performance				
		Feb-19	Aug-18	Feb-18	Feb-19 vs Aug-18	Feb-19 vs Feb-18
Loan impairment expense	($ million)	**30**	19	22	58%	36%
Loan impairment expense / GLA	bps	**13**	8	10	5bps	3bps
Impaired assets	($ million)	**152**	164	173	(7%)	(12%)
30dpd arrears	($ million)	**505**	469	493	8%	2%
90dpd arrears	($ million)	**287**	260	237	10%	21%
Collective provision & GRCL coverage / RWA	bps	**74**	67	70	7bps	4bps

The table above summarises BOQ's key credit indicators for 1H19 compared to 2H18 and 1H18:

- Loan impairment expense was $30 million, or 13 basis points of gross loans and advances for 1H19. This result included the implementation of the Group's expected credit loss model that was impacted by increases in the arrears rates across the Group and a less certain economic outlook. The increase in the collective provision contributed $12 million to loan impairment expense in 1H19.
- Impaired assets decreased $12 million or seven per cent to $152 million at the end of 1H19. The impaired portfolio had three impaired exposures greater than $5 million (consistent with 2H18). Decreases in the balances were seen in both the Retail and Commercial segments that were driven by fewer net provisions as well as significant recoveries in 1H19.
- 30 day and 90 day arrears increased $36 million and $27 million respectively during 1H19. The increase of eight per cent and 10 per cent across 30 day and 90 day arrears respectively in 1H19 is impacted by seasonality as arrears increased after the holiday period and were further inflated by the recent natural disasters.
- Collective provisioning and GRCL coverage against RWA increased by seven basis points over 2H18 and four basis points over 1H18. This increase is due to a higher collective provision in 1H19 which was driven by a transitional adjustment upon implementation of the AASB 9 accounting standard as well as less certain economic conditions and increase in arrears that have impacted the forward looking assumptions underlying the expected credit loss model.

BOQ GROUP - 2019 HALF YEAR RESULTS

3.1 ASSET QUALITY (CONTINUED)

Loan impairment expense

	Half Year Performance					
	Feb-19		Aug-18		Feb-18	
	Expense ($m)	Expense/GLA (bps)	Expense ($m)	Expense/GLA (bps)	Expense ($m)	Expense/GLA (bps)
Retail lending	11	7	4	3	11	7
Commercial lending	4	8	1	3	10	21
BOQ Finance	15	61	14	60	1	5
Total loan impairment expense	30	13	19	8	22	10

The table above shows an increase in the loan impairment expense across BOQ against both 1H18 and 2H18. Of the $30 million impairment expense in 1H19, $12 million is attributable to an increase in the forward looking collective provision, which was driven by less certain economic conditions and increased arrears.

Retail loan impairment expense of $11 million was comparable to 1H18 and $7 million higher than 2H18. Retail specific provisioning activity has increased slightly on 2H18 and combined with the forward looking collective provisioning has increased the expense profile back to levels more consistent with historic experience.

The underlying portfolio is considered strong in the current economic environment. Specific provisioning activity in the commercial segment remains low and the portfolio benefited from write backs to two sizeable existing provisions following a successful asset realisation program. BOQ Finance impairment expense of $15 million (61 basis points) is comparable to 2H18 and shows a return to the more normal levels following the historical lows seen in 1H18.

Impaired assets

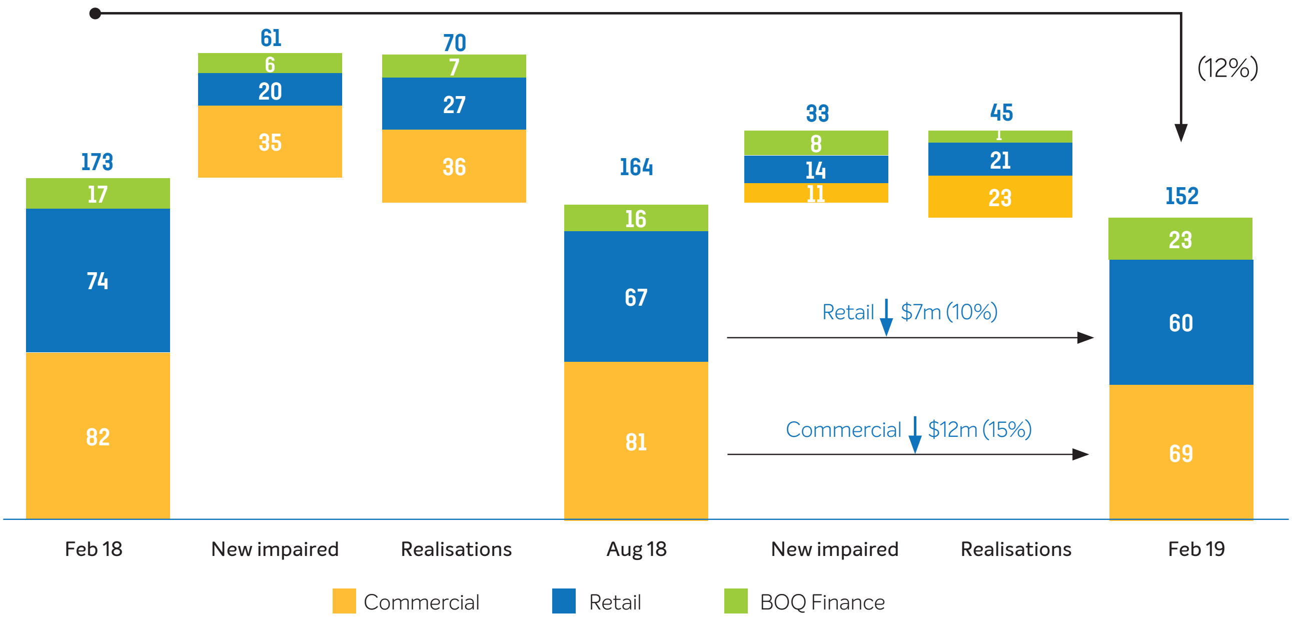
	As at				
$ million	Feb-19	Aug-18	Feb-18	Feb-19 vs Aug-18	Feb-19 vs Feb-18
Retail lending	60	67	74	(10%)	(19%)
Commercial lending	69	81	82	(15%)	(16%)
BOQ Finance	23	16	17	44%	35%
Total impaired assets	152	164	173	(7%)	(12%)
Impaired assets / GLA	33bps	36bps	39bps	(3bps)	(6bps)

Impaired assets have decreased by $12 million (seven per cent) from 2H18 to $152 million in 1H19. This represents a $21 million (12 per cent) decrease from 1H18. Retail impaired assets decreased by $7 million (10 per cent) from 2H18 as realisations outpaced new impaired assets with fewer new provisions raised. The Commercial portfolio decreased by $12 million (15 per cent) from 2H18, largely due to the staged settlement of the largest connection in the impaired portfolio, which released over $5 million in provisions. BOQ Finance impaired levels increased by $7 million (44 per cent) compared to 2H18 as provisioning activity returned to more normal levels. The Group's 15 largest impaired connections account for 30 per cent of the total impaired assets, which remain largely unchanged from 2H18. The Group now holds three exposures with impaired balances greater than $5 million for a combined total of $18 million. At 2H18 the Group held three exposures with an impaired balance greater than $5 million for a combined total $25 million. The following chart outlines the movements in impaired assets since February 2018.

BOQ GROUP - 2019 HALF YEAR RESULTS

3.1 ASSET QUALITY (CONTINUED)

Impaired assets ($m)



Provision coverage

Specific provision balances reduced by $9 million to $77 million in 1H19, continuing the downward trend from 1H18. The specific provisioning coverage ratio reduced 100 basis points to 51 per cent. Total provisions and GRCL coverage to impaired assets increased by 2300 basis points for 1H19, driven by the increase in the collective provision and reduction in impaired assets. The collective provision increased by $22 million or 19 per cent from 2H18 driven by a number of factors, including the implementation of AASB 9. As part of the transition to AASB 9 on 1 September 2018, the model overlay was increased by $10 million to account for both known and unknown model and methodology developments. In addition to this, less certain general economic conditions and increases in arrears have impacted the forward looking assumptions in the collective provision model.

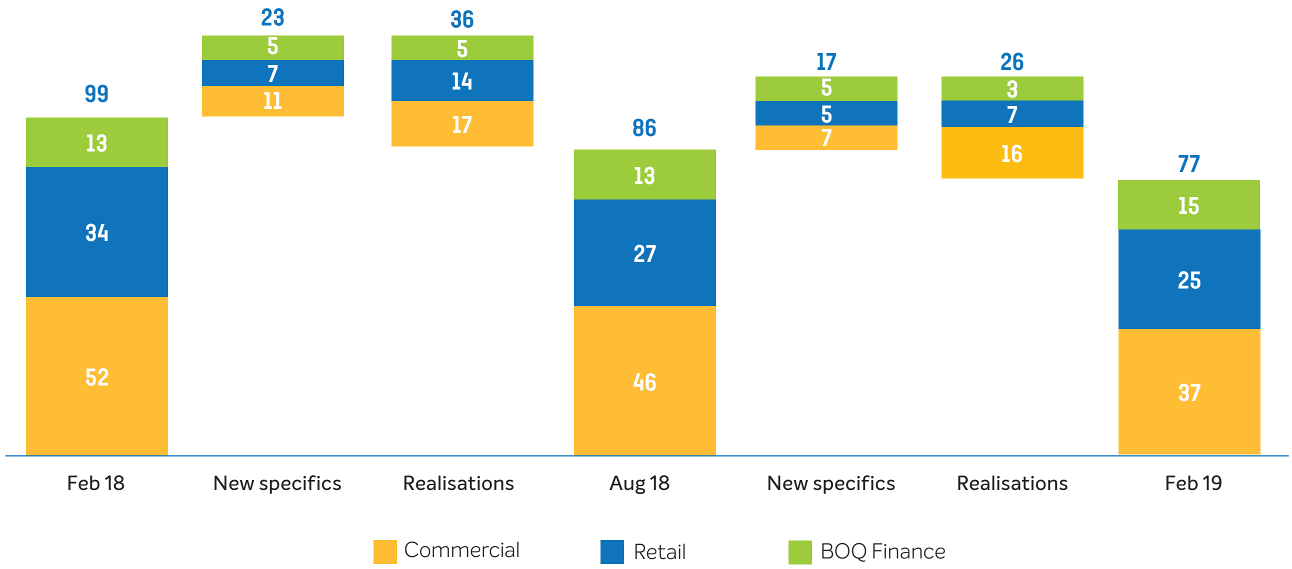
	As at				
$ million	Feb-19	Aug-18	Feb-18	Feb-19 vs Aug-18	Feb-19 vs Feb-18
Specific provision	77	86	99	(10%)	(22%)
Collective provision	137	115	120	19%	14%
Total provisions	**214**	201	219	6%	(2%)
GRCL	60	59	58	2%	3%
Specific provisions to impaired assets	51%	52%	57%	(100bps)	(600bps)
Total provisions and GRCL coverage to impaired assets (1)	197%	174%	175%	2300bps	2200bps
Total provisions and GRCL coverage to RWA (1)	1.0%	1.0%	1.0%	-	-

(1) GRCL gross of tax effect.

BOQ GROUP - 2019 HALF YEAR RESULTS

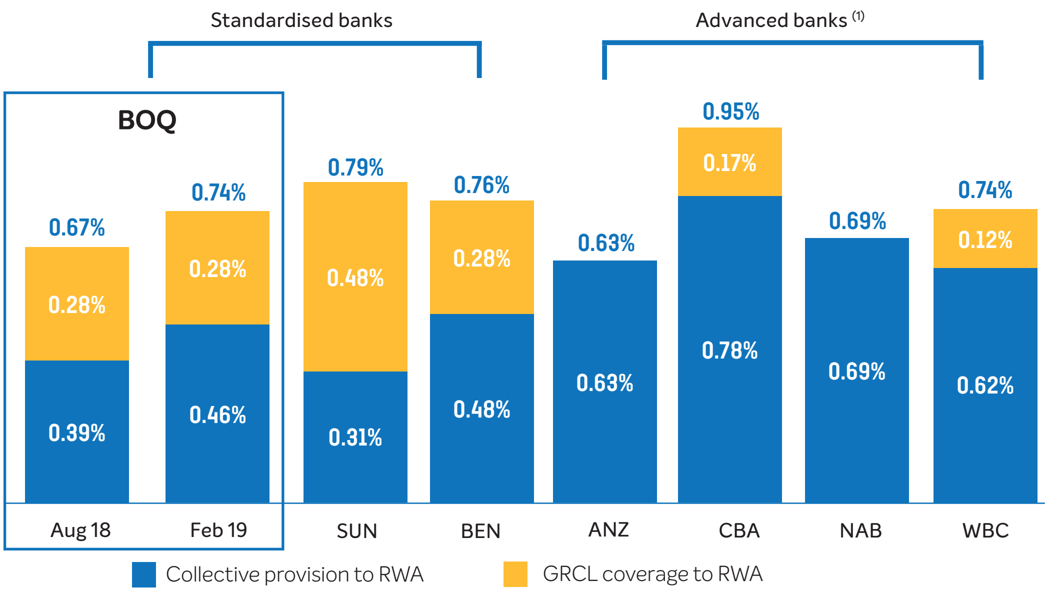
3.1 ASSET QUALITY (CONTINUED)

Specific provisions ($m)



Collective provision and GRCL coverage/RWA vs peers

The graph below provides BOQ's level of collective provision and GRCL coverage to RWA against the current levels of its peers, as published in their most recent financial reports. BOQ's coverage increased by seven basis points over 1H19 driven by the increase in collective provision. 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 - 2019 HALF YEAR RESULTS

3.1 ASSET QUALITY (CONTINUED)

Arrears

Key metrics	Portfolio balance ($m) Feb-19	Feb-19	Aug-18	Feb-18	Feb-19 vs Aug-18	Feb-19 vs Feb-18
Total lending - portfolio balance ($ million)		45,779	45,279	44,488	1%	3%
30 days past due ($ million)		505	469	493	8%	2%
90 days past due ($ million)		287	260	237	10%	21%
		Proportion of portfolio				
30 days past due: GLAs		1.10%	1.04%	1.11%	6bps	(1bps)
90 days past due: GLAs		0.63%	0.57%	0.53%	6bps	10bps
By product						
30 days past due: GLAs (housing)	28,813	1.00%	0.92%	0.99%	8bps	1bps
90 days past due: GLAs (housing)		0.51%	0.44%	0.45%	7bps	6bps
30 days past due: GLAs (line of credit)	1,732	2.19%	2.33%	2.54%	(14bps)	(35bps)
90 days past due: GLAs (line of credit)		1.79%	1.17%	1.07%	62bps	72bps
30 days past due: GLAs (consumer)	296	1.01%	1.35%	1.64%	(34bps)	(63bps)
90 days past due: GLAs (consumer)		0.68%	0.67%	0.99%	1bp	(31bps)
30 days past due: GLAs (commercial)	10,040	1.29%	1.38%	1.26%	(9bps)	3bps
90 days past due: GLAs (commercial)		1.02%	1.08%	0.82%	(6bps)	20bps
30 days past due: GLAs (BOQ Finance)	4,898	0.90%	0.47%	0.82%	43bps	8bps
90 days past due: GLAs (BOQ Finance)		0.13%	0.07%	0.10%	6bps	3bps

Retail arrears

30 day housing arrears increased by eight basis points during 1H19 while 90 day arrears increased by seven basis points. While the increase in housing is consistent with the seasonal trend for the period, this has been inflated by the recent natural disasters that occurred during 1H19.

BOQ Business arrears

Arrears performance was stable in both the 30 day and 90 day categories for BOQ Commercial bringing it back in line with historical rates from 1H18 and 2H17. The arrears rates in 2H18 were high due to three large facilities totalling $15 million in both the 30 and 90 days arrears categories that returned to the performing category in 1H19.

BOQ Finance 30 day arrears increased by 43 basis points from 2H18 to 90 basis points driven by seasonal arrears that continues to impact the portfolio as does the ongoing drought conditions affecting the agriculture sector. The increase was also impacted in part by one large connection of $7 million (14 basis points), which has subsequently cleared in March 2019.

BOQ GROUP - 2019 HALF YEAR RESULTS

3.2 FUNDING AND LIQUIDITY

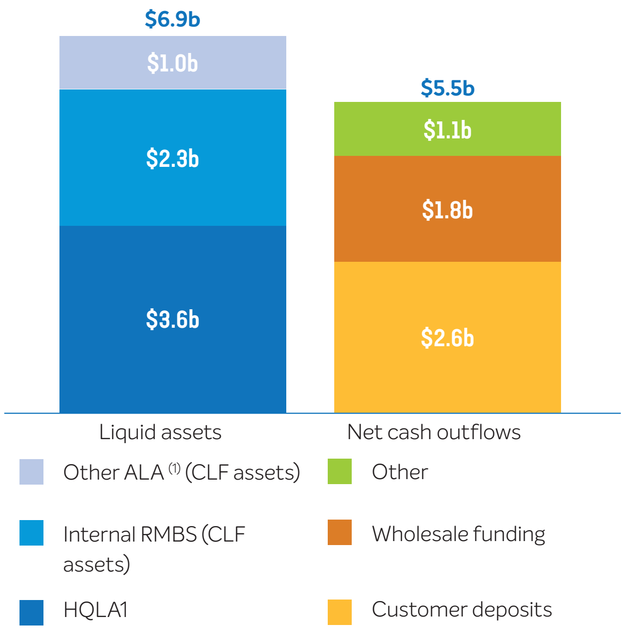
BOQ's liquidity strategy and risk appetite are designed to ensure it has the ability to meet payment obligations as and when they fall due. To manage liquidity risk BOQ maintains a portfolio of unencumbered, high quality liquid assets, giving the Bank a buffer to withstand a range of stress events, including 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 28 February 2019 was 124 per cent. BOQ's average LCR for 1H19 was 132 per cent.

LCR – February 2019 (124%)



(1) Alternative Liquid Assets (**ALA**) qualifying as collateral for the CLF, excluding internal RMBS, within the CLF limit.

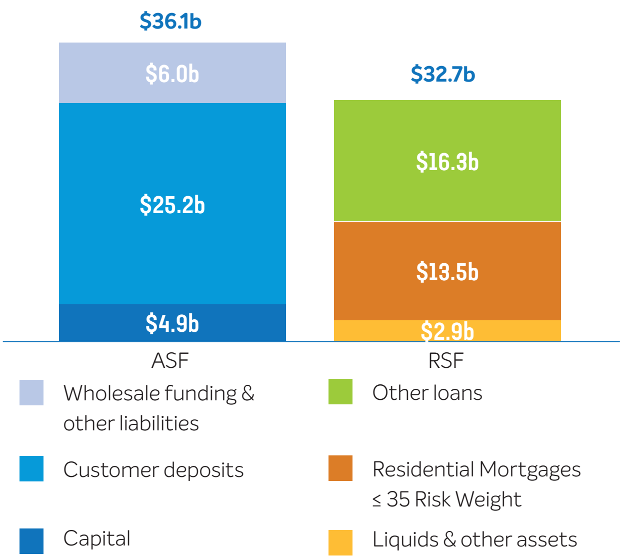
Net stable funding ratio (NSFR)

APRA's stated objective in implementing the NSFR is to strengthen funding and liquidity resilience. The NSFR encourages ADIs to fund 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 as at 28 February 2019 was 110 per cent, down from 112 per cent at 31 August 2018. The primary driver of the decrease in NSFR has been a decline in customer deposits and an increase in other loans that do not qualify for a 35 per cent or lower risk weight under APS 112 *Capital Adequacy: Standardised Approach to Credit Risk* (**APS 112**). The average NSFR for 1H19 was 110.4 per cent.

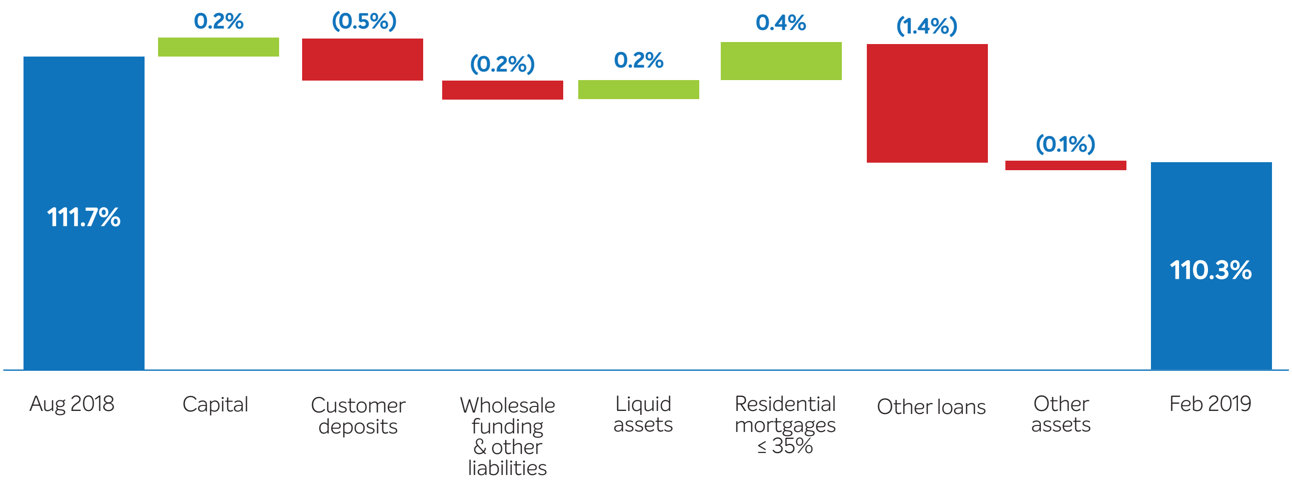
NSFR – February 2019 (110%)



BOQ GROUP - 2019 HALF YEAR RESULTS

3.2 FUNDING AND LIQUIDITY (CONTINUED)

NSFR waterfall 31 August 2018 – 28 February 2019 ($b)



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 $3.5 billion RBA CLF for the 2019 calendar year, enabling BOQ to meet its minimum regulatory requirement of greater than 100 per cent LCR. BOQ increased its contingent liquidity through its internal RMBS, in line with the increase in CLF to ensure it maintains a sufficient buffer to its physical liquidity.

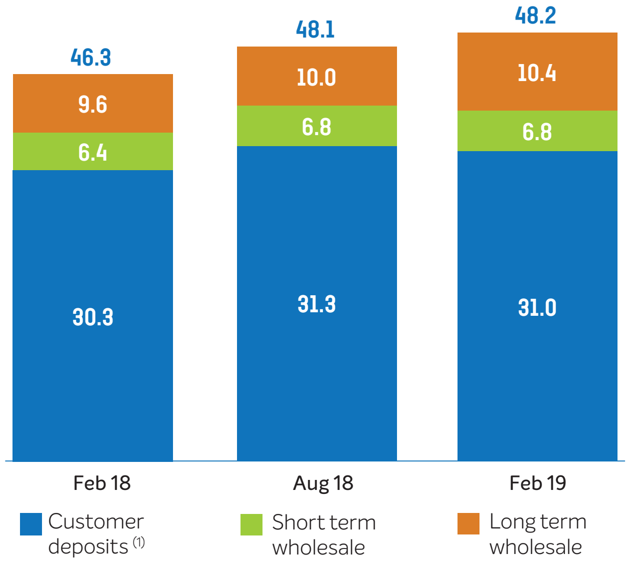
BOQ GROUP - 2019 HALF YEAR RESULTS

3.2 FUNDING AND LIQUIDITY (CONTINUED)

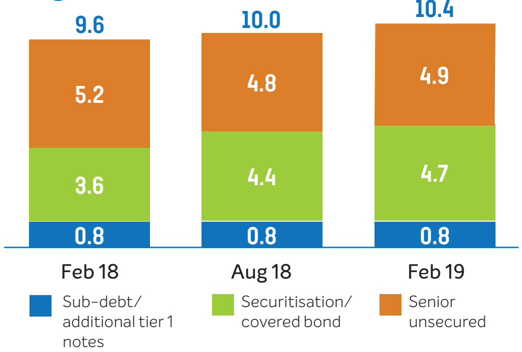
Funding

The Bank's funding strategy and risk appetite reflects the Group's business strategy, adjusted for the current economic environment. Funding is managed to allow for various scenarios that may impact BOQ's funding position.

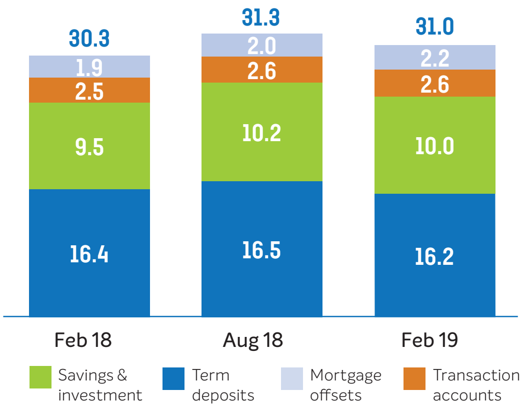
Funding mix ($b)



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*.

Wholesale funding

BOQ focuses on three main strategic elements in delivering its wholesale funding objectives – capacity, diversity, and resilience. This approach has been adopted to minimise the cost of funds and maintain flexibility to raise funds in the most appropriate market, at the most appropriate time.

The Bank continues to focus on increasing longer dated, stable funding sources whilst reducing reliance on short dated wholesale funding. In 1H19, net long term wholesale funding growth predominantly funded lending growth, with no incremental growth in short term wholesale funding.

BOQ GROUP - 2019 HALF YEAR RESULTS

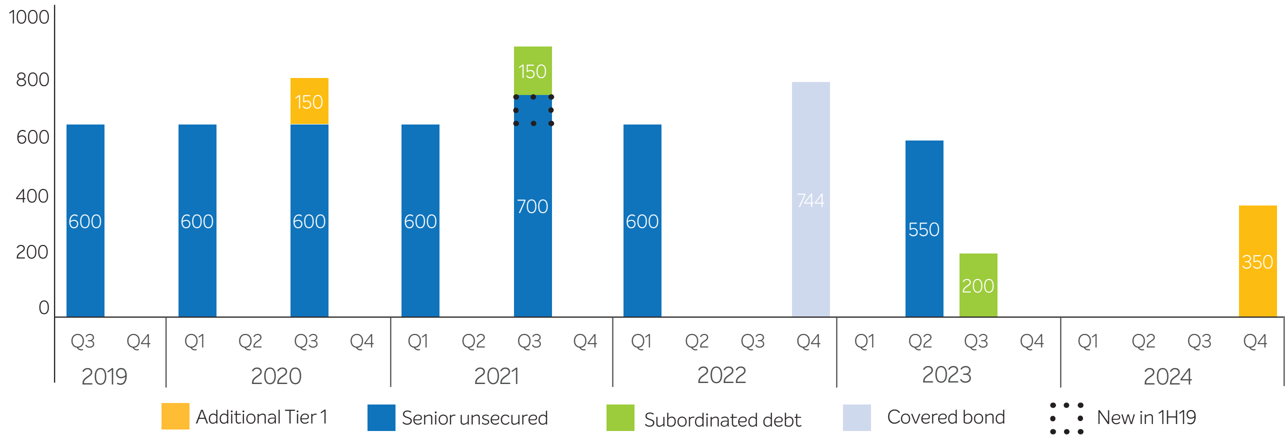
3.2 FUNDING AND LIQUIDITY (CONTINUED)

Term funding issuance

During 1H19, BOQ issued a combination of senior unsecured debt and secured funding transactions. The Bank issued a domestic senior unsecured transaction in December 2018 ($100 million for 2.25 years), and a $779 million ABS transaction in November 2018, the first such transaction issued by BOQ since 2015.

These transactions demonstrate BOQ's capacity to access long term wholesale funds across a diverse range of funding markets, seeking to avoid concentration of maturity exposure.

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	Feb-19	Aug-18	Feb-18	Feb-19 vs Aug-18 (1)	Feb-19 vs Feb-18
CET1	2,776	2,762	2,719	1%	2%
Additional tier 1 capital	500	500	641	-	(22%)
Total tier 2	524	524	328	-	60%
Total capital base	3,800	3,786	3,688	1%	3%
Total RWA	29,978	29,669	28,859	2%	4%
CET1 ratio	9.26%	9.31%	9.42%	(5bps)	(16bps)
Total capital adequacy ratio	12.68%	12.76%	12.78%	(8bps)	(10bps)

(1) Growth rates have been annualised.

BOQ GROUP - 2019 HALF YEAR RESULTS

3.3 CAPITAL MANAGEMENT (CONTINUED)

CET1 1H19 VS 2H18

The Group's CET1 ratio decreased by five basis points during 1H19 from 9.31 per cent to 9.26 per cent.

The Bank saw headline underlying capital generation of 13 basis points for 1H19.

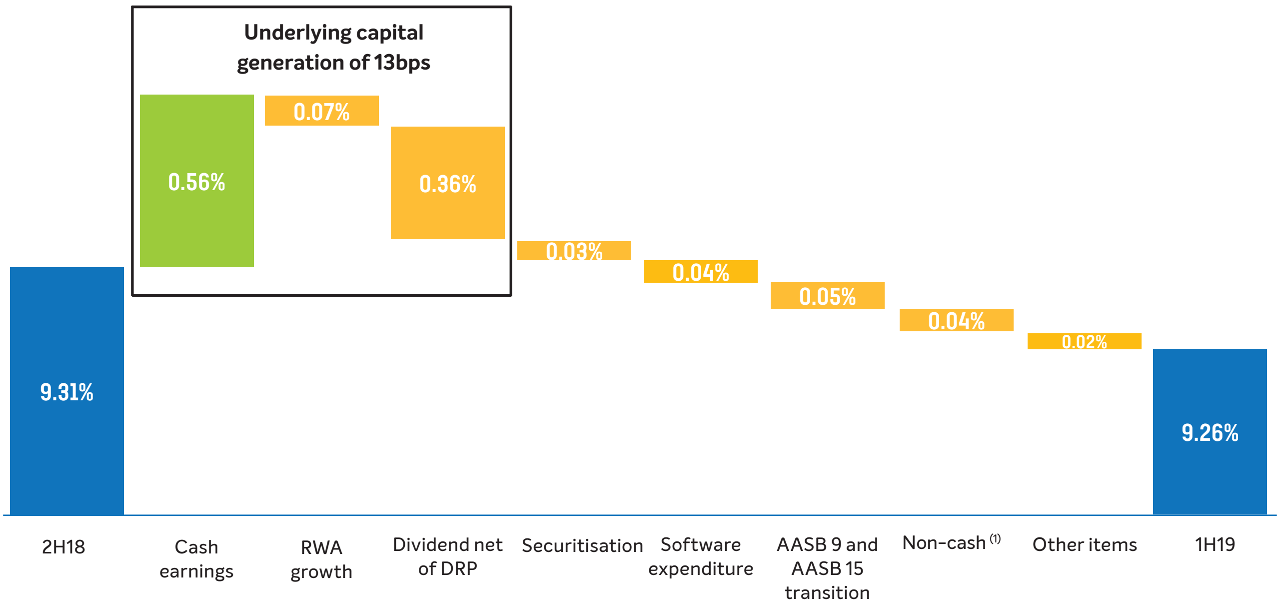
This was impacted by reduced earnings and a reduced participation rate (1H18: 31.7 per cent, 2H18: 28.3 per cent) in the dividend reinvestment plan (**DRP**).

Lower lending growth reduced the rate of on balance sheet credit RWA growth, albeit, the growth was more concentrated in higher risk weighted commercial and BOQ Finance assets, and there was no capital relief securitisation issuance in 1H19. On balance sheet credit RWA growth was partially offset by reductions in off balance sheet credit risk weighted assets as the Bank actively managed limits to ensure greater capital efficiency.

Software expenditure utilised four basis points of capital during 1H19 and this will increase over the coming periods as the Bank accelerates its digital investment.

The transition to AASB 9 and AASB 15 resulted in a one-off reduction in capital by reducing retained profits, along with the recognition of associated deferred tax assets. Together, these adjustments reduced total CET1 capital by five basis points.

Other items included an increase in deferred acquisition costs, non-financial investments and reduced reserve balances, offset by a net reduction in deferred tax assets (excluding the AASB changes).



(1) Refer to Section 6.2 (A) *Non-cash earnings reconciling items* of the *Appendices* for further details.

3.4 TAX EXPENSE

Tax expense arising on cash earnings for 1H19 amounted to $76 million. This represented an effective tax rate of 31.3 per cent, which is above the corporate tax rate of 30 per cent primarily due to the non-deductibility of interest payable on WCN issued in FY15 and Capital Notes issued in FY18.

BOQ GROUP - 2019 HALF YEAR RESULTS

4. DIVISIONAL PERFORMANCE

4.1 RETAIL INCOME STATEMENT, KEY METRICS AND FINANCIAL PERFORMANCE REVIEW

Retail Banking provides solutions to personal customers through the Owner Managed and corporate branch network, third party intermediaries and Virgin Money distribution channels.

First half results softened to prior periods reflecting the increasingly competitive market, slowing credit growth and heightened regulatory requirements. The Retail Banking team continues to maintain a strong focus on asset quality with prudent validation and serviceability standards. In 1H19, acquisition discounting across the industry and increased hedging costs continued to impact net interest margins. The delivery of projects designed to improve the customer fulfilment and digital experience are increasingly vital to streamline the lending process and broaden transactional banking capabilities for customers.

Retail Banking continued with its strategy of diversifying distribution channels, with solid lending growth in Virgin Money which has also launched a direct channel that allows customers to apply for home lending directly through the website and contact centre. Third party distribution channels remain a valuable source of new business settlements, contributing 40 per cent of Retail Banking housing settlements for 1H19.

The Retail Bank remains the primary source of customer deposits for the Group, with the majority of deposits being generated through the branch network. In December 2018, the *Fast Track Starter* and *Fast Track Saver* products were launched and recently awarded 'Best New Savings Account' in the 2019 Mozo Experts Choice Awards.

The Virgin Money offering has continued to resonate as a challenger brand to a different customer demographic with the mortgage portfolio now exceeding $2.1 billion, including $469 million growth in 1H19. Virgin Money broadens the Group's geographic and demographic diversification towards a non-Queensland and younger customer base. Virgin Money is progressing the development of further digital banking capabilities to deepen the offering of this challenger brand.

The BOQ branch network consists of 93 Owner Managed and 72 corporate branches, as well as seven transaction centres. Whilst the branch network saw a decline in asset volumes, it continues to be a strong deposit contributor to the broader BOQ Group. Retail deposits grew by $120 million during 1H19 whilst optimising margin preservation by balancing retention of deposits against the pricing pressure of the asset book. The branch network continues to be the major source of funding, with 76 per cent of all customer deposits coming through the branches.

Growth in the BOQ broker channel softened in 1H19 as run-off increased in line with the growing maturity of the portfolio. The delivery of investments aimed at improving the lending and customer fulfilment process is pivotal to further growth through this channel which now extends to 2,759 accredited brokers.

The Retail Bank is focused on delivering an improved customer experience through the delivery of the Bank's end to end lending origination program which will deliver processing efficiencies and an improved 'time to yes' for customers. This will be supported by the upgrade of the Bank's mobile banking and internet banking platforms in addition to the upgrade of telephony assets to deliver digitally enhanced call centre functionality.

	Half Year Performance				
$ million	Feb-19	Aug-18	Feb-18	Feb-19 vs Aug-18	Feb-19 vs Feb-18
Net interest income	215	231	227	(7%)	(5%)
Non-interest income	32	34	33	(6%)	(3%)
Total income	247	265	260	(7%)	(5%)
Operating expenses	(141)	(140)	(141)	1%	-
Underlying profit	106	125	119	(15%)	(11%)
Loan impairment expense	(10)	(5)	(10)	100%	-
Profit before tax	96	120	109	(20%)	(12%)
Income tax expense	(30)	(38)	(34)	(21%)	(12%)
Cash earnings after tax	**66**	82	75	(20%)	(12%)

BOQ GROUP - 2019 HALF YEAR RESULTS

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

Cash earnings after tax of $66 million for 1H19 was $9 million lower than 1H18 and $16 million lower than 2H18.

Net interest income of $215 million reduced $16 million or seven per cent on 2H18, primarily due to margin pressure given discounting required to acquire new customers and retain existing business and increases in wholesale funding costs. The result was also impacted by the shorter day count in 1H19.

Non-interest income of $32 million for 1H19 was $2 million below 2H18. This reflects pressure on banking fee income in line with industry trends as customer preferences shift to lower fee products and methods of banking. This was partially offset by an improved contribution from the Virgin Money portfolios.

Operating expenses of $141 million increased one per cent from 2H18. This was due to higher investment in technology and compliance costs.

Impairment expense of $10 million increased $5 million from 2H18. This was driven by an increase in the collective provision due to a less certain economic outlook and increase in arrears. The Retail Bank remains prudently provisioned and continues to experience relatively benign instances of new impaired exposures.

Key metrics		Feb-19	Aug-18	Feb-18	Feb-19 vs Aug-18 [(1)]	Feb-19 vs Feb-18
CASH EARNINGS BASIS						
CTI	(%)	57.1	52.8	54.2	430bps	290bps
ASSET QUALITY						
90dpd arrears	($ million)	177	148	147	20%	20%
Impaired assets	($ million)	54	59	70	(8%)	(23%)
Loan impairment expense / GLA	(bps)	8	4	8	4bps	-
BALANCE SHEET						
GLA	($ million)	24,996	25,252	25,258	(2%)	(1%)
Housing	($ million)	24,922	25,170	25,167	(2%)	(1%)
Other retail	($ million)	74	82	91	(20%)	(19%)
CREDIT RWA	($ million)	8,775	8,841	9,225	(2%)	(5%)
CUSTOMER DEPOSITS	($ million)	15,312	15,192	14,618	2%	5%
Term deposits	($ million)	6,711	6,650	6,770	2%	(1%)
Mortgage offsets	($ million)	1,455	1,329	1,234	19%	18%
Savings & investment	($ million)	5,712	5,762	5,199	(2%)	10%
Transaction accounts	($ million)	1,434	1,451	1,415	(2%)	1%
DEPOSIT TO LOAN RATIO	(%)	61	60	58	100bps	300bps

(1) Balance sheet key metrics have been annualised.

BOQ GROUP - 2019 HALF YEAR RESULTS

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

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

The BOQ Business division has continued to deliver on its strategy to grow in niche target segments in 1H19, by providing a tailored relationship offering to customers with overall loan growth of $756 million.

BOQ-branded commercial loan growth was underpinned by an ongoing focus on quality and appropriate return for risk. Growth in the Bank's niche segments of corporate healthcare and retirement living, hospitality and tourism and agribusiness continues to contribute to the diversification of the loan portfolio by geography, industry and asset class. Queensland concentration for BOQ branded lending was 49 per cent.

BOQ Specialist had higher loan settlement activity on the previous year, whilst both the commercial and home lending books are maturing. Aggregate asset growth was $364 million in 1H19. The mortgage offering delivered excellent new customer acquisition with housing loans growing well above system at an annualised rate of 13 per cent in 1H19. 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 lending performed strongly in the period, growing $303 million or 13 per cent annualised from 2H18. BOQ Finance remained focused on its existing market proposition and grew across multiple portfolios maintaining diversification of product mix. Growth and productivity in this business continues to grow year on year, through structured programs in its target vendor and equipment finance customer segments.

	Half Year Performance				
$ million	**Feb-19**	Aug-18	Feb-18	Feb-19 vs Aug-18	Feb-19 vs Feb-18
Net interest income	**261**	263	251	(1%)	4%
Non-interest income	**26**	29	30	(10%)	(13%)
Total income	**287**	292	281	(2%)	2%
Operating expenses	**(118)**	(116)	(112)	2%	5%
Underlying profit	**169**	176	169	(4%)	-
Loan impairment expense	**(20)**	(14)	(12)	43%	67%
Profit before tax	**149**	162	157	(8%)	(5%)
Income tax expense	**(47)**	(50)	(50)	(6%)	(6%)
Cash earnings after tax	102	112	107	(9%)	(5%)

Cash earnings after tax of $102 million for 1H19 was $10 million lower than 2H18 and $5 million lower than 1H18.

Net interest income of $261 million for 1H19 was $2 million or one per cent lower than 2H18. Adjusting for the lower day count in 1H19, the reduction reflects an annualised underlying growth rate of one per cent. This was driven by lending growth of eight per cent annualised with the BOQ Specialist and BOQ Finance distribution channels both performing strongly. Net interest spread reduced slightly in BOQ Specialist and BOQ Finance due to product mix and increased competition.

Non-interest income of $26 million was $3 million or 10 per cent lower than 2H18. The BOQ Business merchant offering has been migrated to a third party in return for a revenue share of new and ongoing merchant income. This provides customers with improved technology and ongoing investment whilst removing risk and operating expenses from the business to offset the reduced income stream. Non-interest income generated by financial markets and corporate banking fees were also lower in 1H19 relative to 2H18.

Operating expenses of $118 million have increased two per cent from 2H18 due to inflation, amortisation from investment in technology, and costs associated with managing the growing portfolio.

Impairment expense of $20 million is an increase of $6 million or 43 per cent from 2H18. This is primarily due to a significant increase in the collective provision.

BOQ GROUP - 2019 HALF YEAR RESULTS

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

Key metrics		Feb-19	Aug-18	Feb-18	Feb-19 vs Aug-18 [(1)]	Feb-19 vs Feb-18
CASH EARNINGS BASIS						
CTI	(%)	41.1	39.7	39.9	140bps	120bps
ASSET QUALITY						
90dpd arrears	($ million)	110	113	90	(3%)	22%
Impaired assets	($ million)	98	104	102	(6%)	(4%)
Loan impairment expense / GLA	(bps)	19	14	13	5bps	6bps
BALANCE SHEET						
GLA	($ million)	20,783	20,027	19,230	8%	8%
Housing	($ million)	5,623	5,336	5,068	11%	11%
Commercial and other	($ million)	10,262	10,096	9,802	3%	5%
BOQ Finance	($ million)	4,898	4,595	4,360	13%	12%
CREDIT RWA	($ million)	16,873	16,317	15,627	7%	8%
CUSTOMER DEPOSITS	($ million)	7,745	8,004	7,644	(7%)	1%
Term deposits	($ million)	1,609	1,739	1,596	(15%)	1%
Mortgage offsets	($ million)	781	671	617	33%	27%
Savings & investment	($ million)	4,266	4,453	4,346	(8%)	(2%)
Transaction accounts	($ million)	1,089	1,141	1,085	(9%)	-
DEPOSIT TO LOAN RATIO	(%)	37	40	40	(300bps)	(300bps)

(1) Balance sheet key metrics have been annualised.

BOQ GROUP - 2019 HALF YEAR RESULTS

4.3 OTHER SEGMENT INCOME STATEMENT AND FINANCIAL PERFORMANCE REVIEW

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

	Half Year Performance				
$ million	**Feb-19**	Aug-18	Feb-18	Feb-19 vs Aug-18	Feb-19 vs Feb-18
Net interest income	-	(4)	(3)	(100%)	(100%)
Non-interest income	7	7	12	-	(42%)
Total income	7	3	9	133%	(22%)
Operating expenses	(9)	(9)	(9)	-	-
Underlying profit	(2)	(6)	-	(67%)	-
Loan impairment expense	-	-	-	-	-
Loss before tax	(2)	(6)	-	(67%)	-
Income tax expense	1	2	-	(50%)	-
Cash loss after tax	(1)	(4)	-	(75%)	-

Other segment cash loss after tax for 1H19 was $1 million with operating expenses of $9 million outweighing total income of $7 million.

Non-interest income largely comprises St Andrew's Insurance revenue and trading income. The reduction from 1H18 was largely attributable to St Andrew's Insurance (refer to Section 2.4 for more details).

Operating expenses of $9 million were comparable to 1H18 and 2H18.

5. CONSOLIDATED INTERIM FINANCIAL REPORT

For the half year ended 28 February 2019

DIRECTORS' REPORT

The Directors present their report together with the consolidated interim financial report of Bank of Queensland Limited (**the Bank** or **BOQ**), being the Bank and its controlled entities, for the half year ended 28 February 2019 together with the independent auditor's review report.

Directors details

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

Name	Period of directorship
Roger Davis	Director since August 2008 / Chairman since May 2013
Bruce Carter	Director since February 2014
Richard Haire	Director since April 2012
John Lorimer	Director since January 2016
Warwick Negus	Director since September 2016
Karen Penrose	Director since November 2015
Michelle Tredenick	Director since February 2011
David Willis	Director since February 2010
Jon Sutton	Managing Director & Chief Executive Officer (**CEO**) since January 2015 (resigned on 5 December 2018)

Principal activities

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

Review of operational and financial results

The Bank delivered a statutory net profit after tax of $156 million for 1H19, a decrease of 10 per cent compared to 1H18.

Total operating income decreased by two per cent against the prior corresponding period to $544 million and was largely driven by a decrease in other operating income. Other operating income (excluding net insurance operating income) decreased 13 per cent compared to 1H18 due to continued downward pressure across fee and trading lines.

Net interest margin of 1.94 per cent in 1H19 represented a decrease of three basis points from 1H18. The reduction in net interest margin is primarily attributable to competition for new business and the higher bank bill swap rate and associated increase in basis hedging costs.

Operating expenses increased by four per cent to $287 million compared to 1H18 largely due to higher regulatory and compliance costs in addition to an increase in IT support costs. The cost to income ratio during the period was 52.8 per cent.

Loan impairment expense increased 36 per cent on 1H18 to $30 million, or 13 basis points (annualised) of gross loans and advances. The Bank continues to prioritise a disciplined approach to credit with conservative settings maintained, however, a less certain economic outlook and higher arrears increased the Bank's new collective provisioning model (expected credit loss model) and consequently the Bank's impairment expense.

The Bank's Common Equity Tier 1 (**CET1**) ratio decreased by five basis points to 9.26 per cent compared to 2H18.

The Board has determined to pay an interim dividend of 34 cents per ordinary share fully franked.

DIRECTORS' REPORT

For the half year ended 28 February 2019

Risk and Regulatory Developments

Changing Regulatory Environment

The release of the final report on the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry has highlighted several areas of concern within the Australian financial industry. The resulting regulatory change to both strengthen regulation and improve industry compliance generally, will have significant regulatory and compliance cost implications for the industry and the Bank in the years ahead.

Similarly, the release of APRA's findings from the recently completed industry wide Risk Governance Assessments (resulting from the Commonwealth Bank of Australia Inquiry completed by APRA in 2018) is anticipated to initiate an increase in the requisite oversight and management of regulatory matters in each financial institution. The Bank highlighted in its own self-assessment report to APRA the following key areas of future focus:

- improved management and analysis of customer complaints;
- greater embedding of the three lines of defence;
- alignment of remuneration frameworks;
- strengthening of Anti-Money Laundering (**AML**) and Counter-Terrorism Financing (**CTF**) controls and systems (as summarised below); and
- improved process and systems for reporting and analysis of risks and incidents.

All these, in addition to the expected ongoing refinements to the Bank Executive Accountability Regime as recommended in the Royal Commission report, will have impacts on the Bank.

The heightened regulatory focus and resulting increased resourcing requirements are expected to be considerable and will be over and above the Bank's existing cost of maintaining and ensuring compliance.

The Bank remains committed to ensuring that the delivery of products and services meet the needs of its customers and broader community expectations.

Anti-Money Laundering and Counter Terrorism Financing Act 2006 Compliance

Since the emergence of industry issues with AML/CTF compliance in 2017, the Bank has continued to enhance and strengthen its AML/CTF systems and controls. During this period the Bank has been working in close consultation with Australian Transaction Reports and Analysis Centre (**AUSTRAC**) in relation to the Bank's AML/CTF program. AUSTRAC conducted a scheduled on-site review of the Bank's AML/CTF systems and controls in July 2018 to assess progress and compliance with AML/CTF legislation.

Following this scheduled on-site review, the Bank received a Compliance Assessment Report from AUSTRAC on 21 December 2018 (**Report**). The Report identified potential compliance contraventions of the *Anti-Money Laundering and Counter Terrorism Financing Act 2006* (Cth). Since receipt of the Report, the Bank has consulted and updated AUSTRAC about the significant progress that has been made to investigate and address the issues identified in the Report. In addition, the Bank has commenced a number of new initiatives to strengthen its AML/CTF Program. This work involves additional investment in prevention mechanisms, ensuring an effective and efficient control environment, and uplifting compliance capability.

The Bank has a long history of working co-operatively with regulators and law enforcement agencies to prevent money laundering and terrorism financing. The Bank is committed to fully meeting regulatory requirements and will continue to monitor and improve compliance with AML/CTF legislation in conjunction with AUSTRAC.

Director and management changes

Debra Eckersley commenced in the role of Group Executive People & Culture on 3 September 2018.

On 5 December 2018, Jon Sutton stepped down from his role as Managing Director & CEO. Anthony Rose, previously BOQ's Chief Operating Officer, is acting as Interim CEO while an executive search is completed.

On 6 December 2018, Brendan White tendered his resignation as Group Executive BOQ Business. His last day of employment was 6 March 2019. Doug Snell was appointed to the role of Acting Group Executive BOQ Business from 21 December 2018.

On 8 March 2019, Peter Deans announced his retirement as Chief Risk Officer at BOQ effective from 31 May 2019. Adam McAnalen, currently the CEO of BOQ Finance, has been appointed as Chief Risk Officer effective from 1 June 2019.

DIRECTORS' REPORT

For the half year ended 28 February 2019

Subsequent events

No matters or circumstances have arisen since the end of the financial year and up until the date of this report which significantly affect the operations of the Bank, the results of those operations, or the state of affairs of the Bank in subsequent years.

The Bank has determined to pay an interim dividend of 34 cents per ordinary share totalling $137 million, to be paid on 22 May 2019. Further details with respect to the dividend amount per share, payment date and dividend reinvestment plan can be obtained from Note 5.2.3.

Management attestation

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

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

(ii) present a true and fair view of the Group's financial position and performance as at and for the half year ended 28 February 2019.

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

The Directors' Declaration can be found on page 60 of this document.

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

The lead auditor's independence declaration is set out on page 61 and forms part of the Directors' Report for the half year ended 28 February 2019.

Rounding of amounts

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

Dated this tenth day of April 2019.

Signed in accordance with a resolution of the Directors:

Roger Davis
Chairman

LEAD AUDITOR'S INDEPENDENCE DECLARATION

Under Section 307C of the *Corporations Act 2001*

To the Directors of Bank of Queensland Limited

I declare that, to the best of my knowledge and belief, in relation to the review of Bank of Queensland Limited for the half year ended 28 February 2019 there have been:

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

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

KPMG

Robert Warren
Partner
Sydney
10 April 2019

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CONSOLIDATED INCOME STATEMENT

For the half year ended 28 February 2019

	Note	Feb-19 [(1)] $m	Feb-18 $m
Interest income		1,034	1,017
Interest expense		(558)	(542)
Net interest income		476	475
Other operating income	5.2.1	61	70
Net banking operating income		537	545
Net insurance operating income	5.2.1	7	10
Total operating income before impairment and operating expenses		544	555
Expenses		(287)	(277)
Impairment on loans and advances		(30)	(22)
Profit before income tax		227	256
Income tax expense	5.2.2	(71)	(82)
Profit for the period		156	174
Profit attributable to:			
Equity holders of the parent		156	174
Earnings per share			
Basic earnings per share - Ordinary shares (cents)		39.0	44.6
Diluted earnings per share - Ordinary shares (cents)		36.4	42.7

(1) The February 2019 financial results reflect the adoption of AASB 9 *Financial Instruments* (**AASB 9**) and AASB 15 *Revenue from contracts with customers* (**AASB 15**) on 1 September 2018. As permitted by AASB 9 and AASB 15, the Consolidated Entity has not restated previously reported financial periods. Refer to Note 5.1.4 for the impact on the Consolidated Entity's initial adoption of AASB 9 and AASB 15.

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the half year ended 28 February 2019

	Feb-19 [1] $m	Feb-18 $m
Profit for the period	156	174
Other comprehensive income, net of income tax		
Items that may be reclassified subsequently to profit or loss		
Cash flow hedges:		
Net movement taken to equity	(16)	(4)
Net movement transferred to profit or loss	11	11
Debt instruments at fair value through other comprehensive income (**FVOCI**):		
Net change in fair value	7	-
Net movement transferred to profit or loss	(7)	-
Financial assets available-for-sale:		
Net change in fair value	-	3
Net movement transferred to profit or loss	-	(7)
Items that will not be reclassified subsequently to profit or loss		
Equity instruments at FVOCI:		
Net change in fair value	(1)	-
Other comprehensive income, net of income tax	(6)	3
Total comprehensive income for the period	150	177
Total comprehensive income attributable to:		
Equity holders of the parent	150	177

(1) The February 2019 financial results reflect the adoption of AASB 9 and AASB 15 on 1 September 2018. As permitted by AASB 9 and AASB 15, the Consolidated Entity has not restated previously reported financial periods. Refer to Note 5.1.4 for the impact on the Consolidated Entity's initial adoption of AASB 9 and AASB 15.

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

CONSOLIDATED BALANCE SHEET

As at 28 February 2019

	Note	Feb-19 [1] $m	Aug-18 $m
ASSETS			
Cash and cash equivalents		1,264	1,212
Due from other financial institutions		383	6
Derivative financial assets	5.3.3 (b)	112	135
Financial assets at fair value through profit or loss (**FVTPL**)	5.3.3 (b)	1,027	-
Financial assets held for trading	5.3.3 (b)	-	1,385
Debt instruments at FVOCI	5.3.3 (b)	3,455	-
Equity instruments at FVOCI	5.3.3 (b)	6	-
Financial assets available-for-sale	5.3.3 (b)	-	3,946
Loans and advances at amortised cost	5.3.3 (a); 5.3.4	45,565	45,078
Other assets		134	169
Property, plant and equipment		54	57
Assets held for sale		52	57
Deferred tax assets		50	45
Intangible assets		887	875
Investments in joint arrangements and associates		19	15
Total assets		53,008	52,980
LIABILITIES			
Due to other financial institutions - accounts payable at call		213	315
Deposits	5.3.3 (a)	37,715	38,017
Derivative financial liabilities	5.3.3 (b)	380	294
Accounts payable and other liabilities		380	360
Current tax liabilities		1	5
Liabilities held for sale		19	22
Provisions		33	34
Borrowings	5.3.3 (a); 5.3.5	10,382	10,077
Total liabilities		49,123	49,124
Net assets		3,885	3,856
EQUITY			
Issued capital		3,458	3,418
Reserves		36	38
Retained profits		391	400
Total equity		3,885	3,856

(1) The February 2019 financial results reflect the adoption of AASB 9 and AASB 15 on 1 September 2018. As permitted by AASB 9 and AASB 15, the Consolidated Entity has not restated previously reported financial periods. Refer to Note 5.1.4 for the impact on the Consolidated Entity's initial adoption of AASB 9 and AASB 15.

The Consolidated Balance Sheet should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the half year ended 28 February 2019

	Ordinary shares $m	Employee benefits reserve $m	Equity reserve for credit losses $m	Other reserves $m	Retained profits $m	Total equity $m
HALF YEAR ENDED 28 FEBRUARY 2019						
Balance at beginning of the period	3,418	26	59	(47)	400	3,856
Change on adoption of new accounting standards (1)	–	–	–	3	(13)	(10)
Restated balance at beginning of the year	3,418	26	59	(44)	387	3,846
Total comprehensive income for the period						
Profit for the period	–	–	–	–	156	156
Other comprehensive income, net of income tax:						
Cash flow hedges:						
Net movement taken to equity	–	–	–	(16)	–	(16)
Net movement transferred to profit or loss	–	–	–	11	–	11
Debt instruments at FVOCI						
Net change in fair value	–	–	–	7	–	7
Net movement transferred to profit or loss	–	–	–	(7)	–	(7)
Equity instruments at FVOCI:						
Net change in fair value	–	–	–	(1)	–	(1)
Transfers from equity reserve for credit losses	–	–	1	–	(1)	–
Total other comprehensive income	–	–	1	(6)	(1)	(6)
Total comprehensive income for the period	–	–	1	(6)	155	150
Transactions with owners, recorded directly in equity / contributions by and distributions to owners						
Treasury shares (2)	(3)	–	–	–	–	(3)
Dividend reinvestment plan	43	–	–	–	–	43
Dividends to shareholders	–	–	–	–	(151)	(151)
Total contributions by and distributions to owners	40	–	–	–	(151)	(111)
Balance at the end of the period	3,458	26	60	(50)	391	3,885

(1) The February 2019 financial results reflect the adoption of AASB 9 and AASB 15 on 1 September 2018. The carrying amounts of assets and liabilities impacted by the adoption were adjusted through opening retained profits and reserves on 1 September 2018 as if the Group has always applied the new requirements. As permitted by AASB 9 and AASB 15, comparative information has not been restated. Refer to Note 5.1.4 for the impact on the Consolidated Entity's initial adoption of AASB 9 and AASB 15.

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

The Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the half year ended 28 February 2019

	Ordinary shares $m	Employee benefits reserve $m	Equity reserve for credit losses $m	Other reserves $m	Retained profits $m	Total equity $m
HALF YEAR ENDED 28 FEBRUARY 2018						
Balance at beginning of the period	3,360	26	81	(50)	371	3,788
Total comprehensive income for the period						
Profit for the period	–	–	–	–	174	174
Other comprehensive income, net of income tax:						
Cash flow hedges:						
Net movement taken to equity	–	–	–	(4)	–	(4)
Net movement transferred to profit or loss	–	–	–	11	–	11
Financial assets available-for-sale:						
Net change in fair value	–	–	–	3	–	3
Net movement transferred to profit or loss	–	–	–	(7)	–	(7)
Transfers from equity reserve for credit losses	–	–	(23)	–	23	–
Total other comprehensive income	–	–	(23)	3	23	3
Total comprehensive income for the period	–	–	(23)	3	197	177
Transactions with owners, recorded directly in equity Contributions by and distributions to owners						
Issues of ordinary shares (1)	11	–	–	–	–	11
Treasury shares (2)	(1)	–	–	–	–	(1)
Dividends to shareholders	–	–	–	–	(180)	(180)
Equity settled transactions	–	(4)	–	–	–	(4)
Total contributions by and distributions to owners	10	(4)	–	–	(180)	(174)
Balance at the end of the period	3,370	22	58	(47)	388	3,791

(1) On 26 October 2017, 850,000 ordinary shares were issued at $13.28 to the trustee of the Bank of Queensland Limited Employee Share Plans Trust to satisfy the exercise of award rights and issue of shares under the Award Rights Plan and issue of shares under the BOQ Restricted Share Plan and BOQ Employee Share Plan.

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

The Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the half year ended 28 February 2019

	Feb-19 $m	Feb-18 $m
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest received	1,048	1,032
Fees and other income received	69	89
Interest paid	(537)	(534)
Cash paid to suppliers and employees	(246)	(242)
Income tax paid	(72)	(72)
	262	273
(Increase)/decrease in operating assets:		
Loans and advances at amortised cost	(532)	(701)
Other financial assets	529	1,097
Decrease in operating liabilities:		
Deposits	(366)	(279)
Net cash (outflow)/inflow from operating activities	(107)	390
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for property, plant and equipment	(2)	(10)
Proceeds from sale of property, plant and equipment	4	4
Payments for intangible assets and investments in associates	(41)	(31)
Net cash outflow from investing activities	(39)	(37)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	897	1,245
Repayments of borrowings	(584)	(1,502)
Payments for foreign exchange instruments	–	(2)
Proceeds from issue of ordinary shares	–	11
Proceeds from issue of capital notes	–	184
Payments for treasury shares	(7)	(11)
Dividends paid	(108)	(180)
Net cash inflow/(outflow) from financing activities	198	(255)
Net increase in cash and cash equivalents	52	98
Cash and cash equivalents at beginning of year	1,218	914
Cash and cash equivalents at end of half year	1,270	1,012
Cash and cash equivalents included in assets held for sale	(6)	–
Cash and cash equivalents as presented in the Balance Sheet	1,264	1,012

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

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 28 February 2019

5.1. BASIS OF PREPARATION

5.1.1. REPORTING ENTITY

The Bank is a for-profit company domiciled in Australia. The address of the Bank's registered office is Level 6, 100 Skyring Terrace, Newstead QLD 4006.

The consolidated interim financial report of the Bank as at and for the half year ended 28 February 2019 comprises the Consolidated Entity and the Consolidated Entity's interest in equity accounted investments. The principal activity of the Bank is the provision of financial services to the community.

5.1.2. BASIS OF ACCOUNTING

The consolidated interim financial report is a general purpose interim financial report which has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. The consolidated interim financial report does not include all the information required for a full annual financial report, and should be read in conjunction with the consolidated annual financial report of the Consolidated Entity as at and for the financial year ended 31 August 2018, which is available upon request from the Bank's registered office at Level 6, 100 Skyring Terrace, Newstead QLD 4006 or at *http://www.boq.com.au*.

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

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

The consolidated interim financial report was approved by the Board of Directors on 10 April 2019.

5.1.3. SIGNIFICANT ACCOUNTING POLICIES

Except as described below, the accounting policies applied by the Consolidated Entity in this consolidated interim financial report are the same as those applied by the Consolidated Entity in its consolidated financial report as at and for the year ended 31 August 2018.

Changes in accounting policies

The Consolidated Entity has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 September 2018. These changes in accounting policies are also expected to be reflected in the Consolidated Entity's financial statements as at and for the year ending 31 August 2019.

- AASB 2016-5 - *Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions*. There was no material impact on the Consolidated Entity on implementation of this amendment;
- AASB 2016-6 *Amendments to Australian Accounting Standards – Applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts*. There was no material impact on the Consolidated Entity on implementation of this amendment;
- AASB 2017-1 *Amendments to Australian Accounting Standards – Transfers of Investment Property, Annual Improvements 2014–2016 Cycle and Other Amendments*. There was no material impact on the Consolidated Entity on implementation of this amendment;
- AASB 2017-3 *Amendments to Australian Accounting Standards – Clarifications to AASB 4*. There was no material impact on the Consolidated Entity on implementation of this amendment;
- AASB Interpretation 22 - *Foreign Currency Transactions and Advance Consideration*. There was no material impact on the Consolidated Entity on implementation of this standard;
- AASB 9 *Financial Instruments* - The impact of implementing this new standard is disclosed in Note 5.1.4; and
- AASB 15 *Revenue from Contracts with Customers* - The impact of implementing this new standard is disclosed in Note 5.1.4.

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 28 February 2019

5.1.3. SIGNIFICANT ACCOUNTING POLICIES(CONTINUED)

New accounting standards not yet effective

The following standards and amendments have been identified as those which may impact the Consolidated Entity. The majority were available for early adoption at 28 February 2019, but have not been applied in these financial statements.

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

The standard will replace AASB 117 *Leases*. It will become mandatory for the Group in the financial year commencing 1 September 2019. The standard requires identification of a lease if there is a right to control the use of an identified asset. A right-of-use (**ROU**) asset and lease liability will be recognised on transition to the new standard. The ROU asset and lease liability will initially be calculated based on the present value of future lease payments and the assessment of option periods and termination clauses in each contract.

Once implemented there will be an increase in assets and liabilities in the Group's Balance Sheet. The Group also expects a change in the future expense profile with straight line lease expenditure being replaced by depreciation on the ROU and interest expense on the lease liability. This will result in higher expenses weighted to the earlier periods of each lease term.

Lessor accounting under AASB 16 remains largely unchanged from AASB 117.

The Group is continuing the process of identifying leases and evaluating the quantitative impact of AASB 16. The various transition options are also being assessed. The Group is currently reviewing processes and considering control changes, system requirements and future disclosure requirements.

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

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

5.1.4. IMPLEMENTATION OF NEW AUSTRALIAN ACCOUNTING STANDARDS

The Group applied AASB 9 and AASB 15 from 1 September 2018 for the first time. The impact of adopting these new standards is described below. The Group has not adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

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

The standard became mandatory for the Group in this financial year commencing 1 September 2018 and replaces the guidance under AASB 139 *Financial Instruments: Recognition and Measurement* (**AASB 139**). AASB 9 introduces changes in the classification and measurement of financial assets and liabilities, in addition to a new expected credit loss model for impairment and requirements with respect to hedge accounting. The Group has elected, as a policy choice permitted under AASB 9, to continue to apply hedge accounting in accordance with AASB 139.

Classification and measurement

AASB 9 introduced new classification requirements, which determine how financial assets are categorised and measured. Financial assets, except equity instruments and derivatives, are classified according to their contractual cash flow characteristics and the business model in place for managing the financial asset.

The AASB 139 measurement categories of financial assets (fair value through profit or loss, available-for-sale, held-to-maturity and loans & receivables) have been replaced by:

- Amortised cost - From 1 September 2018, the Bank only classifies due from other financial institutions and loans and advances when both of the following conditions are met:
  - The financial asset is held within a business model where the objective is to hold them in order to collect contractual cash flows; and
  - The contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest (**SPPI**).

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 28 February 2019

5.1.4. IMPLEMENTATION OF NEW AUSTRALIAN ACCOUNTING STANDARDS (CONTINUED)

- Fair value through other comprehensive income (**FVOCI**) – a financial asset is classified at FVOCI when both of the following conditions are met:
  - The financial asset is held within a business model where the objective is achieved by holding them in order to collect contractual cash flows and selling the financial assets; and
  - The contractual terms of the financial asset give rise to cash flows that meet the SPPI test. These instruments largely comprise assets that had previously been classified as financial assets available-for-sale under AASB 139.

  Debt instruments at FVOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income. Interest income and foreign exchange gains and losses are recognised in profit or loss in the income statement. On derecognition, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the income statement.

  AASB 9 requires equity financial assets to be classified and measured at FVTPL, but there is an option to make an irrevocable election to designate non-traded equity investments as FVOCI. This election is made on an instrument by instrument basis and the Group has made this election for its equity instruments. Gains or losses cannot be reclassified to profit or loss in the income statement, but can be reclassified to retained earnings.
- Fair value through profit or loss (**FVTPL**) - Financial assets in this category are those that are held for trading and have been designated by management upon initial recognition or are mandatorily required to be measured at fair value under AASB 9. These instruments largely comprise assets that had previously been classified as financial assets held for trading under AASB 139.

Financial liabilities

Financial liabilities continue to be measured at amortised cost, except for derivative financial liabilities that are designated at FVTPL.

Impairment

The adoption of AASB 9 has resulted in a change in the Group's impairment methodology by replacing AASB 139's incurred loss approach with a forward-looking expected credit loss (**ECL**) approach. The impairment requirements have been adopted from 1 September 2018 and an allowance for ECLs has been recorded for all loans and other debt financial assets not held at FVTPL. Equity instruments are not subject to impairment under AASB 9.

The ECL allowance is based on the credit losses expected to arise over the next 12 months of the financial asset, unless there has been a significant increase in credit risk (**SICR**) since origination. In this case, the allowance is based on the ECL for the life of the financial asset. The 12 months' ECL is the portion of lifetime ECLs that represent the ECLs that result from default events on a financial asset that are possible within the 12 months after the reporting date.

At the end of each reporting period, the Group performs an assessment of whether a financial asset's credit risk has increased significantly since initial recognition. This is done by considering the change in the risk of default occurring over the remaining life of the financial asset.

The Group applies a three stage approach to measuring the ECL, as described below:

- Stage 1 – For financial assets where there has not been a SICR since initial recognition and that are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default (**PD**) occurring within the next 12 months is recognised as the 12 month ECL, adjusted for forward-looking information. Stage 1 includes facilities where the credit risk has improved and the loan has been reclassified from Stage 2 or Stage 3.
- Stage 2 – When there has been a SICR, the lifetime ECL is determined with reference to the financial asset's life-time PD and the lifetime losses associated with that PD, adjusted for forward-looking information. The Group assesses whether there has been a SICR since initial recognition based on qualitative, quantitative, and reasonable and supportable forward-looking information that includes significant management judgement. Use of alternative criteria could result in significant changes to the timing and amount of ECL to be recognised. Lifetime ECL is generally determined based on the behavioural maturity of the financial asset. Stage 2 also includes facilities where the credit risk has improved and the loan has been reclassified from Stage 3.
- Stage 3 - This includes financial assets that are credit impaired. The provision is also equivalent to the lifetime ECL. Financial assets in Stage 3 will have a collective provision determined by the ECL model, although some loans are individually covered by a specific provision. A specific provision is calculated based on estimated future cash flows discounted to their present value, net of any collateral held against that financial asset.

Refer to Note 5.3.4 for the reconciliation of the new ECL model.

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 28 February 2019

5.1.4. IMPLEMENTATION OF NEW AUSTRALIAN ACCOUNTING STANDARDS (CONTINUED)

Key management judgements and assumptions are as follows:

Significant increase in credit risk

SICR for financial assets are assessed by comparing the risk of a default occurring over the expected life of a financial asset at the reporting date compared to the corresponding risk of default at origination. In determining what constitutes a significant increase in credit risk, the Group considers qualitative and quantitative information. For the majority of the Group's Retail portfolio, a statistical model has been developed to identify where a facility's recent behaviour has deteriorated significantly from its origination behaviour. For most of the Group's Commercial portfolio the primary indicator of a significant increase in credit risk is a change in the internal customer risk rating between origination and reporting date. For all loan portfolios, the primary indicator is in addition to the secondary SICR indicator, which is based on 30 days past due arrears information.

Calculation of ECL

Both 12 months' ECLs and lifetime ECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial assets. Where ECL is modelled collectively for portfolios of exposures, it is modelled primarily as the product of the PD, the loss given default (**LGD**) and the exposure at default (**EAD**). These parameters are generally derived from internally developed statistical models combined with historical, current, and forward-looking information, including macro-economic data:

- The 12-months and lifetime PD, for accounting purposes, represent the estimation of the point-in-time probability of a default over the next 12 months and remaining lifetime of the financial instrument, respectively, based on conditions existing at the balance sheet date and future economic conditions that affect credit risk;
- The EAD represents the expected exposure at default, taking into account the repayment of principal and interest from the balance sheet date to the default event together with any expected drawdown of a facility; and
- The LGD represents the expected loss conditional on default, taking into account the mitigating effect of collateral, its expected value when realised, and the time value of money.

Incorporation of forward-looking information

The credit risk factors described above are at a point in time estimates based on the probability weighted forward-looking economic scenarios. The inclusion of a forward-looking component in the model anticipates changes in the economic outlook, which will likely increase the volatility of the provision. The Group considers four forward-looking macroeconomic scenarios (boom, recovery, slow down and recession) over time horizons ranging from one year to over four years to ensure a sufficient unbiased representative sample is included in estimating the forward-looking ECL.

Governance

The Executive Credit Committee has the delegation for reviewing and approving the methodology, and any judgements and assumptions. The Group holds a Quarterly Economic Forum to discuss and approve future economic forecasts, and the associated probability weights and economic scenarios. Where applicable, management adjustments or overlays may be made to account for situations where known or expected risks and information have not been considered in the modelling process. The Group's provision for impairment, impairment on loans and advances, and key areas of judgement are reported to the Group's Audit Committee and Board at each reporting period.

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 28 February 2019

5.1.4. IMPLEMENTATION OF NEW AUSTRALIAN ACCOUNTING STANDARDS (CONTINUED)

Transition

As permitted by AASB 9, the Group has not restated its comparative financial statements and has recorded a transition adjustment to its opening balance sheet, retained earnings and OCI at 1 September 2018 for the impact of the adoption of AASB 9's classification & measurement and impairment accounting requirements.

The following table summarises the impact on classification and measurement to the Group's financial assets on 1 September 2018. There are no changes in the classification and measurement of financial liabilities of the Group.

			As at 31 August 2018	As at 1 September 2018
	AASB 139 measurement category	AASB 9 measurement category	Carrying amount under AASB 139	Carrying amount under AASB 9 (1)
			$m	$m
Cash and cash equivalents	Loans and receivables	Amortised cost	1,212	1,212
Due from other financial institutions	Loans and receivables	Amortised cost	6	256
Financial assets available-for-sale (debt instruments)	Available-for-sale	FVOCI (2)	3,943	3,693
Financial assets available-for-sale (equity instruments)	Available-for-sale	FVOCI option (3)	3	7
Financial assets held for trading	FVTPL	FVTPL	1,385	1,385
Derivative financial assets (trading derivatives)	FVTPL	FVTPL	25	25
Derivative financial assets (hedging derivatives)	Hedging derivatives	Hedging derivatives	110	110
Loans and advances at amortised cost	Loans and receivables	Amortised cost	45,078	45,068
Other assets	Loans and receivables	Amortised cost	169	169

(1) The carrying amount does not reflect AASB 15 changes.

(2) As of 1 September 2018, the Group has assessed its liquidity portfolio which had previously been classified as financial assets available-for-sale (debt instruments). The Group concluded that these instruments are managed within a business model of collecting contractual cash flows and selling the financial assets. Accordingly, the Group has classified these investments as debt instruments measured at FVOCI.

(3) The Group has elected the option to irrevocably designate some of its previous financial assets available-for-sale (equity instruments) as equity instruments at FVOCI with no subsequent recycling of realised gains or losses permitted.

Refer to *Transition impacts of adopting AASB 9 and AASB 15* section for the Group's quantitative impact arising from the adoption of AASB 9 and AASB 15 on 1 September 2018.

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

AASB 15 was adopted by the Group on 1 September 2018, replacing the previous guidance under AASB 118 *Revenue*, AASB 111 *Construction Contracts* and related interpretations. Revenue arising from items such as financial instruments, insurance contracts and leases is outside the scope of AASB 15 and continues to be accounted for in accordance with the relevant applicable standard.

AASB 15 establishes a five step revenue recognition and measurement model to account for revenue arising from contracts with customers. Five steps of the revenue model include:

1. Identification of the contract with a customer;
2. Identification of the separate performance obligations in the contract;
3. Determination of the transaction price under the contract;
4. Allocation of the transaction price to each performance obligation identified in Step 2; and
5. Recognition of revenue when a performance obligation is satisfied.

Where there is variable consideration in calculating a transaction price, revenue will only be recognised if it is highly probable that a significant revenue reversal will not occur in future periods.

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 28 February 2019

5.1.4. IMPLEMENTATION OF NEW AUSTRALIAN ACCOUNTING STANDARDS (CONTINUED)

Transition

The Group has applied the modified retrospective transition approach in adopting AASB 15 which recognises the cumulative effect of initial application through adjustment to opening retained profits as at 1 September 2018, with no restatement of comparatives. Under this transition method, the Group applied AASB 15 retrospectively only to contracts that are not completed contracts at the date of initial application of 1 September 2018.

The significant changes to the Group as a result of adopting AASB 15 are:

- Annual and upfront fees: Annual fees in relation to housing and business lending packages, as well as annual fees on credit card products, are no longer recognised upfront but over the annual period in line with the performance obligation delivered to the customers. Annual fees will be deferred on the Balance Sheet in "Accounts payable and other liabilities" when received and recognised in "Customer fees and charges" on a straight-line basis throughout the year. Similarly, certain upfront fees in relation to loan contracts are no longer recognised upfront but when the performance obligation to the customers is delivered, which is over the life of these contracts.
- Trail commissions: Trail commission income on distribution of general insurance products that was previously recognised by the Group over time, is now recognised at a point in time when the Group's performance obligation in respect of this income is considered to be met. This has resulted in the Group recognising the net present value of expected future trail commission income on sale of these products. The receivable in respect of the Group's entitlement to future payments of trail commission is recognised in "Other assets".

  The amount of trail commission revenue is dependent on assumptions about the behavioural life of the underlying transaction generating the commission. Trail commission income is only recognised to the extent it is highly probable it will not reverse in future periods.

Refer to *Transition impacts of adopting AASB 9 and AASB 15* section for the Group's quantitative impact arising from the adoption of AASB 9 and AASB 15 on 1 September 2018.

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 28 February 2019

5.1.4. IMPLEMENTATION OF NEW AUSTRALIAN ACCOUNTING STANDARDS (CONTINUED)

Transition impacts of adopting AASB 9 and AASB 15

The following table summarises the adjustments arising on adoption of AASB 9 and AASB 15. The adjustments have been recognised against the Group's opening retained profits and reserves as at 1 September 2018. The overall impact of the changes was a decrease of $13 million to the Group's Retained Profits.

		AASB 9 Classification and Measurement			AASB 9 Impairment	AASB 15 changes		
	Carrying amount at 31 August 2018	Reclassification of financial assets held for trading	Reclassification of financial assets available-for-sale	Remeasurements in equity instruments at FVOCI [(1)]	Remeasurements in ECL	Annual and upfront fees	Trail commission	Carrying amount at 1 September 2018
	$m	$m	$m	$m	$m	$m	$m	$m
ASSETS								
Due from other financial institutions	6	-	250	-	-	-	-	256
Financial assets at FVTPL	-	1,385	-	-	-	-	-	1,385
Financial assets held for trading	1,385	(1,385)	-	-	-	-	-	-
Debt instruments at FVOCI	-	-	3,693	-	-	-	-	3,693
Equity instruments at FVOCI	-	-	3	4	-	-	-	7
Financial assets available-for-sale	3,946	-	(3,946)	-	-	-	-	-
Loans and advances at amortised cost	45,078	-	-	-	(10)	(4)	-	45,064
Other assets	169	-	-	-	-	-	2	171
Deferred tax assets	45	-	-	(1)	3	3	-	50
Other financial and non-financial assets	2,351	-	-	-	-	-	-	2,351
Total assets	52,980	-	-	3	(7)	(1)	2	52,977
LIABILITIES								
Accounts payable and other liabilities	360	-	-	-	-	7	-	367
Other financial and non-financial liabilities	48,764	-	-	-	-	-	-	48,764
Total liabilities	49,124	-	-	-	-	7	-	49,131
Net assets	3,856	-	-	3	(7)	(8)	2	3,846
EQUITY								
Issued capital	3,418	-	-	-	-	-	-	3,418
Reserves	38	-	-	3	-	-	-	41
Retained profits	400	-	-	-	(7)	(8)	2	387
Total equity	3,856	-	-	3	(7)	(8)	2	3,846

(1) Increase in fair value of equity instruments previously recognised at cost under AASB 139.

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 28 February 2019

5.1.5. USE OF JUDGEMENTS AND ESTIMATES

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

The significant judgements made by management in applying the Consolidated Entity's accounting policies and key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 August 2018, except for those relating to AASB 9 and AASB 15 as outlined in Note 5.1.4.

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 28 February 2019

5.2. FINANCIAL PERFORMANCE

5.2.1. OTHER OPERATING INCOME

	Feb-19 $m	Feb-18 $m
INCOME FROM OPERATING ACTIVITIES		
Customer fees and charges (1)	39	43
Share of fee revenue paid to Owner Managed branches	(3)	(4)
Commissions	18	16
Foreign exchange income – customer based	6	6
Net profit on sale of property, plant and equipment	3	4
Net loss from financial instruments and derivatives at fair value	(5)	(1)
Other income	3	6
Total other operating income	61	70
INCOME FROM INSURANCE ACTIVITIES		
Premiums from insurance contracts	29	34
Investment revenue	1	1
Claims and policyholder liability expense from insurance contracts	(23)	(25)
Net insurance operating income	7	10
Total other and net insurance operating income	68	80

(1) Customer charges on lending, banking and leasing products.

5.2.2. INCOME TAX EXPENSE

The Consolidated Entity's effective tax rate for the six months ended 28 February 2019 was 31.4 per cent and for the six months ended 28 February 2018 was 31.9 per cent. This is above the corporate tax rate of 30 per cent and is primarily attributable to the non-deductibility of interest payable on capital notes (refer to note 5.3.5 for details).

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 28 February 2019

5.2.3. DIVIDENDS

	Feb-19		Feb-18	
	Cents per share	$m	Cents per share	$m
ORDINARY SHARES				
Final 2018 dividend paid 14 November 2018 (2017: 23 November 2017)	38	151	38	149
Special 2018 dividend (2017: 23 November 2017)	–	–	8	31
CONVERTIBLE PREFERENCE SHARES				
Second half 2017 CPS dividend paid on 16 October 2017	–	–	245	7
Pro-rata CPS dividend paid on 28 December 2017 (1)	–	–	98	2

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

All dividends paid on ordinary shares have been fully franked at 100 per cent.

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

	Cents per share	$m
Interim 2019 ordinary share dividend	34	137

The interim ordinary share dividend payment will be fully franked and paid on 22 May 2019 to owners of ordinary shares at the close of business on 2 May 2019 (record date). Shares will be quoted ex-dividend on 1 May 2019.

Dividend reinvestment plan

The dividend reinvestment plan (**DRP**) provides ordinary shareholders with the opportunity to reinvest all or part of their entitlement to a dividend into new ordinary shares. The price for shares issued or transferred under the DRP is an amount 1.5 per cent (2018: 1.5 per cent) less than the arithmetic average, rounded to four decimal places, of the daily volume weighted average price of:

- all shares sold in the ordinary course of trading on the ASX automated trading system; and
- where shares are sold on trading platforms of Australian licensed financial markets operated by persons other than ASX, all shares sold in the ordinary course of trading on such of those trading platforms determined by the Board from time to time,

during the 10 trading day period commencing on the second trading day after the Record Date in respect of the relevant dividend.

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

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

If, after this calculation, there is a residual balance, that balance will be carried forward (without interest) and added to the next dividend for the purpose of calculating the number of shares secured under the DRP at that time.

The last date for election to participate in the DRP for the 2019 interim dividend is 3 May 2019.

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 28 February 2019

5.2.4. OPERATING SEGMENTS

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

The Bank's operating segments comprise the following:

Retail Banking – retail banking solutions to customers managed through our Owner Managed and Corporate branch network, direct channels, third party intermediaries' and Virgin Money distribution channels;

BOQ Business – 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; and

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

	6 months ended 28 February 2019			
	Retail Banking $m	BOQ Business $m	Other $m	Segment total $m
Net interest income (1)	215	261	–	476
Non-interest income	32	26	7	65
Total income	247	287	7	541
Operating expenses	(141)	(118)	(9)	(268)
Underlying profit	106	169	(2)	273
Loan impairment expense	(10)	(20)	-	(30)
Cash profit before tax	96	149	(2)	243
Income tax expense	(30)	(47)	1	(76)
Segment cash profit after tax (2)	66	102	(1)	167
STATUTORY BASIS ADJUSTMENTS:				
Amortisation of acquisition of fair value adjustments	–	–	(4)	(4)
Hedge ineffectiveness	–	–	(3)	(3)
Regulatory / compliance	–	–	(3)	(3)
Legacy items	-	-	(1)	(1)
Statutory net profit after tax	66	102	(12)	156

(1) Interest income and interest expenses are disclosed in this note on a net interest income basis. This is in line with the information provided internally to the Interim CEO.
(2) This excludes a number of items that introduce volatility and / or one-off distortions of the current period performance.

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

All inter-segment profits are eliminated on consolidation.

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 28 February 2019

5.2.4. OPERATING SEGMENTS (CONTINUED)

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 28 February 2019

5.3. CAPITAL AND BALANCE SHEET MANAGEMENT

5.3.1. CAPITAL MANAGEMENT

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

The Board has set the CET1 capital target range to be between 8.25 and 9.5 per cent of risk weighted assets and the total capital range to be between 11.75 and 13.5 per cent of risk weighted assets.

Qualifying capital for Level 2 entities (1)	Feb-19 $m	Aug-18 $m
Common Equity Tier 1 Capital		
Paid-up ordinary share capital	3,458	3,418
Reserves	2	4
Retained profits, including current year profits	385	394
Total Common Equity Tier 1 Capital	3,845	3,816
Regulatory adjustments		
Goodwill and intangibles	(887)	(875)
Deferred expenditure	(178)	(178)
Other deductions	(4)	(1)
Total regulatory adjustments	(1,069)	(1,054)
Net Common Equity Tier 1 Capital	2,776	2,762
Additional Tier 1 Capital	500	500
Net Tier 1 Capital	3,276	3,262
Tier 2 Capital		
Tier 2 Capital	350	350
General reserve for credit losses	174	174
Net Tier 2 Capital	524	524
Capital base	3,800	3,786
Risk weighted assets	29,978	29,669
Common Equity Tier 1 Capital	9.26%	9.31%
Net Tier 1 Capital ratio	10.93%	10.99%
Total Capital Adequacy ratio	12.68%	12.76%

(1) APRA Prudential Standard *APS 001* defines Level 2 as the ADI and all of its subsidiary entities other than non-consolidated subsidiaries. The non-consolidated subsidiaries excluded from Level 2 regulatory measurement at 28 February 2019 are:

- Bank of Queensland Limited Employee Share Plans Trust;
- Home Credit Management Pty Ltd;
- St Andrew's Australia Services Pty Ltd;
- St Andrew's Life Insurance Pty Ltd;
- St Andrew's Insurance (Australia) Pty Limited;
- Series 2012-1E REDS Trust;
- Series 2013-1 REDS Trust;
- Series 2015-1 REDS Trust;
- Series 2017-1 REDS Trust; and
- Series 2018-1 REDS Trust.

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 28 February 2019

5.3.2. ISSUED CAPITAL

	Feb-19 Number	Feb-18 Number
MOVEMENTS DURING THE PERIOD		
Balance at the beginning of the period – fully paid	397,311,850	391,739,729
Dividend reinvestment plan (1)	4,476,254	–
Issue of ordinary shares (2)	–	850,000
Balance at the end of the period – fully paid	401,788,104	392,589,729
Treasury shares (included in ordinary shares above)		
Balance at the beginning of the period	587,515	565,308
Net acquisitions and disposals during the period	281,767	90,896
Balance at the end of the period	869,282	656,204

(1) 28 per cent of the dividend paid on 14 November 2018 was reinvested by shareholders as part of the dividend reinvestment plan.

(2) On 26 October 2017, 850,000 ordinary shares were issued at $13.28 to the trustee of the Bank of Queensland Limited Employee Share Plans Trust to satisfy the exercise of award rights and issue of shares under the Award Rights Plan, and the issue of shares under the BOQ Restricted Share Plan and the BOQ Employee Share Plan.

5.3.3. FINANCIAL INSTRUMENTS

(a) Fair value of financial instruments carried at amortised cost

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

	Carrying value		Fair value	
	Feb-19 $m	Aug-18 $m	Feb-19 $m	Aug-18 $m
ASSETS CARRIED AT AMORTISED COST				
Loans and advances at amortised cost	45,565	45,078	45,641	45,105
	45,565	45,078	45,641	45,105
LIABILITIES CARRIED AT AMORTISED COST				
Deposits	(37,715)	(38,017)	(37,708)	(38,020)
Borrowings	(10,382)	(10,077)	(10,386)	(10,074)
	(48,097)	(48,094)	(48,094)	(48,094)

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 28 February 2019

5.3.3. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Fair value hierarchy

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

- **Level 1:** This category includes assets and liabilities for which the valuation is determined from inputs based on unadjusted quoted market prices in active markets for identical instruments.
- **Level 2:** This category includes assets and liabilities for which the valuation is determined from inputs other than quoted prices included within Level 1, that are observable either directly or indirectly. This includes the use of discounted cash flow analysis, option pricing models and other market accepted valuation models.
- **Level 3:** This category includes assets and liabilities for which the valuation includes inputs that are not based on observable market data. The Group's level 3 financial assets include unlisted equity instruments held at FVOCI.

The fair value hierarchy classification of instruments in note 5.3.3 (a) are as follows:

- Loans and advances at amortised cost – Level 3
- Deposits and borrowings – Level 2.

The table below analyses financial instruments carried at fair value, by the valuation method.

	Feb-19			
	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial instruments measured at fair value				
Derivative financial assets	-	112	-	112
Financial assets at FVTPL	-	1,027	-	1,027
Debt instruments at FVOCI	2,848	607	-	3,455
Equity instruments at FVOCI	-	-	6	6
	2,848	1,746	6	4,600
Derivative financial liabilities	-	(380)	-	(380)
	2,848	1,366	6	4,220

	Aug-18			
	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial instruments measured at fair value				
Financial assets available-for-sale	2,580	1,363	3	3,946
Financial assets held for trading	-	1,385	-	1,385
Derivative financial assets	-	135	-	135
	2,580	2,883	3	5,466
Derivative financial liabilities	-	(294)	-	(294)
	2,580	2,589	3	5,172

There were no transfers between level 1 and 2 during the period. Level 3 movements from the prior period include:

- $4 million fair value increase on adoption of AASB 9. Refer to Note 5.1.4 for further information; and
- $1 million current period fair value loss in other comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 28 February 2019

5.3.3. FINANCIAL INSTRUMENTS (CONTINUED)

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

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

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

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

5.3.4. LOANS AND ADVANCES AT AMORTISED COST

	Feb-19 $m	Aug-18 $m
Gross loans and advances at amortised cost	46,195	45,672
Less:		
Unearned leasing finance income	(416)	(393)
Provisions for impairment	(214)	(201)
Total loans and advances at amortised cost	45,565	45,078

Provision for impairment

The following table discloses the reconciliation of the new ECL model for the half year ended 28 February 2019.

	Collective Provision						
	Stage 1 – 12 month ECL $m	Stage 2 – Lifetime ECL $m	Stage 3 – Lifetime ECL $m	Stage 3 – Specific provision $m	Specific provision $m	Collective provision $m	Total $m
Balance as at 31 August 2018	–	–	–	–	86	115	201
Change on adoption of AASB 9	69	38	18	86	(86)	(115)	10
Balance as at 1 September 2018	69	38	18	86	–	–	211
Transfers during the period to:							
Stage 1	7	(6)	(1)	–	–	–	–
Stage 2	(2)	4	(1)	(1)	–	–	–
Stage 3	–	(4)	2	2	–	–	–
New/increased provisions	19	24	10	20	–	–	73
Write-back of provisions no longer required	(24)	(10)	(6)	(7)	–	–	(47)
Amounts written off, previously provided for	–	–	–	(22)	–	–	(22)
Unwind discount	–	–	–	(1)	–	–	(1)
Balance at the end of the period	69	46	22	77	–	–	214

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 28 February 2019

5.3.4. LOANS AND ADVANCES AT AMORTISED COST (CONTINUED)

The table below discloses the effect of movements in the gross carrying value of loans and advances in the different stages of the ECL model during the half year ended 28 February 2019.

	Stage 1 – 12 month ECL $m	Stage 2 – Lifetime ECL $m	Stage 3 – Lifetime ECL $m	Stage 3 – Specific provision $m	Total $m
Gross carrying amount as at 1 September 2018	42,337	2,500	274	168	45,279
Transfers during the period to:					
Stage 1	575	(565)	(8)	(2)	–
Stage 2	(1,079)	1,114	(32)	(3)	–
Stage 3	(51)	(79)	97	33	–
New loans and advances originated or purchased	5,616	19	–	–	5,635
Loans and advances derecognised during the period including write-offs	(4,721)	(331)	(39)	(44)	(5,135)
Balance at the end of the period	42,677	2,658	292	152	45,779
Provision for impairment	(69)	(46)	(22)	(77)	(214)
Net carrying amount as at 28 February 2019	42,608	2,612	270	75	45,565

The following table represents the movements in individually assessed provisions and collective allowance for credit losses for the half years ended 31 August 2018 and 28 February 2018 and included for comparison purposes only. Refer to table on page 56 for the reconciliation of ECL on loans and advances for the half year ended 28 February 2019.

	Aug-18 (1) $m	Feb-18 $m
SPECIFIC PROVISION		
Balance at the beginning of the period	99	106
Expensed during the period	22	22
Bad debts written off	(34)	(27)
Unwind of discount	(1)	(2)
Balance at the end of the period	86	99
COLLECTIVE PROVISION		
Balance at the beginning of the period	120	121
Released during the period	(5)	(1)
Balance at the end of the period	115	120
Total provisions for impairment	201	219

(1) Six months to 31 August 2018.

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 28 February 2019

5.3.5. BORROWINGS

The Consolidated Entity recorded the following movements on borrowings:

	Securitisation liabilities (1) $m	Covered bonds liabilities (2) $m	Debt issues (3) $m	Subordinated notes $m	Capital notes(4) (5) $m	Total $m
HALF YEAR ENDED 28 FEBRUARY 2019						
Balance at the beginning of the period	3,576	804	4,855	349	493	10,077
Proceeds from issues	779	–	120	–	–	899
Repayments	(494)	–	(90)	–	–	(584)
Deferred establishment costs	(2)	–	–	–	–	(2)
Amortisation of deferred costs	1	–	2	–	1	4
Foreign exchange translation (6)	–	(10)	(2)	–	–	(12)
Balance at the end of the period	**3,860**	**794**	**4,885**	**349**	**494**	**10,382**

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

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

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

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

(4) On 26 May 2015, the Bank issued 15,000 Wholesale Capital Notes (**WCN**) at a price of $10,000 per note. WCN are non-cumulative, fully paid and are issued by the Bank on a perpetual and subordinated basis. They are not guaranteed or secured. As at 28 February 2019, 15,000 WCN were outstanding with accrued distributions of $2 million. WCN must convert to ordinary shares on a mandatory conversion date of 26 May 2022 if certain mandatory conversion conditions are satisfied. Upon conversion, WCN holders will receive a number of ordinary shares based on the value weighted average price during a specified period. The WCN must also convert to ordinary shares of the Bank with the occurrence of a non-viability event, a capital trigger event or an acquisition event. BOQ may elect to redeem or resell the WCN on 26 May 2020 or following a regulatory or tax event. These options are subject to APRA's prior written approval and certain conditions being satisfied. In a winding up of the Bank, if the WCN have not been converted or written off on account of a non-viability trigger event or capital trigger event, the WCN will rank for payment of capital ahead of ordinary shareholders, equally with other securities or instruments ranking equally with WCN, but behind all other securities or instruments ranking ahead of WCN, and behind all senior creditors.

(5) On 28 December 2017, the Bank issued 3,500,000 Capital Notes at a price of $100 per note. Capital Notes are perpetual and convertible notes issued by BOQ, with preferred, discretionary, non-cumulative distributions. They are not guaranteed or secured. As at 28 February 2019, 3,500,000 Capital Notes were outstanding with accrued distributions of $1 million. Capital Notes must convert into ordinary shares on 15 August 2026 if certain mandatory conversion conditions are satisfied, unless they are converted or redeemed earlier. Where the mandatory conversion conditions are satisfied, a holder will receive a number of ordinary shares per Capital Note based on the value weighted average price of ordinary shares during a specified period. The Capital Notes must also convert to ordinary shares of the Bank with the occurrence of a loss absorption event or an acquisition event. BOQ may elect to convert, redeem or resell Capital Notes on 15 August 2024 or following a regulatory or tax event. BOQ may also elect to convert all Capital Notes following a potential acquisition event. These options are subject to APRA's prior written approval and certain conditions being satisfied. In a winding up of the Bank, Capital Notes will rank for payment of capital ahead of ordinary shares, equally with CPS, WCN and other equal ranking instruments, but behind the claims of all senior ranking creditors, including depositors and unsubordinated and subordinated creditors.

(6) Foreign exchange translation is a non-cash movement which is 100 per cent hedged.

(7) On 24 December 2012, the Bank issued 3,000,000 Convertible Preference Shares (**CPS**). CPS were fully paid, perpetual and convertible preference shares with preferred, discretionary, non-cumulative dividends. They were not guaranteed or secured. In accordance with the ASX announcement dated 5 March 2018, BOQ confirmed the redemption of all outstanding CPS on the optional conversion/redemption date of 16 April 2018 with the redemption price of $102.44 per CPS, comprising the face value of $100 per CPS and a final dividend of $2.44 per CPS for the period from (and including) 16 October 2017 to (but excluding) the redemption date of 16 April 2018. The ASX announcement on 16 April 2018 confirmed the removal of CPS from official quotation at close of trading on 16 April 2018.

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 28 February 2019

5.4. CONTROLLED ENTITIES

5.4.1. ACQUISITION OF CONTROLLED ENTITIES

Series 2018-1 EHP REDS Trust was opened on 1 November 2018.

5.4.2. DISPOSAL OF CONTROLLED ENTITIES

BQL Nominees Pty Ltd was deregistered during the half year, effective 21 February 2019.

5.5. OTHER NOTES

5.5.1. INTANGIBLE ASSETS

No impairment of goodwill has been recognised by the Group for the half year ended 28 February 2019.

5.5.2. RELATED PARTIES

The terms of arrangements for all related parties are consistent with those disclosed in the 31 August 2018 Annual Report.

5.5.3. CONTINGENT LIABILITIES

As at 28 February 2019, the Group does not have any contingent liabilities.

5.5.4. EVENTS SUBSEQUENT TO BALANCE DATE

The Directors are not aware of any matters or circumstance that have arisen in the interval between the end of the financial half year and the date of this report, or any item, event or transaction which significantly affects, or may significantly affect the operations of the Consolidated Entity in future financial years.

The Bank has determined an interim dividend to be paid on 22 May 2019. Further details with respect to the dividend amount per share, payment date and dividend re-investment plan can be obtained from Note 5.2.3.

DIRECTORS' DECLARATION

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

(a) the consolidated financial statements and accompanying notes, set out on pages 35 to 59 are in accordance with sections 302 to 306 of the *Corporations Act 2001* (Cth), including that they:

(i) give a true and fair view of the financial position of the Consolidated Entity as at 28 February 2019 and of its performance, for the half-year ended on that date;

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

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

Dated this tenth day of April 2019.

Signed in accordance with a resolution of the Directors:

Roger Davis
Chairman

KPMG

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Bank of Queensland Limited

Report on the Consolidated Interim Financial Report

Conclusion

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

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

- giving a true and fair view of the *Consolidated Entity's* financial position as at 28 February 2019 and of its financial performance for the *half-year* ended on that date; and
- complying with Australian Accounting Standards AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001.*

The *Consolidated Interim Financial Report* comprises:

- Consolidated Balance Sheet as at 28 February 2019;
- Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows for the half-year ended on that date;
- Notes Sections 5.1.1 to 5.5.4 comprising a summary of significant accounting policies and other explanatory information; and
- The Directors' Declaration.

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

Responsibilities of the Directors for the Consolidated Interim Financial Report

The Directors of the Consolidated Entity are responsible for:

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

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

Our responsibility is to express a conclusion on the Consolidated Interim Financial Report based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements* ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Consolidated Interim Financial Report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Consolidated Entity's financial position as at 28 February 2019 and its performance for the half-year ended on that date; and complying with *Australian Accounting Standard* AASB 134 *Interim Financial Reporting* and *the Corporations Regulations 2001*. As auditor of Bank of Queensland Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

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

KPMG

Robert Warren
Partner
Sydney
10 April 2018

BOQ GROUP - 2019 HALF YEAR RESULTS

6. APPENDICES

6.1 ASX APPENDIX 4D

Cross reference index	Page
Details of reporting period and previous period (Rule 4.2A.3 Item No. 1)	Inside front cover
Results for announcement to the market (Rule 4.2A.3 Item No. 2)	Inside front cover
Net tangible assets per security (Rule 4.2A.3 Item No. 3)	Page 62
Details of entities over which control has been gained or lost (Rule 4.2A.3 Item No. 4)	Page 59
Dividends and dividend dates (Rule 4.2A.3 Item No. 5)	Inside front cover and Page 50
Dividend reinvestment plan (Rule 4.2A.3 Item No. 6)	Page 50
Details of associated and joint venture entities (Rule 4.2A.3 Item No. 7)	Page 62
Foreign entities (Rule 4.2A.3 Item No. 8)	Not applicable
Independent audit report subject to modified opinion (Rule 4.2A.3 Item No. 9)	Not applicable

Details of associated and joint venture entities (Rule 4.2A.3 Item No. 7) (1)	Ownership interest held (%)
Ocean Springs Pty Ltd (1)	9.31%
Dalyellup Beach Pty Ltd (1)	17.08%
East Busselton Estate Pty Ltd (1)	25.00%
Coastview Nominees Pty Ltd (1)	5.81%
Provence 2 Pty Ltd (1)	25.00%
MiFund Pty Ltd (2)	35.00%

(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.

(2) Relates to an investment in an Associate on 21 December 2018, the principal activity of the associate is a provider of health care payment plans.

	As at		
Net tangible assets per security (Rule 4.2A.3 Item No. 3)	**Feb-19**	Aug-18	Feb-18
Net tangible assets per ordinary shares ($) (1)	**7.46**	7.50	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.

BOQ GROUP - 2019 HALF YEAR RESULTS

6.2 RECONCILIATION OF STATUTORY PROFIT TO CASH EARNINGS

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

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

	Half Year Performance				
$ million	Feb-19	Aug-18	Feb-18	Feb-19 vs Aug-18	Feb-19 vs Feb-18
Cash earnings after tax	167	190	182	(12%)	(8%)
Amortisation of acquisition fair value adjustments	(4)	(2)	(5)	100%	(20%)
Hedge ineffectiveness	(3)	(2)	(1)	50%	200%
Integration / transaction costs	-	(1)	-	(100%)	-
Regulatory / compliance	(3)	(8)	(1)	(63%)	200%
Software changes	-	(11)	-	(100%)	-
Legacy items	(1)	(4)	(1)	(75%)	-
Statutory net profit after tax	156	162	174	(4%)	(10%)

(B) NON-CASH EARNINGS RECONCILING ITEMS

$ million	Cash earnings Feb-19	VMA	Amortisation of acquisition fair value adjustments	Hedge ineffectiveness	Regulatory/ compliance	Legacy items	Statutory net profit Feb-19
Net interest income	476		-	-	-	-	476
Non-interest income	65	8	-	(5)	-	-	68
Total income	541	8	-	(5)	-	-	544
Operating expenses	(268)	(8)	(5)	-	(5)	(1)	(287)
Underlying profit	273	-	(5)	(5)	(5)	(1)	257
Loan impairment expense	(30)	-	-	-	-	-	(30)
Profit before tax	243	-	(5)	(5)	(5)	(1)	227
Income tax expense	(76)		1	2	2	-	(71)
Profit after tax	167	-	(4)	(3)	(3)	(1)	156

BOQ GROUP - 2019 HALF YEAR RESULTS

6.3 OPERATING CASH EXPENSES

	Half Year Performance				
	Feb-19	Aug-18	Feb-18	Feb-19 vs Aug-18	Feb-19 vs Feb-18
EMPLOYEE EXPENSES					
Salaries	108	107	107	1%	1%
Superannuation contributions	10	11	9	(9%)	11%
Payroll tax	7	7	6	–	17%
Employee share programs	4	5	5	(20%)	(20%)
Other	3	3	3	–	–
	132	133	130	(1%)	2%
OCCUPANCY EXPENSES					
Lease expense	15	16	16	(6%)	(6%)
Depreciation – fixed assets	5	4	5	25%	–
Other	1	2	1	(50%)	–
	21	22	22	(5%)	(5%)
GENERAL EXPENSES					
Marketing	7	8	7	(13%)	–
Commissions to Owner Managed branches (**OMB**)	2	2	3	–	(33%)
Communications and postage	9	8	9	13%	–
Printing and stationery	2	1	2	100%	–
Impairment	2	1	1	100%	100%
Processing costs	8	8	7	–	14%
Other	14	12	12	17%	17%
	44	40	41	10%	7%
IT EXPENSES					
Data processing	40	39	36	3%	11%
Amortisation – intangible assets	19	21	22	(10%)	(14%)
Depreciation – fixed assets	1	–	1	–	–
	60	60	59	–	2%
OTHER EXPENSES					
Professional fees	6	7	6	(14%)	–
Directors' fees	1	1	1	–	–
Other	4	2	3	100%	33%
	11	10	10	10%	10%
Total operating expenses	268	265	262	1%	2%

BOQ GROUP - 2019 HALF YEAR RESULTS

6.3 OPERATING CASH EXPENSES (CONTINUED)

Employee expenses

Employee costs reduced $1 million or one per cent on 2H18, and increased $2 million or two per cent on 1H18, with FTE remaining relatively stable in 1H19.

Occupancy expenses

Occupancy expenses have decreased $1 million on 2H18 with the consolidation of support centre locations in 1H19.

General expenses

General expenses have increased $4 million on 2H18 across a number of sub-categories.

IT expenses

IT expenses were in line with 2H18. IT software amortisation decreased $2 million. This was offset by an increase in data processing expense, driven by additional technology support services required as a result of transformation activities, including technology infrastructure, storage, and application support services.

Other expenses

Other expenses have increased $1 million on 2H18. This was largely due to operational costs associated with increased regulatory scrutiny of the industry.

6.4 CASH EPS CALCULATIONS

		Half Year Performance				
		Feb-19	Aug-18	Feb-18	Feb-19 vs Aug-18	Feb-19 vs Feb-18
Basic EPS	(cents)	41.8	48.2	46.5	(13%)	(10%)
Diluted EPS	(cents)	39.0	45.2	44.5	(14%)	(12%)
Reconciliation of cash earnings for EPS						
Cash earnings available for ordinary shareholders	($ million)	167	190	182	(12%)	(8%)
Add: Convertible Preference Shares (**CPS**) dividend	($ million)	-	1	6	(100%)	(100%)
Add: WCN	($ million)	3	4	3	(25%)	-
Add: Capital Notes	($ million)	7	7	2	-	250%
Cash diluted earnings available for ordinary shareholders	($ million)	177	202	193	(12%)	(8%)
Basic weighted average number of shares (**WANOS**)	(million)	399	395	392	1%	2%
Add: Effect of award rights	(million)	2	2	2	-	-
Add: Effect of CPS	(million)	-	3	20	(100%)	(100%)
Add: Effect of WCN	(million)	16	14	12	14%	33%
Add: Effect of Capital Notes	(million)	38	32	10	19%	280%
Diluted WANOS for cash earnings EPS	(million)	455	446	436	2%	4%

6.5 ISSUED CAPITAL

Ordinary shares

	Consolidated	
	2019 Number	2019 $m
Movements during the period		
Balance at the beginning of the year – fully paid	397,311,850	3,454
Dividend reinvestment plan (1)	4,476,254	43
Balance at the end of the period – fully paid	401,788,104	3,497

(1) 28 per cent of the dividend paid on 14 November 2018 was reinvested by shareholders as part of the dividend reinvestment plan.

BOQ GROUP - 2019 HALF YEAR RESULTS

6.6 AVERAGE BALANCE SHEET AND MARGIN ANALYSIS

	February 2019 (Half Year)			August 2018 (Half Year)		
$ million	Average balance $m	Interest $m	Average rate %	Average balance $m	Interest $m	Average rate %
INTEREST EARNING ASSETS						
Gross loans & advances at amortised cost	43,455	961	4.46	43,227	980	4.50
Investments & other securities	5,986	74	2.49	5,932	72	2.41
Total interest earning assets	49,441	1,035	4.22	49,159	1,052	4.25
Non-interest earning assets						
Property, plant & equipment	56			58		
Other assets	1,535			1,566		
Provision for impairment	(207)			(214)		
Total non-interest earning assets	1,384			1,410		
Total assets	50,825			50,569		
INTEREST BEARING LIABILITIES						
Retail deposits	28,927	291	2.03	28,907	290	1.99
Wholesale deposits & borrowings	17,305	268	3.12	17,139	272	3.15
Total interest bearing liabilities	46,232	559	2.44	46,046	562	2.42
Non-interest bearing liabilities	734			700		
Total liabilities	46,966			46,746		
Shareholders' funds	3,859			3,823		
Total liabilities & shareholders' funds	50,825			50,569		
INTEREST MARGIN & INTEREST SPREAD						
Interest earning assets	49,441	1,035	4.22	49,159	1,052	4.25
Interest bearing liabilities	46,232	559	2.44	46,046	562	2.42
Net interest spread			1.78			1.83
Benefit of net interest-free assets, liabilities and equity			0.16			0.15
NIM – on average interest earning assets	49,441	476	1.94	49,159	490	1.98

BOQ GROUP - 2019 HALF YEAR RESULTS

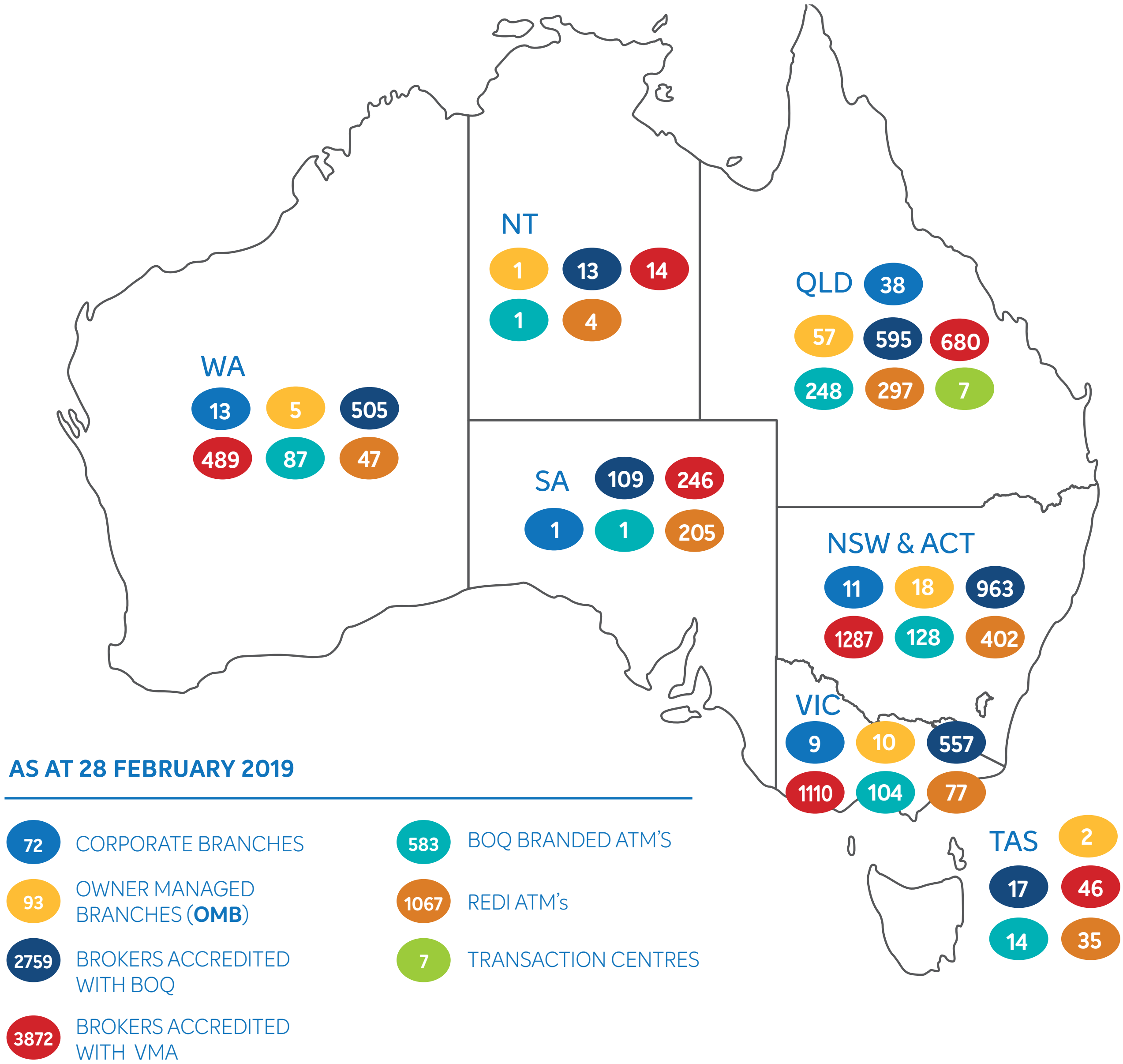
6.7 DISTRIBUTION FOOTPRINT

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

Branch numbers reduced by 11 during 1H19 as closures, conversions, and portfolio mergers occurred. The franchise network remains a key differentiator for the Bank and continues to be a fundamental enabler of the organisation's deposit raising strategy.

Virgin Money accredited brokers increased by 500 over 1H19 as the Bank looks to further capitalise on the VMA brand which targets an alternate demographic and continues to diversify the Bank's geographic footprint.

BOQ accredited broker numbers have remained relatively stable as BOQ adopts a more targeted approach to growth through the third party channel. In a market where many customers prefer using third party channels, BOQ remains underrepresented compared to the broader industry. The delivery of enhancements to the Bank's end-to-end lending process will support further scaling of the Bank's third party channels.



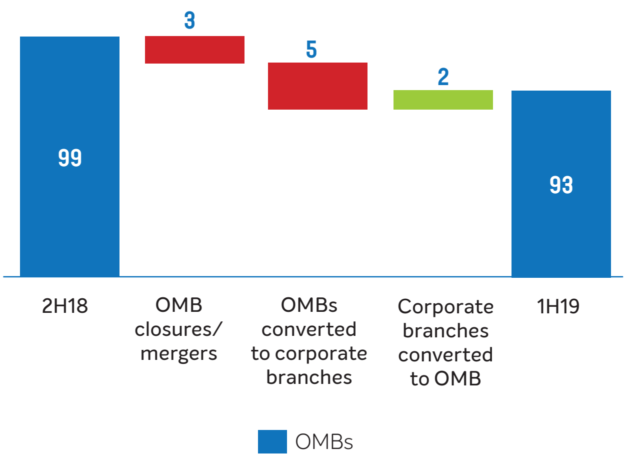
BOQ GROUP - 2019 HALF YEAR RESULTS

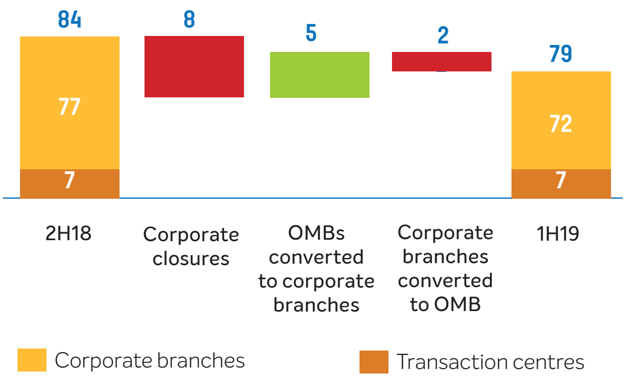
6.7 DISTRIBUTION FOOTPRINT (CONTINUED)

As at Feb-19	QLD	NSW / ACT	VIC	WA	NT	TAS	SA	Total
Corporate branches	38	11	9	13	–	–	1	72
Owner managed branches	57	18	10	5	1	2	–	93
Transaction centres	7	–	–	–	–	–	–	7
	102	29	19	18	1	2	1	172

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

Corporate branches, owner managed branches (OMB) & transaction centres





6.8 CREDIT RATING

Entities in the Group are rated by Standard & Poor's Financial Services (**S&P**), Fitch Ratings (**Fitch**) and Moody's Investors Service (**Moody's**) ratings. BOQ's current long term debt ratings are shown below.

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

6.9 REGULATORY DISCLOSURES

The APS 330 *Public Disclosure* capital disclosure template, regulatory capital reconciliation, LCR, NSFR (included in the relevant Pillar 3 disclosures document) and capital instruments disclosures are available at the regulatory disclosures section of the Bank's website at the following address:

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

BOQ GROUP - 2019 HALF YEAR RESULTS

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 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 per cent).
Capital Notes (**BOQPE**)	Capital Notes are perpetual, convertible, unguaranteed and unsecured notes issued by BOQ, with preferred, discretionary, non-cumulative distributions. Capital Notes may convert into common shares in certain circumstances as described in the offer documentation of the notes.
Cash earnings	Cash Earnings is a non-accounting standards measure commonly used in the banking industry to assist in presenting a clear view of underlying earnings.
Committed liquidity facility (**CLF**)	The RBA provides a CLF to certain ADIs as part of Australia's implementation of the Basel III liquidity standards. The facility is designed to ensure that participating ADIs have enough access to liquidity to respond to an acute stress scenario, as specified under the relevant APS.
Common equity tier 1 (**CET1**)	Capital that is recognised as the highest quality component of capital under APRA prudential standards.
Common equity tier 1 ratio (**CET1 ratio**)	CET1 capital divided by total RWA calculated in accordance with relevant APS.
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.
Dividend yield	Dividend shown as a percentage of the share price.
Earnings per share (**EPS**)	Measures of earnings attributed to each equivalent ordinary share over a twelve month period. 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.
Equipment hire purchase (**EHP**)	EHP trust under the REDS securitisation program, issuing asset backed securities to the term market.
Full time equivalent (**FTE**)	A calculation based on number of hours worked by full and part time employees as part of their normal duties.
General reserve for credit losses (**GRCL**)	An estimate of the reasonable and prudent expected credit losses over the remaining life of the portfolio and on non-defaulted assets, not covered by provisions for impairment.
Gross loans and advances (**GLA**)	Initially recognised at fair value plus incremental direct transaction costs and subsequently measured at each reporting date at amortised cost using the effective interest method.

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TERM	DESCRIPTION
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.
Issued capital	Value of securities allotted in a company to its shareholders.
Line of credit (**LOC**)	A flexible facility that allows a customer to draw down on their approved available credit at any time, as long as the customer does not exceed the approved credit limit.
Liquid assets	All unencumbered RBA repurchase eligible liquid assets including HQLA1 and assets able to be pledged as collateral to the RBA under the CLF.
Liquidity Coverage Ratio (**LCR**)	The ratio of high quality liquid assets that can be converted into cash easily and immediately in private markets, to total net cash flows required to meet the Group's liquidity needs for a 30 day calendar liquidity stress scenario as determined in accordance with APS.
Net interest margin (**NIM**)	Net interest income divided by average interest-earning assets.
Net stable funding ratio (**NSFR**)	The NSFR is defined as the amount of available stable funding relative to the amount of required stable funding. This ratio should be equal to at least 100% on an on-going basis. "Available stable funding" is defined as the portion of capital and liabilities expected to be reliable over the time horizon considered by the NSFR, which extends to one year. The amount of such stable funding required of a specific institution is a function of the liquidity characteristics and residual maturities of the various assets held by that institution as well as those of its off-balance sheet exposures.
Net tangible assets (**NTA**)	Net tangible assets are calculated as the total assets of a company minus any intangible assets such as goodwill, less all liabilities and the par value of preferred stock.
Non-interest earning assets	The Bank's assets that do not accrue interest income.
Owner Managed branch (**OMB**)	A branch which is run by a franchisee.
REDS	Term to describe the BOQ securitisation programs.
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 program 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**)	RSF is an input to the calculation of the NSFR for bank prudential management purposes. A Bank's RSF 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.
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 or Virgin Money**)	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.