BOQ GROUP

2019 INVESTOR INFORMATION

Year ended 31 August 2019

BOQ SPECIALIST | BOQ | Virgin money | St Andrew's AUSTRALIA | BOQ FINANCE

BOQ GROUP – 2019 ANNUAL RESULTS

For the year ended 31 August 2019

ASX APPENDIX 4E

FOR THE YEAR ENDED 31 AUGUST 2019

RESULTS FOR ANNOUNCEMENT TO THE MARKET [1]

				$m
Revenues from ordinary activities [2][3]	Down	2%	to	1,096
Profit from ordinary activities after tax attributable to members [2][3]	Down	11%	to	298
Profit for the year attributable to members [2][3]	Down	11%	to	298

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
Final ordinary dividend – fully franked	7 November 2019	27 November 2019	31 cents
WHOLESALE CAPITAL NOTES			
Final 2018 WCN dividend – fully franked	18 November 2018	26 November 2018	$223.90
Half-yearly 2019 WCN dividend – fully franked	17 May 2019	27 May 2019	$225.71
Final 2019 WCN dividend – fully franked [4]	18 November 2019	26 November 2019	$203.03
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	29 April 2019	15 May 2019	97.65 cents
August 2019 BOQPE distribution – fully franked	30 July 2019	15 August 2019	95.07 cents
November 2019 BOQPE distribution – fully franked [4]	31 October 2019	15 November 2019	82.84 cents

(1) Rule 4.3A. Refer to Section 5.1 *ASX Appendix 4E* for the cross reference index.
(2) On prior corresponding year (twelve months ended 31 August 2018).
(3) Based on statutory profit results.
(4) Expected dates and values only. Payment of any distribution is subject to the terms of the Wholesale Capital Notes (**WCN**) and Capital Notes.

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For the year ended 31 August 2019

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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, 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* (cth) and the Australian Accounting Standards, which comply with International Financial Reporting Standards (**IFRS**). Cash earnings is a non-accounting standards measure commonly used in the banking industry to assist in presenting a clear view of the Bank's underlying earnings. Refer to Section 5.2 *Reconciliation of statutory profit to cash earnings* of the *Appendices* for a reconciliation of cash earnings to statutory net profit after tax.

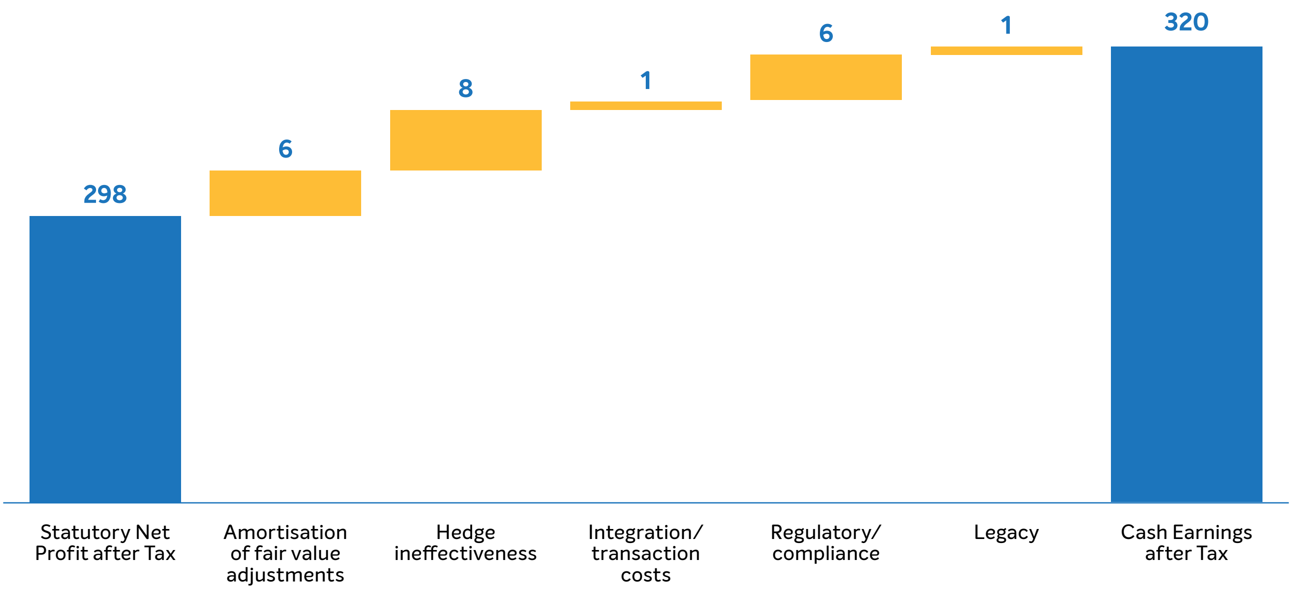
Refer to the Reconciliation of statutory profit to cash earnings chart below. The main exclusions relate to:

- Regulatory/compliance costs including external costs and other related costs associated with the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (**Royal Commission**), The Banking Executive Accountability Regime (**BEAR**), Code of Banking Practice, Comprehensive Credit Reporting, Anti-Money Laundering (**AML**) compliance and 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 representing 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 (**1H19**), current half (**2H19**) and the prior year (**FY18**).

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

Reconciliation of statutory profit to cash earnings ($m)

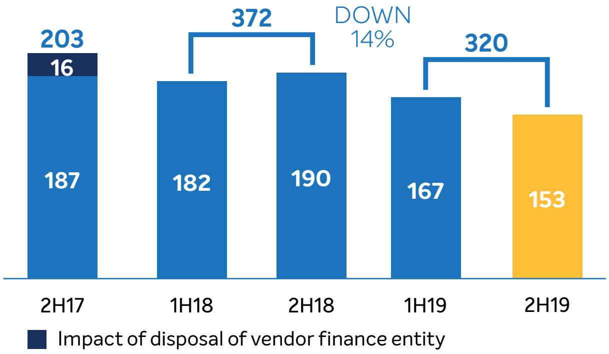


BOQ GROUP – 2019 ANNUAL RESULTS

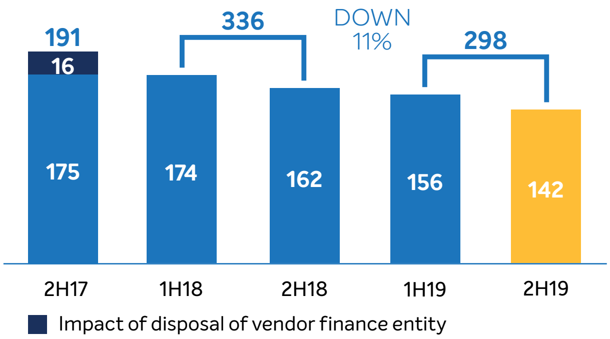
For the year ended 31 August 2019

1.2 GROUP HIGHLIGHTS

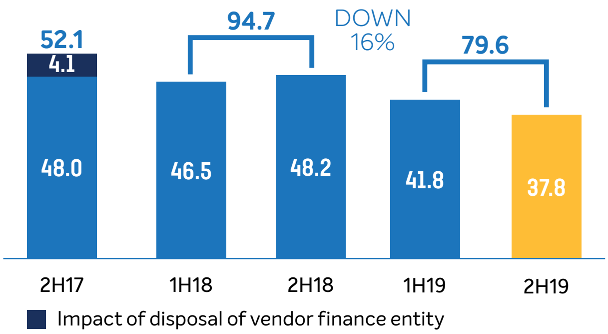
Cash earnings after tax ($m)



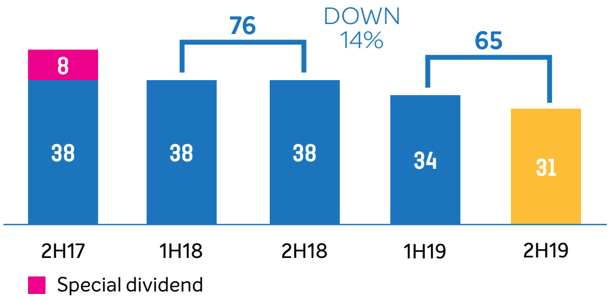
Statutory profit after tax ($m)



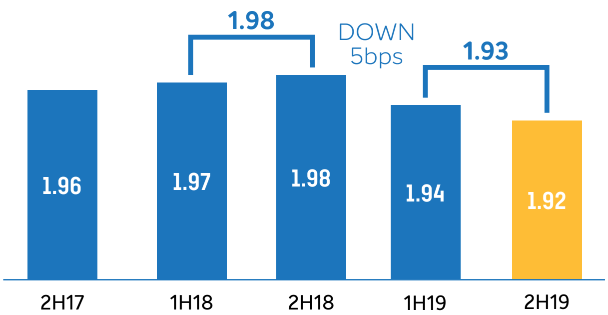
Cash basic earnings per share (EPS) (cents)



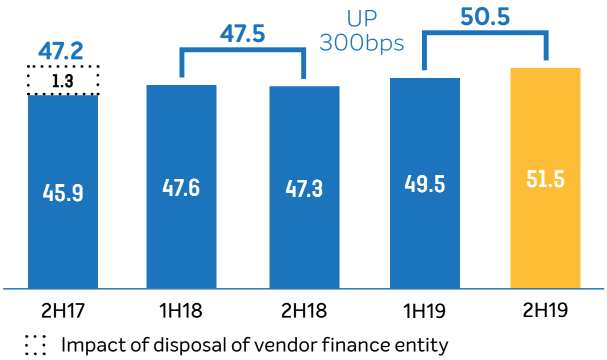
Dividends per ordinary share (cents)



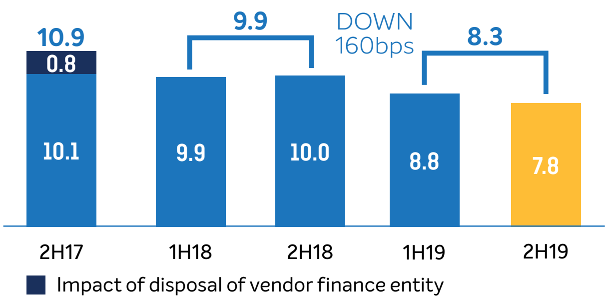
Cash net interest margin (NIM) (%)



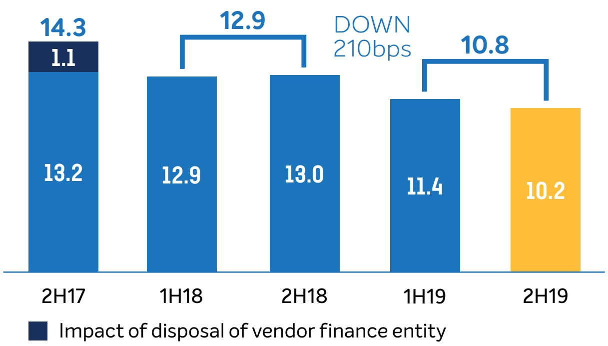
Cash cost to income (CTI) (%)



Cash return on average equity (ROE) (%)



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



BOQ GROUP – 2019 ANNUAL RESULTS

For the year ended 31 August 2019

1.2 GROUP HIGHLIGHTS (CONTINUED)

CASH EARNINGS AFTER TAX

$320m

Decreased by 14 per cent on FY18.

CASH NET INTEREST MARGIN

1.93%

Down five basis points from FY18 driven by elevated basis levels and the impact of the lower rate environment.

OPERATING EXPENSES

$550m

Four per cent increase on FY18.

LOAN IMPAIRMENT EXPENSE

$74m

Up seven basis points to 16 basis points of lending and an 80 per cent uplift on FY18 following the implementation of the new AASB 9 *Financial Instruments* (**AASB 9**) standard.

COMMON EQUITY TIER 1

9.04%

Decrease of 27 basis points for FY19 reflecting higher growth in capital intensive lending, higher capitalised investment, reduced earnings and lower dividend reinvestment plan participation.

DIVIDENDS
FINAL & INTERIM

$0.65

Decreased 14 per cent on FY18.

BOQ's cash earnings after tax for FY19 was $320 million, a 14 per cent decrease from FY18. Statutory net profit after tax decreased 11 per cent to $298 million. 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 FY18, with net interest income down $4 million and non interest income down $17 million or 12 per cent. While lending growth of $937 million or two per cent was achieved over the year, this was offset by a five basis point reduction in net interest margin to 1.93 per cent. There were strong levels of lending growth in BOQ Finance ($667 million), Virgin Money Australia (**VMA**, $914 million) and BOQ Specialist ($756 million), but a contraction in branch network lending balances as the impact of lower borrower demand and a smaller branch footprint continued to reduce new business volumes. The five basis point reduction in NIM 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 in 1H19. Non-interest income was lower due to a combination of reduced banking fees, the transition of the BOQ Business merchant offering to a third party arrangement, and lower insurance income.

Operating expenses increased by four per cent on FY18. Following the Final Report from the Royal Commission, costs associated with addressing regulatory and compliance requirements have increased for BOQ and across the industry to meet heightened regulatory and compliance expectations. As announced as part of the FY18 results, BOQ has embarked on a transformation program to improve technology platforms, meet new regulatory and compliance requirements and deliver digital offerings that improve the BOQ customer experience, supported by an increase in capitalised investment. This contributed to an increase in IT expenses in FY19 and will lead to a higher level of amortisation in future periods as new functionality is deployed. Opportunities to improve efficiency continue to be explored to minimise the impact of these expense headwinds.

Asset quality remains sound with impaired assets of $197 million or 43 basis points of gross loans, while arrears remain at relatively low levels. Despite this, there has been an increase in provisions, as a result of the implementation of a new forward looking collective provisioning model under AASB 9 and following impairment of a small number of larger commercial exposures. This has in turn led to a $33 million increase in loan impairment expense to $74 million, or 16 basis points of gross loans. Despite this increase, BOQ's portfolio remains well provisioned with no systemic areas of stress emerging.

BOQ remains appropriately capitalised with a common equity tier one ratio of 9.04 per cent. This is lower than the 9.31 per cent reported at the end of FY18, due primarily to higher growth in more capital-intensive commercial lending and leasing as well as higher capitalised investment. There was also a reduction in dividend reinvestment plan participation for the 2018 final dividend and 2019 interim dividend, which combined with lower earnings, has reduced organic capital generation.

BOQ GROUP – 2019 ANNUAL RESULTS

For the year ended 31 August 2019

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 and was the first Permanent Building Society in Queensland. It has evolved into a national institution with a network of retail branches and brokers across Australia. BOQ's primary business segments are Retail Banking and BOQ Business and the Group operates a number of brands including BOQ, BOQ Specialist, BOQ Finance, Virgin Money (Australia) and St Andrew's Insurance, which are covered in more detail below.

BOQ's corporate purpose is to deliver more human, empathetic experiences that help customers and communities prosper. This is achieved through the values of: We Show We Care; We Act With Integrity; We Achieve Together; and We Make a Difference.

Given the changing operating environment, in 2019 BOQ has commenced a strategic review, recognising the need to take decisive action to transform to a more sustainable business model with a clear strategy to return to growth. An update on BOQ's strategy is planned for February 2020.

During FY19, BOQ has been aiming to build a differentiated position in the Australian financial services sector by focusing on niche customer segments that value a more intimate banking relationship. This strategy has been 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. 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 know what it means to deliver personal service. Through specialisation and deep industry knowledge in niche commercial segments, including medical & dental, corporate healthcare & retirement living, hospitality & tourism and agribusiness, BOQ also provides a level of support to business banking customers unique to that offered by other banks.

BOQ's home loan products, including VMA home loans, are distributed by more than 7,500 accredited brokers, making BOQ more accessible to customers who prefer to use brokers. BOQ has also been working to streamline customer experience across channels through the 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. BOQ has continued its prudent approach to lending, maintaining a high quality lending portfolio. BOQ adheres to APRA's serviceability and validation guidelines and the delivery of a lending transformation program will deliver an improved customer experience. BOQ has also been selective in the commercial industry segments it lends to, 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 its 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 improvements to retail, commercial and lease management lending systems. Ongoing focus on efficiency across the Group to minimise expense growth, whilst investing in new technology aligned to a simplified 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 and supporting its customers. It has also introduced a range of initiatives that bring BOQ's purpose and values to life and drive a customer centric culture. BOQ continues to demonstrate its commitment to a diverse and inclusive workforce through a number of diversity initiatives and its reconciliation journey.

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)*.

Portfolio of businesses

As noted above, the Group's subsidiaries and brands include BOQ Specialist, BOQ Finance, Virgin Money Australia and St Andrew's which are described below.

BOQ Specialist delivers distinctive banking solutions to niche market segments including medical, dental and veterinary professionals. BOQ acquired the business (previously Investec Professional Finance) as part of Investec Bank (Australia) Limited in 2014. BOQ Specialist operates as a separate division of BOQ's Business Bank.

BOQ Finance is a wholly owned subsidiary of BOQ specialising in asset, cash flow and structured finance solutions. BOQF is a mid-market financier providing deep industry and product skills to its partner base. BOQF has been operating in the Australian and New Zealand markets for more than 45 years.

Virgin Money Australia is a retail financial services company, which provides a wide range of financial products that are easy to understand as well as being a compelling alternative to the big banks. BOQ acquired Virgin Money Australia in 2013 and it operates as a standalone business within the BOQ Group.

St Andrew's is a provider of consumer insurance and life insurance products in Australia. In response to a change in industry dynamics, St Andrew's has made the decision to cease distribution of consumer credit insurance. Existing customers will continue to be served and the interests of existing policyholders will remain a priority.

BOQ GROUP – 2019 ANNUAL RESULTS

For the year ended 31 August 2019

2. GROUP PERFORMANCE ANALYSIS

2.1 INCOME STATEMENT AND KEY METRICS

	Year End Performance			Half Year Performance		
$ million	**Aug-19**	Aug-18	Aug-19 vs Aug-18	**Aug-19**	Feb-19	Aug-19 vs Feb-19
Net interest income	**961**	965	-	**485**	476	2%
Non-interest income	**128**	145	(12%)	**63**	65	(3%)
Total income	**1,089**	1,110	(2%)	**548**	541	1%
Operating expenses	**(550)**	(527)	4%	**(282)**	(268)	5%
Underlying profit	**539**	583	(8%)	**266**	273	(3%)
Loan impairment expense	**(74)**	(41)	80%	**(44)**	(30)	47%
Profit before tax	**465**	542	(14%)	**222**	243	(9%)
Income tax expense	**(145)**	(170)	(15%)	**(69)**	(76)	(9%)
Cash earnings after tax	320	372	(14%)	153	167	(8%)
Statutory net profit after tax (1)	298	336	(11%)	142	156	(9%)

(1) Refer to Section 5.2 *Reconciliation of statutory profit to cash earnings* of the *Appendices* for a reconciliation of cash earnings to statutory net profit after tax.

		Year End Performance			Half Year Performance		
Key Metrics		**Aug-19**	Aug-18	Aug-19 vs Aug-18	**Aug-19**	Feb-19	Aug-19 vs Feb-19
SHAREHOLDER RETURNS							
Share price	($)	**9.17**	11.49	(20%)	**9.17**	9.01	2%
Market capitalisation	($ million)	**3,721**	4,565	(18%)	**3,721**	3,620	3%
Dividends per ordinary share (fully franked)	(cents)	**65**	76	(14%)	**31**	34	(9%)
CASH EARNINGS BASIS							
Basic Earnings per Share (**EPS**)	(cents)	**79.6**	94.7	(16%)	**37.8**	41.8	(10%)
Diluted EPS	(cents)	**74.0**	89.3	(17%)	**35.3**	39.0	(9%)
Dividend payout ratio	(%)	**82.4**	80.7	170bps	**82.2**	81.8	40bps
STATUTORY BASIS							
Basic EPS	(cents)	**74.2**	85.5	(13%)	**35.3**	39.0	(9%)
Diluted EPS	(cents)	**69.2**	81.2	(15%)	**33.0**	36.4	(9%)
Dividend payout ratio	(%)	**88.5**	89.3	(80bps)	**88.6**	87.6	100bps

BOQ GROUP – 2019 ANNUAL RESULTS

For the year ended 31 August 2019

2.1 INCOME STATEMENT AND KEY METRICS (CONTINUED)

		Year End Performance			Half Year Performance		
Key Metrics		**Aug-19**	Aug-18	Aug-19 vs Aug-18	**Aug-19**	Feb-19	Aug-19 vs Feb-19
PROFITABILITY AND EFFICIENCY MEASURES							
CASH EARNINGS BASIS							
Net profit after tax	($ million)	320	372	(14%)	153	167	(8%)
Underlying profit (1)	($ million)	539	583	(8%)	266	273	(3%)
NIM (2)	(%)	1.93	1.98	(5bps)	1.92	1.94	(2bps)
CTI	(%)	50.5	47.5	300bps	51.5	49.5	200bps
Loan impairment expense to gross loans and advances (**GLA**)	(bps)	16	9	7bps	19	13	6bps
ROE	(%)	8.3	9.9	(160bps)	7.8	8.8	(100bps)
ROTE (3)	(%)	10.8	12.9	(210bps)	10.2	11.4	(120bps)
STATUTORY BASIS							
Net profit after tax	($ million)	298	336	(11%)	142	156	(9%)
Underlying profit (1)	($ million)	509	534	(5%)	252	257	(2%)
NIM (2)	(%)	1.93	1.98	(5bps)	1.92	1.94	(2bps)
CTI	(%)	53.5	52.4	110bps	54.3	52.8	150bps
Loan impairment expense to GLA	(bps)	16	9	7bps	19	13	6bps
ROE	(%)	7.7	8.9	(120bps)	7.3	8.2	(90bps)
ROTE (3)	(%)	10.1	11.6	(150bps)	9.5	10.7	(120bps)
ASSET QUALITY							
30 days past due (**dpd**) arrears	($ million)	499	469	6%	499	505	(1%)
90dpd arrears	($ million)	312	260	20%	312	287	9%
Impaired assets	($ million)	197	164	20%	197	152	30%
Specific provisions to impaired assets	(%)	43.3	52.4	(910bps)	43.3	50.4	(710bps)
Collective provisions to risk weighted assets (**RWA**)	(%)	0.48	0.39	9bps	0.48	0.46	2bps
CAPITAL							
Common equity tier 1 (**CET1**) ratio	(%)	9.04	9.31	(27bps)	9.04	9.26	(22bps)
Total capital adequacy ratio	(%)	12.40	12.76	(36bps)	12.40	12.68	(28bps)
RWA	($ million)	30,533	29,669	3%	30,533	29,978	2%

(1) Profit before loan impairment expense and tax.

(2) NIM net of offset accounts.

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

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2.2 NET INTEREST INCOME

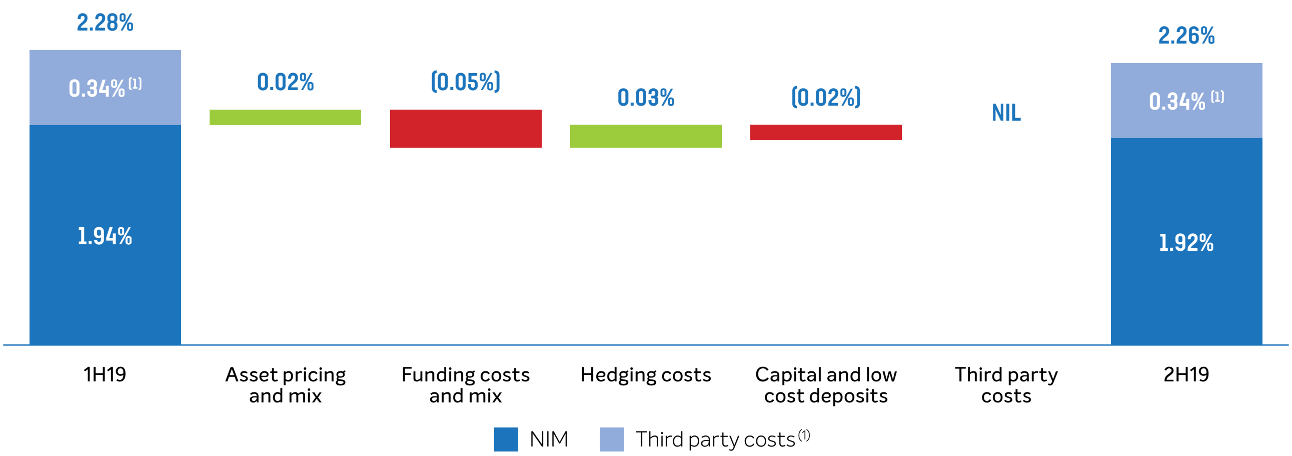
	Year End Performance			Half Year Performance		
$ million	**Aug-19**	Aug-18	Aug-19 vs Aug-18	**Aug-19**	Feb-19	Aug-19 vs Feb-19
Net interest income	**961**	965	-	**485**	476	2%
Average interest earning assets	**49,842**	48,818	2%	**50,220**	49,441	2%
NIM	**1.93**	1.98	(5bps)	**1.92**	1.94	(2bps)

Net interest income decreased $4 million from FY18. This was driven by a five basis point decrease in NIM, partially offset by a two percent increase in average interest earning assets. The five basis points reduction in NIM was primarily due to increased basis costs, though this moderated in 2H19, and the impact of lower interest rates on the Bank's capital and low cost deposit portfolio.

2H19 performance saw net interest income increase by $9 million or two per cent. The increase in net interest income was a result of a two per cent increase in average interest earning assets in 2H19 and a higher day count in 2H19 compared to 1H19. This was partially offset by a reduction in NIM.

Asset margins improved in 2H19 as asset pricing benefits offset continued pressure from competition for new lending and the impact of discounting on the existing portfolio. Hedging costs also improved in 2H19 from 1H19, driven by a reduced spread between the bank bill swap rate and overnight index swap rate. Funding costs rose as deposit pricing lagged the rapid changes in the movement in short term interest rates, both cash rate and bank bill swap rate, over 2H19. The net result was a two basis point decrease in NIM in 2H19.

Net interest margin – February 2019 to August 2019



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

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

Asset pricing and mix: Asset pricing and mix improved by two basis points over 2H19. Loan repricing actions contributed positively to NIM by six basis points. This benefit was partially offset by continued margin pressure from competition for new housing loans, and retention discounting. This was responsible for a four basis points reduction in NIM.

Funding costs and mix: Funding costs (excluding the impact of basis) reduced NIM by five basis points. Retail and middle market term deposit costs increased in 2H19 as industry pricing lagged a reduction in short term rates. Wholesale funding costs also rose in line with a lengthening of portfolio duration strengthening the Bank's Net Stable Funding Ratio.

Hedging costs: The impact of hedging costs improved NIM by three basis points in 2H19, driven by reductions in basis and other hedging costs. Half of the improvement was due to the basis portfolio spreads reducing from an average of 46 basis points to 39 basis points. The remainder was from favourable positioning of other hedging over the period.

Capital and low cost deposits: The return on BOQ's $4.4 billion replicating portfolio declined in 2H19, as the lower interest rate environment impacted the portfolio reinvestment rates. This drove a two basis point reduction in NIM over 2H19.

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2.3 NON-INTEREST INCOME

	Year End Performance			Half Year Performance		
$ million	**Aug-19**	Aug-18	Aug-19 vs Aug-18	**Aug-19**	Feb-19	Aug-19 vs Feb-19
Banking income	**82**	93	(12%)	**39**	43	(9%)
Insurance income	**11**	19	(42%)	**4**	7	(43%)
Other income [1]	**30**	32	(6%)	**15**	15	–
Trading income	**5**	1	400%	**5**	–	–
Total non-interest income [2]	128	145	(12%)	63	65	(3%)

(1) VMA third party income and costs are included in other income as a net result.

(2) Refer to Section 5.2 (B) *Non-cash earnings reconciling items* of the *Appendices* for a reconciliation of cash non-interest income to statutory non-interest income.

Non-interest income of $128 million reduced $17 million or 12 per cent from FY18.

Banking income was $11 million or 12 per cent lower than in FY18. The reduction in banking income was largely due to the transition of the BOQ Business merchant terminal offering to a new third party arrangement, combined with continuing customer trends towards lower or no fee products and the impact from the implementation of AASB 15 *Revenue from Contracts with Customers* (**AASB 15**).

Other income decreased $2 million or six per cent during FY19 and was flat half on half. The decrease is partly due to a reduction in the vendor program end of term income in the BOQ Finance business as a result of improving contract terms for customers. Included in other income was $8 million of VMA third party product distribution income, which was up 34 per cent on FY18.

Trading income of $5 million was supported by improved credit spreads as investors chased yield in a low interest rate environment, improved short end funding conditions, basis performance and heightened volatility.

Declining St Andrew's insurance income is discussed in detail in Section 2.4 below.

2.4 INSURANCE OVERVIEW

	Year End Performance			Half Year Performance		
$ million	**Aug-19**	Aug-18	Aug-19 vs Aug-18	**Aug-19**	Feb-19	Aug-19 vs Feb-19
Gross written premium (net of refunds)	**60**	72	(17%)	**29**	31	(6%)
Net earned premium	**55**	66	(17%)	**26**	29	(10%)
Underwriting result	**8**	15	(47%)	**2**	6	(67%)
Other insurance income	**3**	3	–	**2**	1	100%
Total income	**11**	18	(39%)	**4**	7	(43%)
Consolidation adjustment	**–**	1	(100%)	**–**	–	–
Group insurance result	11	19	(42%)	4	7	(43%)

St Andrew's contributed $11 million or nine per cent to non-interest income in FY19, an $8 million reduction compared to FY18 due to a lower underwriting result. This was impacted by contracting net earned premium reflecting fewer premiums, partly offset by reduced commissions paid. Claims costs were flat on FY18, reflecting higher loss ratios on a smaller portfolio.

Regulatory and community expectations continue to impact the insurance sector, particularly consumer credit insurance. A number of St Andrew's corporate partners (including BOQ) have made the decision to cease distribution of consumer credit insurance, following release of ASIC's *Report 622*. Existing customers will continue to be served and the interests of policyholders will remain a priority.

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2.5 OPERATING EXPENSES

	Year End Performance			Half Year Performance		
$ million	**Aug-19**	Aug-18	Aug-19 vs Aug-18	**Aug-19**	Feb-19	Aug-19 vs Feb-19
Employee expenses	**264**	263	-	**132**	132	-
Occupancy expenses	**42**	44	(5%)	**21**	21	-
General expenses	**91**	81	12%	**47**	44	7%
IT expenses	**125**	119	5%	**65**	60	8%
Other expenses	**28**	20	40%	**17**	11	55%
Total operating expenses (1) (2)	550	527	4%	282	268	5%
CTI	**50.5%**	47.5%	300bps	**51.5%**	49.5%	200bps
Number of employees (**FTE**) (1)	**2,098**	2,039	3%	**2,098**	2,073	1%

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

(2) Refer to Section 5.2 (B) *Non-cash earnings reconciling items* of the *Appendices* for a reconciliation of cash operating expenses to statutory operating expenses.

Operating expenses increased $23 million or four per cent on FY18. Flat employee expenses were driven by lower short term incentives paid, including no Key Management Personnel receiving an award under the Short Term Incentive plan. This was offset by higher FTE to support regulatory and compliance programs and targeted growth in BOQ Business.

General and Other expenses increased 12 per cent and 40 per cent respectively. This was largely due to addressing regulatory and compliance requirements, additional non-lending losses and higher industry levies. Also included are higher telecommunication costs incurred during the transition between data centre locations as part of the Bank's infrastructure modernisation program.

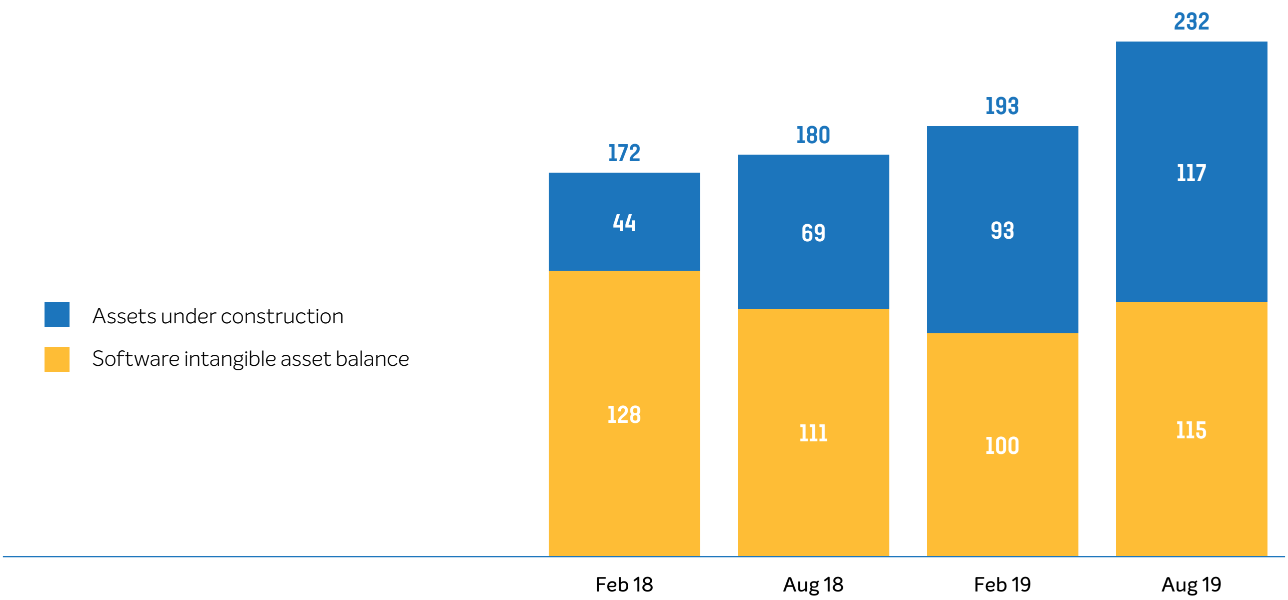
IT costs increased due to data collection activities addressing compliance requirements and new technology services resulting from the Bank's technology transformation programs.

2.6 CAPITALISED INVESTMENT EXPENDITURE

The Bank's transformation program continues to drive an increase in the assets under construction balance, with a number of significant multi-year foundational investment programs underway. These include the functionality required to support the industry's New Payment Platform, a treasury and market risk system upgrade, developing capability for digital offerings for retail, business and financial markets customers, as well as a program of work to modernise the Bank's technology infrastructure.

A number of investments delivered new functionality during 2H19, driving an increase in the software intangible asset balance.

Carrying value of IT intangible assets ($m)



BOQ GROUP – 2019 ANNUAL RESULTS

For the year ended 31 August 2019

2.7 LENDING

Lending growth of two per cent was achieved during the year, in an environment characterised by slowing credit growth, strong competition and a shifting regulatory landscape. Strong new business acquisition was achieved through the different brand channels in BOQ Specialist and BOQ Finance. Virgin Money continued to deliver strong growth, with its home loan portfolio growing by $0.9 billion in FY19 to over $2.5 billion while the branch network experienced a contraction in balances, a result of a smaller distribution footprint.

	As at				
$ million	Aug-19	Feb-19	Aug-18	Aug-19 vs Feb-19[1]	Aug-19 vs Aug-18
Housing lending	27,702	28,330	28,007	(4%)	(1%)
Housing lending – APS 120 qualifying securitisation [2]	2,945	2,215	2,499	65%	18%
	30,647	30,545	30,506	1%	–
Commercial lending	10,008	10,040	9,881	(1%)	1%
BOQ Finance	5,262	4,898	4,595	15%	15%
Consumer	299	296	297	2%	1%
Gross loans and advances	46,216	45,779	45,279	2%	2%
Provision for impairment	(233)	(214)	(201)	18%	16%
Net loans and advances	45,983	45,565	45,078	2%	2%

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

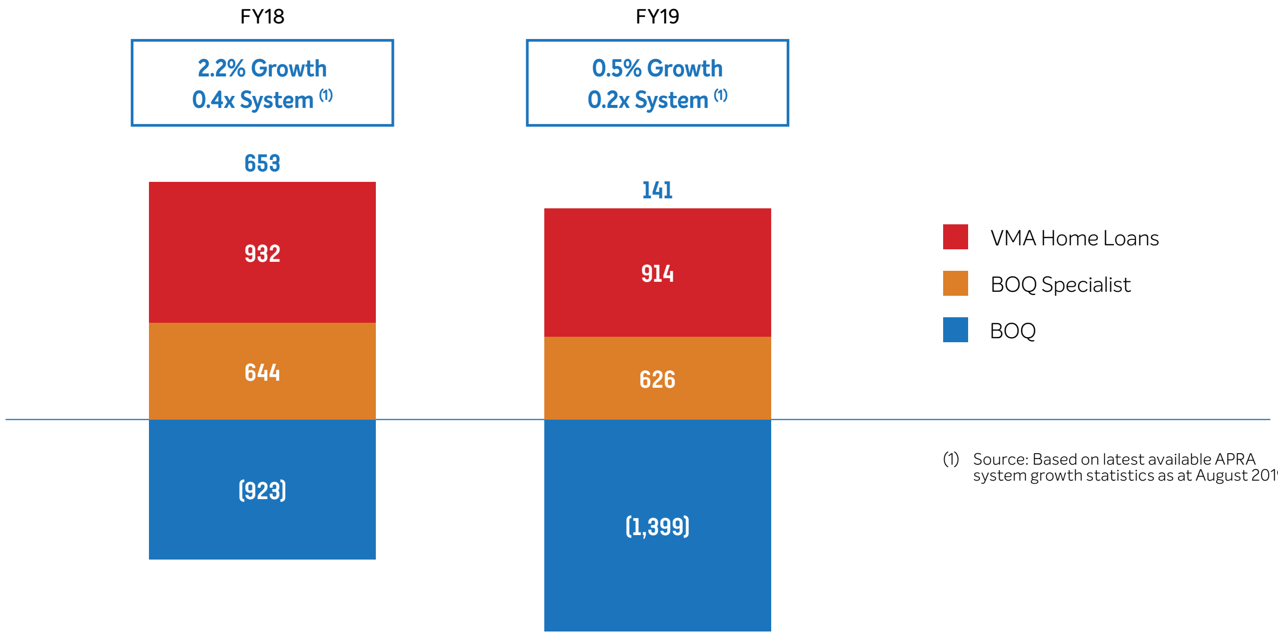
BOQ GROUP – 2019 ANNUAL RESULTS

For the year ended 31 August 2019

2.7 LENDING (CONTINUED)

Growth in gross loans & advances

Growth in housing ($m)



(1) Source: Based on latest available APRA system growth statistics as at August 2019

Housing lending

While housing loan growth was constrained in FY19 by a slowing mortgage market and an increasing competitive landscape, BOQ has maintained prudent credit settings with rigorous servicing, validation and responsible lending practices. The Bank has increased investment in its lending capability, in an effort to deliver improved customer outcomes and operational efficiencies.

Housing growth improved over 2H19 with continued strong customer acquisition across the Virgin Money and BOQ Specialist channels, whilst runoff moderated across the BOQ branded portfolio. The overall housing loan portfolio has further diversified geographically with more than half of new business flows originated outside of Queensland. Distribution through third party channels represented 29 per cent of new business fundings, though this remains under-represented relative to the industry average of nearly 60 per cent.

Virgin Money originated over $1.1 billion in new business fundings during FY19 taking the portfolio to more than $2.5 billion. The 'Reward Me' mortgage product has resonated with a new customer base aligned to the Virgin Money brand, predominantly younger and largely based outside of Queensland. Virgin Money continues to expand its broker presence and in 2019 introduced a direct online capability further leveraging its enhanced digital offering.

BOQ Specialist housing loan balances grew by 14 per cent in FY19, including 16 per cent growth in its core medical segment. BOQ Specialist continues to deliver strong, above system growth on a maturing portfolio by focusing on building relationships with professionals in the early stages of their careers or at university. The diversity offered through this portfolio in geography, profession and age, improves the overall risk profile of the housing loan 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 their career progression. Customer growth of five per cent was achieved including 15 per cent growth in medical graduates highlighting the success of this part of the niche strategy.

BOQ's branch network improved its housing performance in 2H19, particularly across the Owner Manager channel, through improved retention rates. A new revenue share remuneration structure is on track to be introduced early in the new financial year which will further align outcomes for the Bank and Owner Managers.

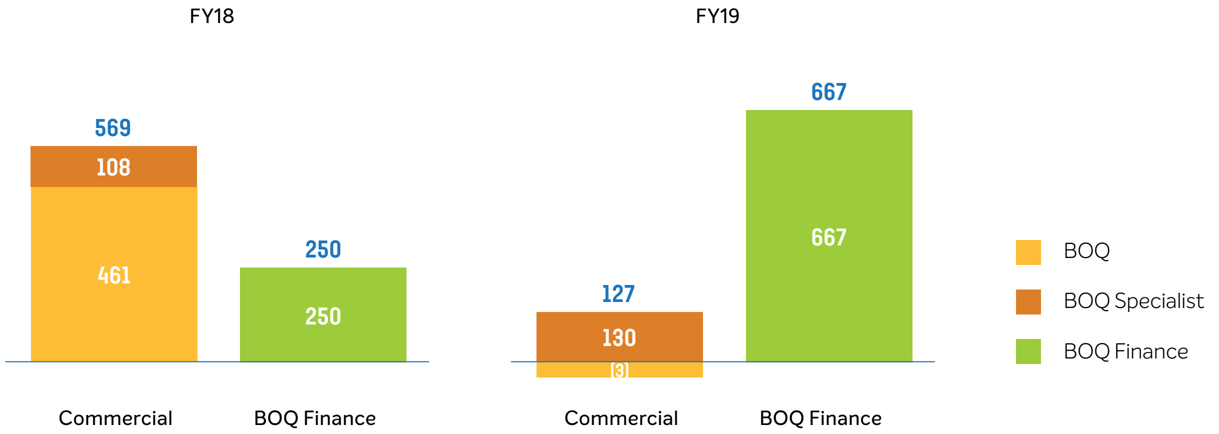
BOQ's growth through the mortgage broker channel improved in 2H19 as retention rates improved. The broker support team has continued to work closely with key aggregator partners to further improve turnaround times and enhance the customer experience.

BOQ GROUP – 2019 ANNUAL RESULTS

For the year ended 31 August 2019

2.7 LENDING (CONTINUED)

Growth in commercial & BOQ Finance ($m)



	FY18		FY19	
	Commercial	BOQ Finance	Commercial	BOQ Finance
Growth rate	6.1%	5.8%	1.3%	14.5%
System growth [1]	5.1%	4.8%	3.4%	3.2%
Growth vs System	1.2x	1.2x	0.4x	4.5x

(1) Based on latest available APRA and AFIA system growth statistics as at August 2019.

Commercial & BOQ Finance lending

The commercial lending portfolio grew one per cent in FY19, with higher run-off due to large client exposure pay downs in 1H19 and a number of large customer asset sales in 2H19. The portfolio remains geographically diverse, with Queensland concentration at 42 per cent.

The BOQ branded commercial portfolio was relatively flat year on year, however the Bank's niche segment strategy continues to deliver with the corporate healthcare and retirement living segment delivering growth of 11 per cent. This was offset by run off in the property finance portfolio. The agribusiness niche segment had modest growth due to unfavourable weather conditions and BOQ's focus on supporting existing customers for long term financial stability. Small business growth was flat as new business volumes were offset by run off in the mature portfolio.

BOQ Specialist grew strongly at five per cent with solid performance in the core medical segment. 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 resulting in customer growth of 15 per cent, five per cent increase in total customer numbers and an estimated 25 per cent of market share in the core medical segment.

BOQ Finance provided strong asset growth of over $660 million or 15 per cent to take the portfolio to $5.2 billion. Investment in systems has supported growth in the equipment finance business, novated lease business and new strategic partnerships in the wholesale business. Diversification of exposure has continued with growth in structured finance solutions, cash flow finance, equipment finance and dealer wholesale solutions. New green energy solutions have recently been developed to support future growth.

BOQ GROUP - 2019 ANNUAL RESULTS

For the year ended 31 August 2019

3. BUSINESS SETTINGS

3.1 ASSET QUALITY

Loan impairment expense increased $33 million year on year to $74 million, or 16 basis points of gross loans and advances. Impaired asset balances of $197 million were $33 million higher than FY18. On transition to AASB 9 from 1 September 2018, a $10 million increase in the collective provision was recognised as an adjustment to retained profits. To align with requirements of AASB 9, BOQ has implemented a new collective provisioning model (**CP model**) which is a forward-looking, expected credit loss model. Whilst underlying portfolio trends remain sound, the Group's new collective provisioning was impacted by a less certain economic outlook and an increase in arrears which were significant drivers for the increase in loan impairment expense.

		Year End Performance			Half Year Performance		
		Aug-19	Aug-18	Aug-19 vs Aug-18	**Aug-19**	Feb-19	Aug-19 vs Feb-19
Loan impairment expense	($ million)	**74**	41	80%	**44**	30	47%
Loan impairment expense / GLA	bps	**16**	9	7bps	**19**	13	6bps
Impaired assets	($ million)	**197**	164	20%	**197**	152	30%
30dpd arrears	($ million)	**499**	469	6%	**499**	505	(1%)
90dpd arrears	($ million)	**312**	260	20%	**312**	287	9%
Collective provision & general reserve for credit losses (**GRCL**) / RWA	bps	**78**	67	11bps	**78**	74	4bps

The table above summarises BOQ's key credit indicators and shows:

- Loan impairment expense increased by $33 million (80 per cent) year on year to $74 million. Of the $33 million increase in loan impairment expense the collective provision contributed $22 million. This result included the implementation of a new CP model, which was impacted by increases in arrears rates and a less certain economic outlook. Excluding the impact of the collective provision, loan impairment expense / GLA in FY19 was 11 basis points, which is two basis points higher than FY18.
- Impaired assets of $197 million increased by $33 million (20 per cent) against FY18 and $45 million (30 per cent) against 2H19. The increase was driven by the Commercial and BOQ Finance portfolios and more particularly, a large well secured agribusiness exposure. The Group now holds two impaired exposures greater than $10 million and three exposures greater than $5 million. The impaired balances of these five connections were $57 million in total. At FY18, the Group held three exposures greater than $5 million in impaired status, totalling $25 million.
- 30 day and 90 day arrears have increased $30 million and $52 million respectively year on year. The increase was driven by the Retail and BOQ Finance portfolios. Retail was impacted by new industry expectations surrounding hardships and recovery processes, while BOQ Finance was impacted by two large connections totalling $6 million moving into 90 days arrears.
- Collective provisioning and GRCL coverage against RWA increased by 11 basis points in FY19 and four basis points in 2H19. This increase is due to a higher collective provision and includes a transitional adjustment upon implementation of a new CP model under AASB 9. In addition, less certain economic conditions and increases in arrears impacted the forward looking assumptions underlying the expected credit loss model.

BOQ GROUP – 2019 ANNUAL RESULTS

For the year ended 31 August 2019

3.1 ASSET QUALITY (CONTINUED)

Loan impairment expense

	Year End Performance				Half Year Performance			
	Aug-19		Aug-18		**Aug-19**		Feb-19	
	Expense ($m)	**Expense/ GLA (bps)**	Expense ($m)	Expense/ GLA (bps)	**Expense ($m)**	**Expense/ GLA (bps)**	Expense ($m)	Expense/ GLA (bps)
Retail lending	**18**	**6**	15	5	**7**	**5**	11	7
Commercial lending	**24**	**24**	11	11	**20**	**40**	4	8
BOQ Finance	**32**	**61**	15	33	**17**	**65**	15	61
Total loan impairment expense	**74**	**16**	41	9	**44**	**19**	30	13

Higher loan impairment expense of $74 million during the year included $22 million attributable to higher collective provision impairment expense based on the new CP model under AASB 9. Specific provision impairment expense for FY19 was $52 million, a $5 million increase from FY18.

Retail impairment expense increased by $3 million on FY18 and was mainly driven by higher specific provisioning activity in the housing portfolio. Continuing low levels of retail loan impairment expense in 2H19 reflects robust underwriting standards and collection practices.

Commercial lending and BOQ Finance loan impairment expense increased by $13 million and $17 million respectively. Impacting both portfolios was the forward looking CP model. The CP model included model adjustments of $4 million in the Commercial portfolio to provide additional coverage across the agribusiness portfolio affected by the drought conditions in New South Wales and Queensland, and $6 million in BOQ Finance to better reflect observed loss given default metrics in the vendor finance portfolio. There was also an $8 million increase in specific provisions in 2H19, driven by a small number of connections greater than $1 million.

Impaired assets

	As at				
$ million	**Aug-19**	Feb-19	Aug-18	Aug-19 vs Feb-19	Aug-19 vs Aug-18
Retail lending	**73**	60	67	22%	9%
Commercial lending	**98**	69	81	42%	21%
BOQ Finance	**26**	23	16	13%	63%
Total impaired assets	**197**	152	164	30%	20%
Impaired assets / GLA	**43bps**	33bps	36bps	10bps	7bps

Total impaired assets increased by $33 million, up 20 per cent on FY18.

The increase in retail impaired assets over 2H19 was driven by four new exposures greater than $1 million for a total of $9 million, reversing the previous halves' downward trend.

Commercial lending increase of $17 million during FY19 was driven by the impairment of two new large exposures totalling $40 million. Partially offsetting this was the realisation and clearing of one large exposure of $7 million.

BOQ Finance impaired assets increased by $10 million during FY19, with $3 million in 2H19. This uplift was in line with historical provisioning levels and included a single name exposure raised in 2H19, underlying performance in this portfolio has been satisfactory.

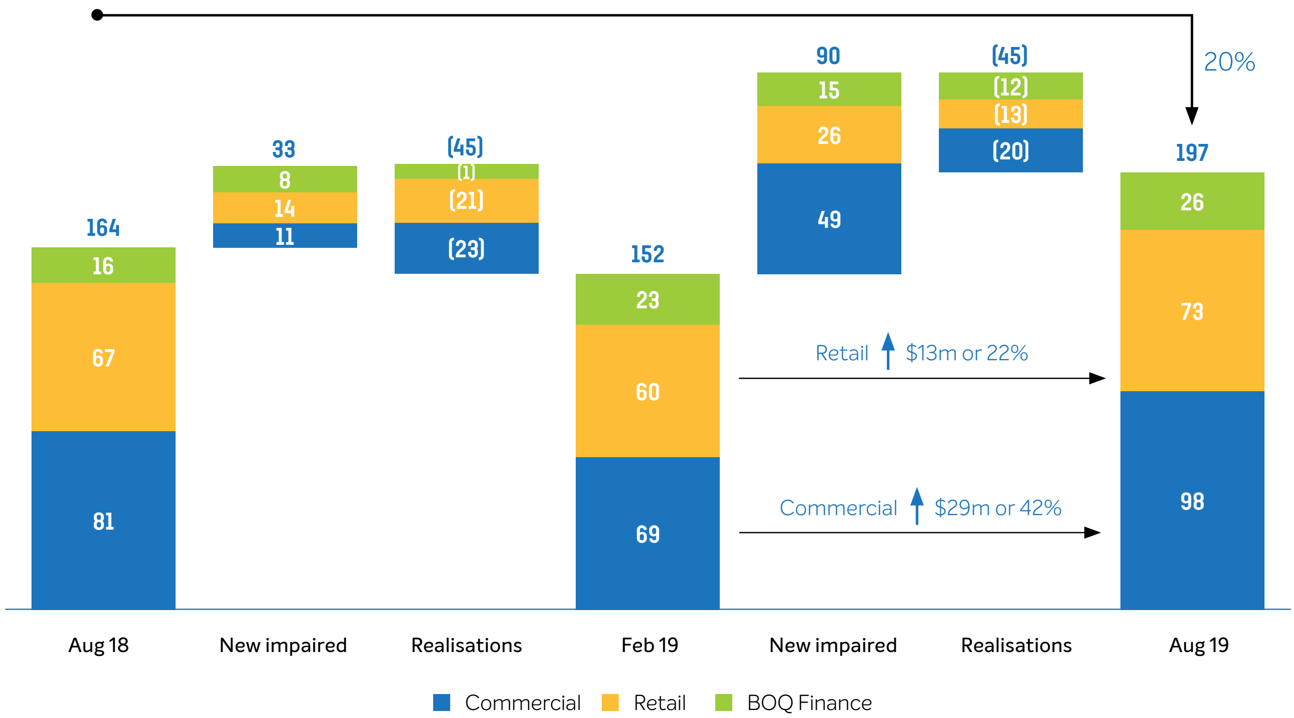
The Group now holds five impaired exposures greater than $5 million with a combined total of $57 million, with two of these exposures greater than $10 million. The Group held three exposures greater than $5 million at 1H19 and FY18 for a combined total of $18 million and $25 million respectively.

BOQ GROUP – 2019 ANNUAL RESULTS

For the year ended 31 August 2019

3.1 ASSET QUALITY (CONTINUED)

Impaired assets ($m)



Provision coverage

Total provisions increased by $32 million or 16 per cent to $233 million during FY19. The increase was due to an increase in the collective provision as a result of the implementation of a new CP model under AASB 9. Specific provision coverage of 43 per cent was down 900 basis points from FY18. This is reflective of the low specific provisioning activity in FY19 and indicative of adequate security backing the impaired assets.

Total provision coverage reduced 11 per cent over FY19, while the GRCL increased by $3 million (five per cent). Total provisions and GRCL to RWA has remained stable from 1H19 and FY18 and BOQ remains satisfactorily provisioned compared to industry peers.

	As at				
$ million	**Aug-19**	Feb-19	Aug-18	Aug-19 vs Feb-19	Aug-19 vs Aug-18
Specific provision	**85**	77	86	10%	(1%)
Collective provision	**148**	137	115	8%	29%
Total provisions	**233**	214	201	9%	16%
GRCL	**62**	60	59	3%	5%
Specific provisions to impaired assets	**43%**	51%	52%	(800bps)	(900bps)
Total provisions and GRCL coverage / impaired assets [(1)]	**163%**	197%	174%	(3400bps)	(1100bps)
Total provisions and GRCL / RWA [(1)]	**1.1%**	1.0%	1.0%	5bps	5bps

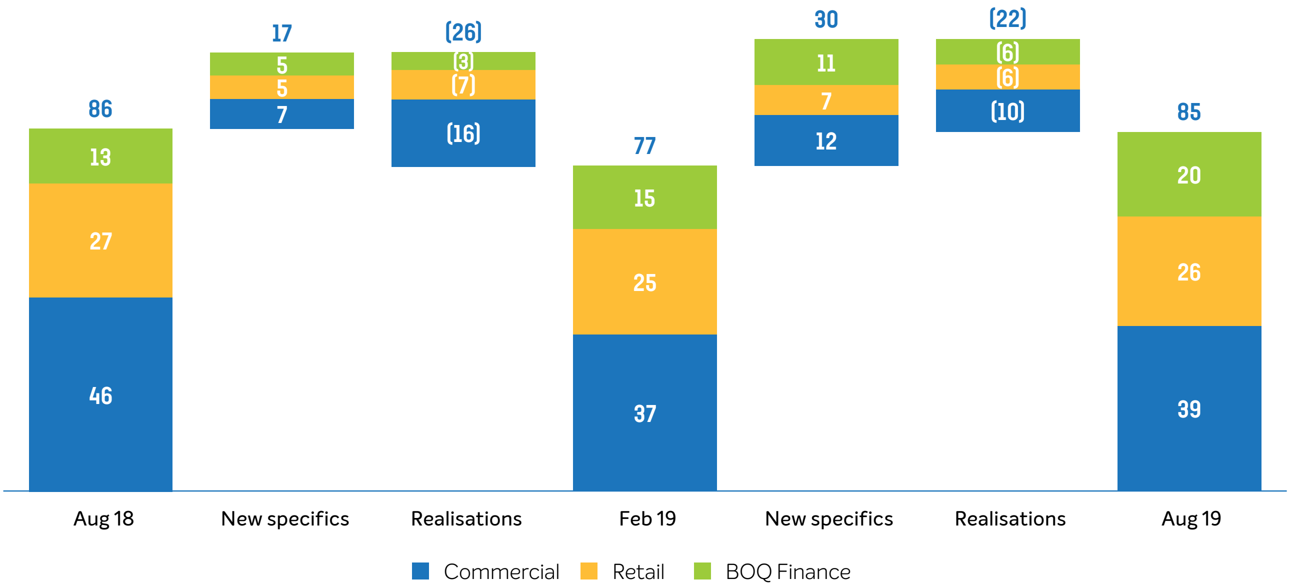
(1) GRCL gross of tax effect.

BOQ GROUP – 2019 ANNUAL RESULTS

For the year ended 31 August 2019

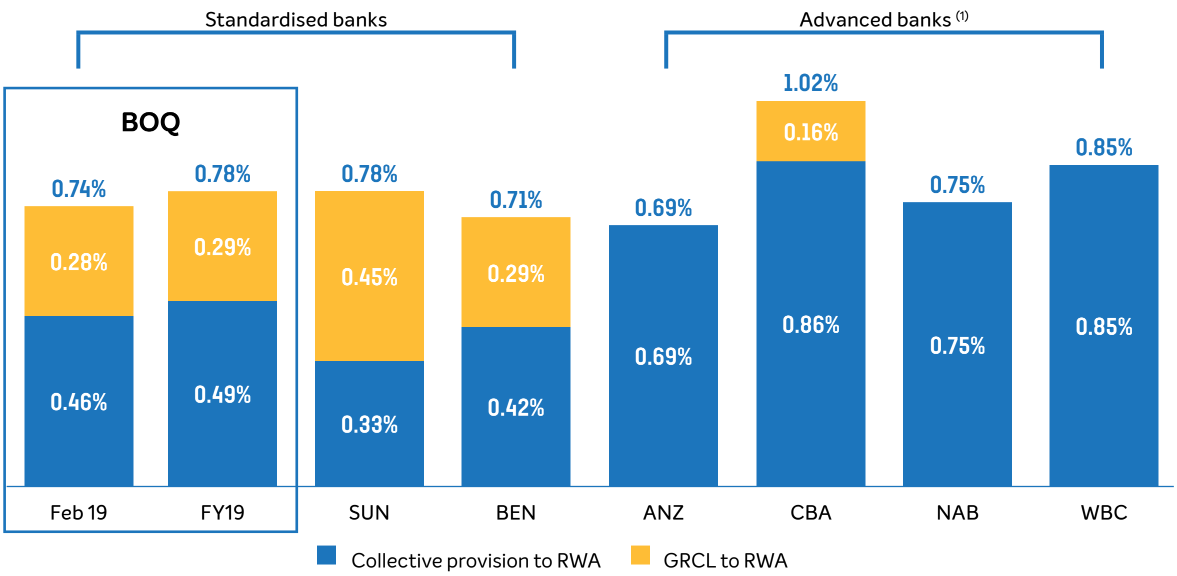
3.1 ASSET QUALITY (CONTINUED)

Specific provisions ($m)



Collective provision and GRCL/RWA vs peers

The graph below provides BOQ's level of collective provisions and GRCL to RWA against the current levels of its peers, as published in their most recent financial reports. BOQ's coverage increased 11 basis points over FY19 (four basis points increase from 1H19), driven by the forward looking collective provision to adequately provide for future events. BOQ continues to be adequately provisioned in comparison 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 ANNUAL RESULTS

For the year ended 31 August 2019

3.1 ASSET QUALITY (CONTINUED)

Arrears

Key Metrics	Portfolio Balance ($m) Aug-19	Aug-19	Feb-19	Aug-18	Aug-19 vs Feb-19	Aug-19 vs Aug-18
Total lending – portfolio balance ($ million)		46,216	45,779	45,279	1%	2%
30 days past due ($ million)		499	505	469	(1%)	6%
90 days past due ($ million)		312	287	260	9%	20%
		Proportion of portfolio				
30 days past due: GLAs		1.08%	1.10%	1.04%	(2bps)	4bps
90 days past due: GLAs		0.68%	0.63%	0.57%	5bps	11bps
By product						
30 days past due: GLAs (housing)	29,042	1.02%	1.00%	0.92%	2bps	10bps
90 days past due: GLAs (housing)		0.62%	0.51%	0.44%	11bps	18bps
30 days past due: GLAs (line of credit)	1,605	2.80%	2.19%	2.33%	61bps	47bps
90 days past due: GLAs (line of credit)		1.99%	1.79%	1.17%	20bps	82bps
30 days past due: GLAs (consumer)	299	1.00%	1.01%	1.35%	(1bps)	(35bps)
90 days past due: GLAs (consumer)		0.67%	0.68%	0.67%	(1bps)	-
30 days past due: GLAs (commercial)	10,008	1.19%	1.29%	1.38%	(10bps)	(19bps)
90 days past due: GLAs (commercial)		0.90%	1.02%	1.08%	(12bps)	(18bps)
30 days past due: GLAs (BOQ Finance)	5,262	0.68%	0.90%	0.47%	(22bps)	21bps
90 days past due: GLAs (BOQ Finance)		0.17%	0.13%	0.07%	4bps	10bps

Retail Arrears

Retail arrears increased in both 30 and 90 day categories. This reflected a slower transition back to a performing status that is aligned to new industry expectations driving longer workout times in support of the customer. Line of credit (**LOC**) arrears have historically trended higher than the other portfolios due to the revolving nature of the credit facilities and the smaller LOC portfolio exacerbating the arrears ratios.

BOQ Business Arrears

Commercial arrears have decreased in both 30 and 90 day categories by 10 basis points and 12 basis points respectively from 1H19. This is driven by the clearance of one large connection which equated to 18 basis points across the 30 and 90 days categories.

In addition, there have been a number of commercial loan facilities that, while being serviced and considered performing, were expired and the full balance was considered to be in arrears at 1H19. Since 1H19, these were reviewed and no longer considered to be in arrears.

BOQ Finance arrears have decreased by 22 basis points in 30 days arrears but increased 4 basis points in the 90 days arrears since 1H19. The combination of seasonality and the settlement of one large exposure early in 2H19 contributed to the improvement in the 30 days arrears. The increase in 90 days arrears was driven by one large exposure equating to 8 basis points. Overall movement in FY19 shows a return to more normal levels following the historical lows seen in FY18.

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3.2 FUNDING AND LIQUIDITY

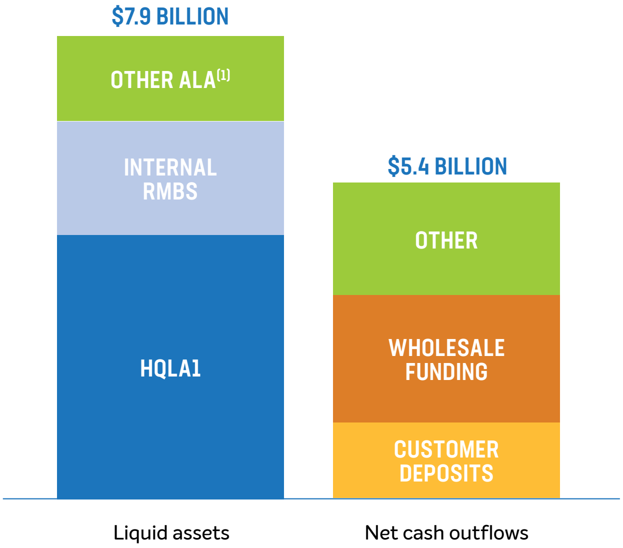
BOQ's liquidity strategy and risk appetite are designed to ensure it has the ability to meet financial obligations as they fall due in all market conditions. BOQ has developed a robust liquidity risk management framework including Board approved liquidity risk tolerances, detailed strategy and policy governing the management of liquidity and funding, together with annual Board approved funding and contingency funding plans. Management of liquidity risk at BOQ includes a focus on developing a stable customer deposit base, access to diversified wholesale funding markets and disciplined management of maturity profiles. The Bank also maintains a portfolio of unencumbered, high quality liquid assets, giving BOQ a buffer to withstand a range of stress events, including those involving the loss or impairment of both unsecured and secured funding sources. BOQ regularly stress tests it's liquidity risk framework to identify vulnerabilities under a diverse range of market scenarios.

Liquidity Coverage Ratio (LCR)

APRA requires LCR ADIs to maintain a minimum 100 per cent LCR. The LCR requires sufficient tier 1 high quality liquid assets (**HQLA1**) and alternative liquid assets, covered by the Committed Liquidity Facility (**CLF**), to meet net cash outflows over a 30 day period, under a regulator defined liquidity stress scenario. BOQ manages its LCR on a daily basis and actively maintains a buffer above the regulatory minimum in line with BOQ's prescribed risk appetite and management ranges.

The Bank's LCR at 31 August 2019 was 145 per cent, which is 18 per cent higher than 31 August 2018 (127 per cent) and also higher than the LCR as at 1H19 of 124 per cent. BOQ's average LCR for 2H19 was 140 per cent, which is eight per cent higher than the average for 1H19 of 132 per cent.

LCR - August 2019 (145%)



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

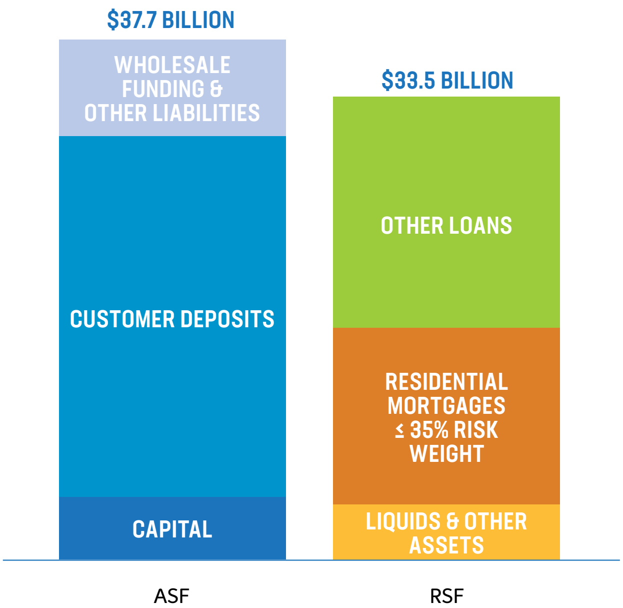
Net Stable Funding Ratio (NSFR)

APRA's stated objective in implementing the NSFR was 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 31 August 2019 was 112 per cent, up from 110 per cent at 28 February 2019. The primary drivers of the increase in NSFR have been an increase in customer deposits and long-term wholesale funding, partially offset by an increase in other assets and residential mortgages that are subject to or would qualify for a 35 per cent risk weight under APS 112 *Capital Adequacy: Standardised Approach to Credit Risk* (**APS 112**). The average NSFR for 2H19 was 110.8 per cent.

NSFR - August 2019 (112%)

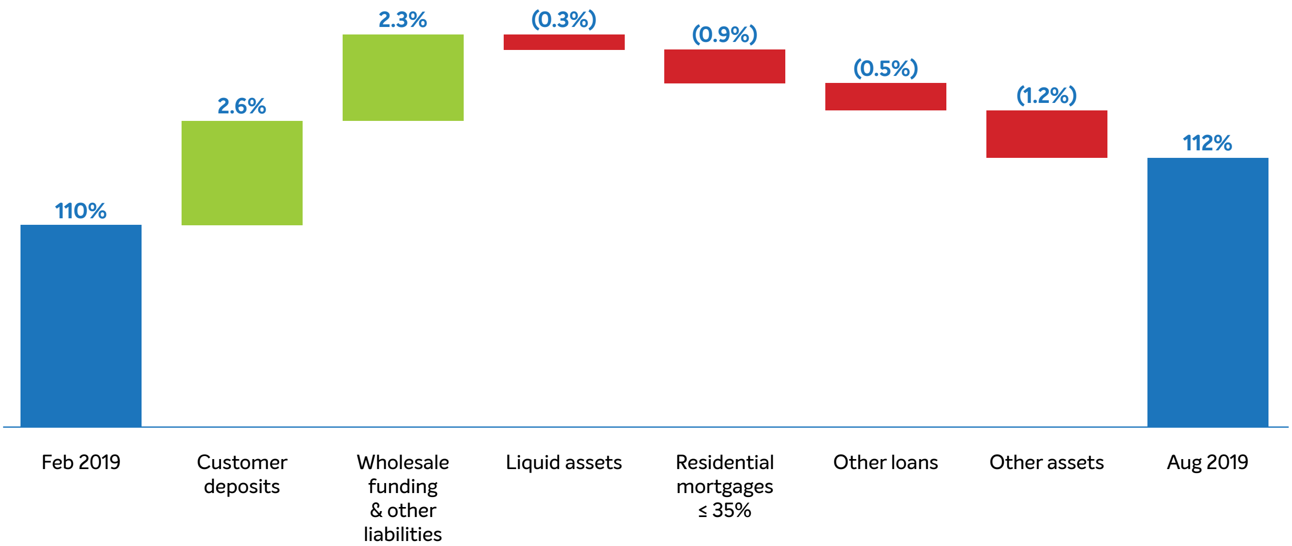


BOQ GROUP - 2019 ANNUAL RESULTS

For the year ended 31 August 2019

3.2 FUNDING AND LIQUIDITY (CONTINUED)

NSFR waterfall 28 February 2019 - 31 August 2019



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 provided by 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 the Bank 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 ANNUAL RESULTS

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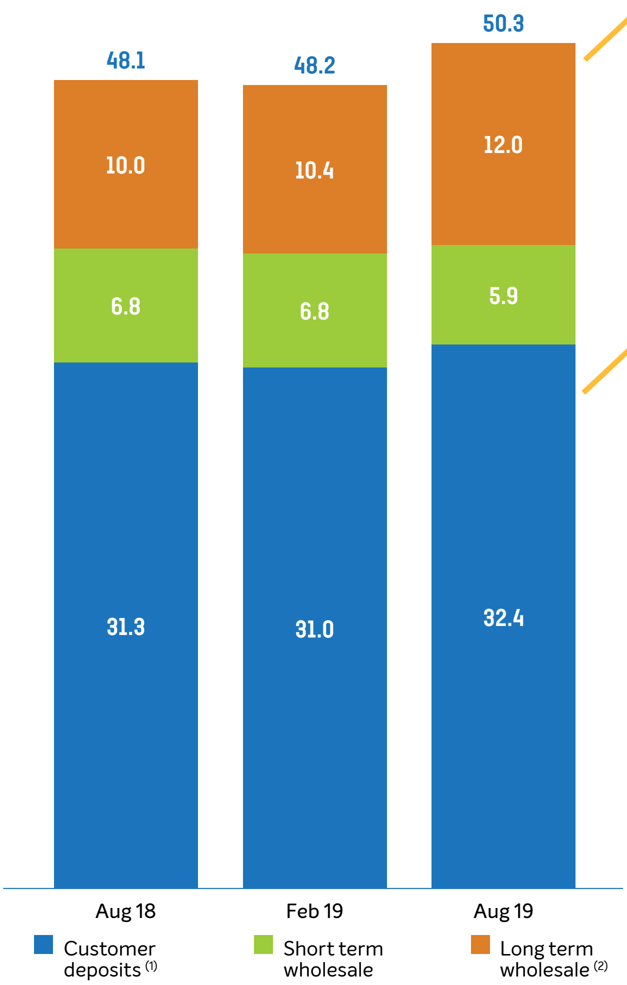
3.2 FUNDING AND LIQUIDITY (CONTINUED)

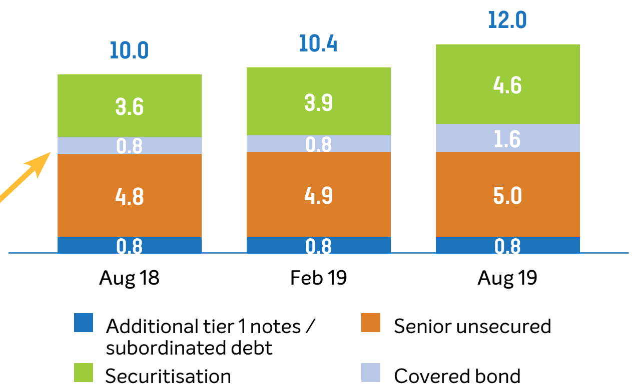
Funding

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.

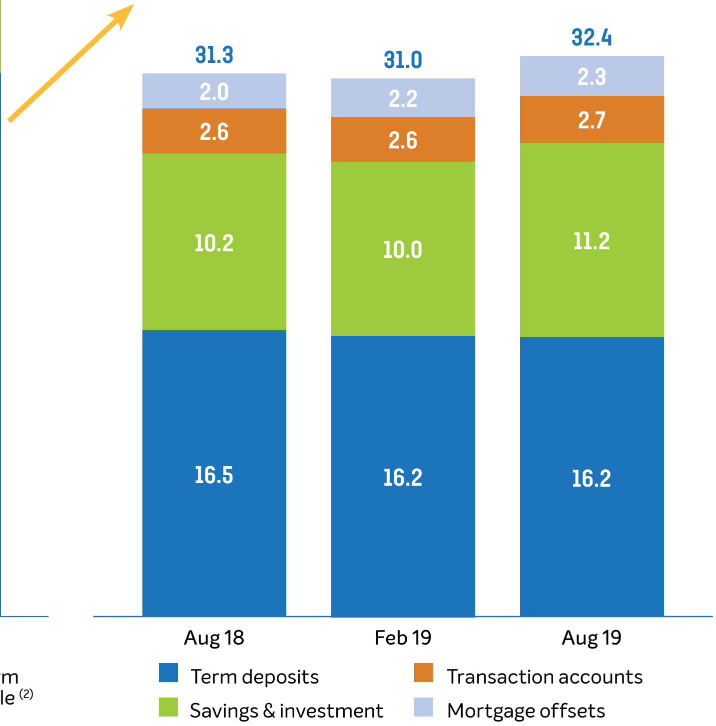
Funding mix ($billion)



Long term wholesale ($billion)



Customer deposits ($billion)



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

(2) Foreign currency balances have been translated at end of day spot rates.

Wholesale funding

BOQ focuses on three main strategic elements in delivering its wholesale funding objectives – capacity growth, resilience and diversity – while minimising the cost of funds and maintaining its ability to take advantage of opportunities in the most appropriate markets. The Bank continues to focus on increasing longer dated, stable funding sources whilst tactically reducing reliance on short dated wholesale funding.

In FY19, customer deposit growth coupled with long term wholesale funding growth supported both lending growth and targeted runoff of short term wholesale funding, whilst also strengthening the Bank's liquidity position. The Bank's deposit to loan ratio of 70 per cent was one per cent up from FY18 (69 per cent), driven by strong customer deposit growth in the Bank's retail channels.

BOQ GROUP – 2019 ANNUAL RESULTS

For the year ended 31 August 2019

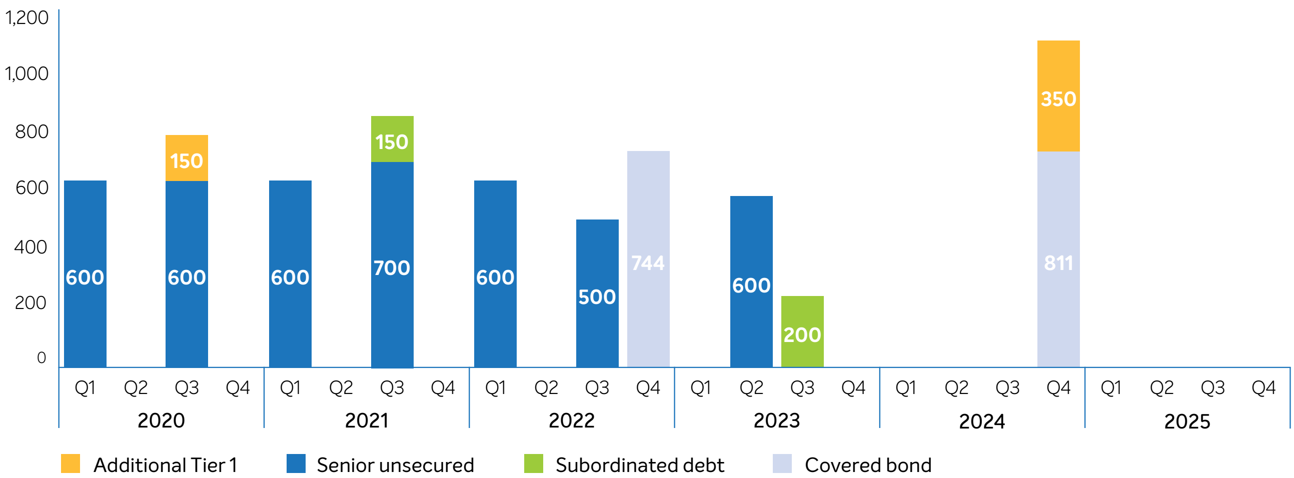
3.2 FUNDING AND LIQUIDITY (CONTINUED)

Term funding issuance

During FY19, BOQ issued a combination of secured and unsecured debt transactions in both domestic and offshore markets via benchmark and non-benchmark deals to increase the long term wholesale funding portfolio. The Bank's benchmark sized transactions included a $500 million senior unsecured deal for three years, a €500 million (~AUD $811 million) covered bond for five years, a $779 million REDS EHP (**ABS**) deal and a $1 billion REDS (**RMBS**) capital relief transaction.

These transactions highlight BOQ's ability to use a range of debt programmes to access long term wholesale funding markets, which provides diversification benefits whilst also allowing for manageable refinancing towers over the next five years.

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



(1) Any transaction issued in a currency other than AUD is shown in the applicable AUD equivalent hedged amount.
(2) Senior unsecured maturities greater than or equal to $50 million shown, excludes private placements.
(3) Redemption of subordinated debt notes and additional tier 1 notes at the scheduled call date is at BOQ's option and is subject to obtaining prior written approval from APRA.
(4) Quarters are reflected in line with the Bank's financial reporting year.

3.3 CAPITAL MANAGEMENT

Capital adequacy

	As at				
$ million	Aug-19	Feb-19	Aug-18	Aug-19 vs Feb-19	Aug-19 vs Aug-18
CET1	2,761	2,776	2,762	(1%)	-
Additional tier 1 capital	500	500	500	-	-
Total tier 2	525	524	524	-	-
Total capital base	3,786	3,800	3,786	-	-
Total RWA	30,533	29,978	29,669	2%	3%
CET1 ratio	9.04%	9.26%	9.31%	(22bps)	(27bps)
Total capital adequacy ratio	12.40%	12.68%	12.76%	(28bps)	(36bps)

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3.3 CAPITAL MANAGEMENT (CONTINUED)

The Group's CET1 ratio decreased by 22 basis points during 2H19 from 9.26 per cent to 9.04 per cent.

There was seven basis points of underlying capital consumption in 2H19. Reduced earnings and a decline in the dividend reinvestment plan participation, resulted in a higher net capital outflow from the 2019 interim dividend payment.

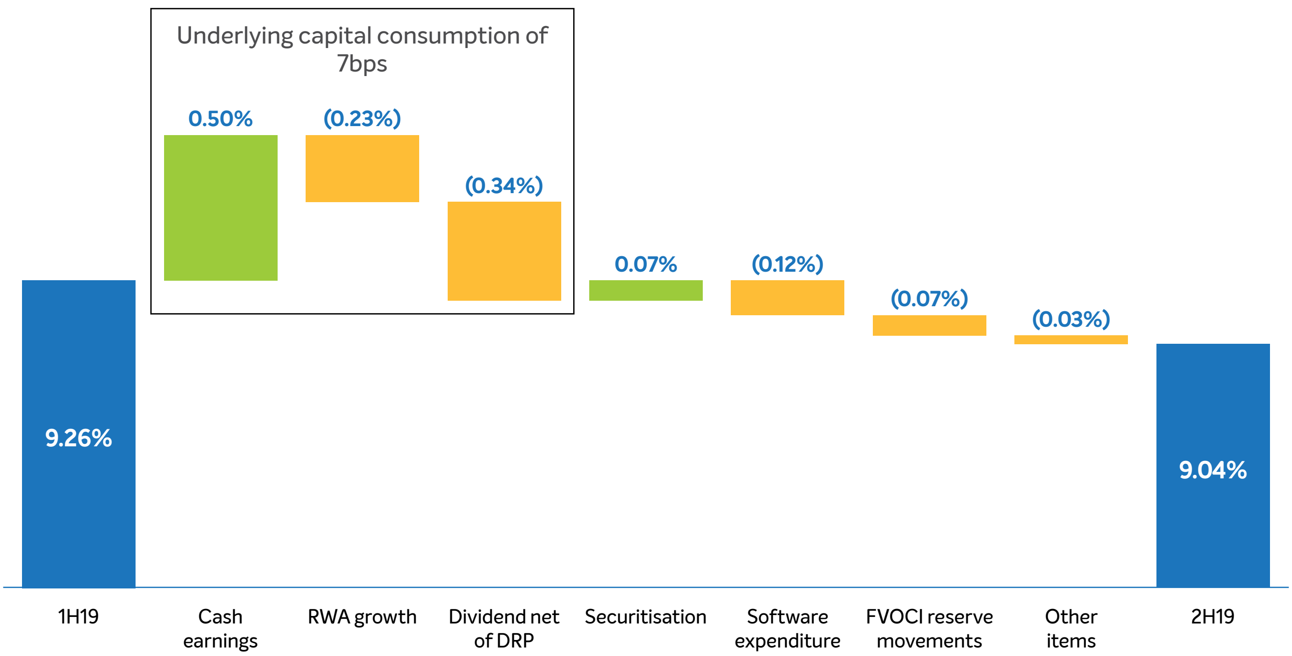
BOQ completed a $1 billion capital efficient RMBS transaction during 2H19, which generated seven basis points of capital benefit.

Software expenditure utilised 12 basis points of capital during 2H19. This spend is consistent with the accelerated investment spend in 2H19 that was flagged at the 1H19 results.

Fair value through other comprehensive income (**FVOCI**) reserves were impacted by movements in credit spreads and the effects of hedging on the underlying book during 2H19.

Other items reduced CET1 ratio by three basis points primarily due to an increase in deferred tax assets and non-cash items. Further details on the non-cash items can be found in Section 5.2 (B) *Non-cash earnings reconciling items.*

Common Equity Tier 1 2H19 vs 1H19



3.4 TAX EXPENSE

Tax expense arising on cash earnings for FY19 amounted to $145 million. This represented an effective tax rate of 31.2 per cent, which is above the corporate tax rate of 30 per cent primarily due to the non-deductibility of interest payable on WCN and Capital Notes.

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4. DIVISIONAL PERFORMANCE

4.1 RETAIL INCOME STATEMENT, KEY METRICS AND FINANCIAL PERFORMANCE REVIEW

Retail Banking provides solutions to personal customers who may choose to do their banking across multiple channels including the Owner Managed and corporate branch network; third party intermediaries and VMA distribution channels; online via digital, social media, mobile banking; or on the phone.

The Retail bank had a challenging year in terms of growth, with assets contracting in an environment of slowing credit growth, intense competition and shifting customer preferences. While the Bank has maintained prudent credit settings with stringent serviceability requirements, changes have been made to manual lending processes late in FY19 to improve customer experience and reduce turnaround times. The investment in the Bank's lending capability is also delivering improved customer outcomes and operational efficiencies.

The VMA 'Reward Me' mortgage offering continues to be well received by customers and brokers, with the mortgage portfolio now exceeding $2.5 billion. These home loan customers provide geographic diversification from the Group's traditional markets in addition to broadening the customer profile to a younger demographic.

Retail Banking continues to invest in its digital enablement strategy with upgrades to both mobile banking and internet banking platforms underway. Investment has also been made in better understanding the needs of our customers to ensure that future strategies are aligned to delivering on customer expectations.

	Year End Performance			Half Year Performance		
$ million	**Aug-19**	Aug-18	Aug-19 vs Aug-18	**Aug-19**	**Feb-19**	Aug-19 vs Feb-19
Net interest income	**432**	458	(6%)	**217**	215	1%
Non-interest income	**63**	67	(6%)	**31**	32	(3%)
Total income	**495**	525	(6%)	**248**	247	-
Operating expenses	**(287)**	(281)	2%	**(146)**	(141)	4%
Underlying profit	**208**	244	(15%)	**102**	106	(4%)
Loan impairment expense	**(14)**	(15)	(7%)	**(4)**	(10)	(60%)
Profit before tax	**194**	229	(15%)	**98**	96	2%
Income tax expense	**(61)**	(72)	(15%)	**(31)**	(30)	3%
Cash earnings after tax	133	157	(15%)	67	66	2%

Cash earnings after tax of $133 million for FY19 was down 15 per cent on FY18 in an environment of slowing credit growth, intense competition, rising funding costs and shifting regulatory and community expectations.

Net interest income of $432 million decreased $26 million or six per cent over FY19. This was a reflection of lower asset balances and margin compression driven by competition and increased basis costs, whilst deposit margins were managed through growth in the new fast track saver product which enabled less reliance on the more expensive term deposit portfolio.

Non-interest income of $63 million for FY19 was $4 million or six per cent lower than FY18. This reflects lower banking income as customers continue to trend toward low or no fee products, as well as the impact from the implementation of AASB 15.

Operating expenses of $287 million increased $6 million or two per cent on FY18, reflecting an increase in business activity to address risk and compliance requirements, the expansion of the VMA digital channel and additional investment in the customer experience.

Impairment expense of $14 million reduced $1 million or seven per cent from FY18. This equates to six basis points of gross loans and reflects the Bank's robust underwriting standards and collection practices.

BOQ GROUP – 2019 ANNUAL RESULTS

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

		Year End Performance			Half Year Performance		
Key metrics		**Aug-19**	Aug-18	Aug-19 vs Aug-18	**Aug-19**	Feb-19	Aug-19 vs Feb-19
CASH EARNINGS BASIS							
CTI	(%)	**58.0**	53.5	450bps	**58.9**	57.1	180bps
ASSET QUALITY							
90dpd arrears	($ million)	**210**	148	42%	**210**	177	19%
Impaired assets	($ million)	**67**	59	14%	**67**	54	24%
Loan impairment expense / GLA	(bps)	**6**	6	-	**3**	8	(5bps)
BALANCE SHEET							
GLA	($ million)	**24,783**	25,252	(2%)	**24,783**	24,996	(1%)
Housing	($ million)	**24,717**	25,170	(2%)	**24,717**	24,922	(1%)
Other retail	($ million)	**66**	82	(21%)	**66**	74	(12%)
CREDIT RWA	($ million)	**8,664**	8,841	(2%)	**8,664**	8,775	(1%)
CUSTOMER DEPOSITS [1]	($ million)	**15,742**	15,192	4%	**15,742**	15,312	3%
Term deposits	($ million)	**6,295**	6,650	(5%)	**6,295**	6,711	(6%)
Mortgage offsets	($ million)	**1,511**	1,329	14%	**1,511**	1,455	4%
Savings & investment	($ million)	**6,426**	5,762	12%	**6,426**	5,712	13%
Transaction accounts	($ million)	**1,510**	1,451	4%	**1,510**	1,434	5%
DEPOSIT TO LOAN RATIO	(%)	**64**	60	400bps	**64**	61	300bps

(1) Treasury managed deposits are included in the Bank's Other operating segment.

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

BOQ Business includes 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 and specialist customers.

The BOQ Business division continued to deliver on its strategy to grow in niche target segments in FY19, by providing a tailored relationship offering to customers. Overall loan growth was $1.4 billion in FY19. Queensland concentration for BOQ Business lending was 42 per cent.

BOQ branded commercial loan growth was underpinned by an ongoing focus on quality and appropriate return for risk. Focus on 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.

BOQ Specialist achieved higher fundings compared to FY18, with solid growth despite both the commercial and home lending books maturing. Aggregate asset growth was $756 million. The BOQ Specialist's mortgage offering delivered strong new customer acquisition with housing loans growing above system at an annual rate of 14 per cent. 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 distinct competitive advantage through tailored consumer and commercial products and services to assist professionals through their practicing life cycles.

BOQ Finance lending grew strongly in the period, with $667 million or 15 per cent balance growth during the year. BOQ Finance remained focused on its existing market proposition and grew across multiple portfolios increasing diversification of product mix. This business continues to grow year on year through targeted broker relationships in the equipment finance business and new structured programs.

	Year End Performance			Half Year Performance		
$ million	**Aug-19**	Aug-18	Aug-19 vs Aug-18	**Aug-19**	**Feb-19**	Aug-19 vs Feb-19
Net interest income	**527**	514	3%	**266**	261	2%
Non-interest income	**50**	59	(15%)	**24**	26	(8%)
Total income	**577**	573	1%	**290**	287	1%
Operating expenses	**(242)**	(228)	6%	**(124)**	(118)	5%
Underlying profit	**335**	345	(3%)	**166**	169	(2%)
Loan impairment expense	**(60)**	(26)	131%	**(40)**	(20)	100%
Profit before tax	**275**	319	(14%)	**126**	149	(15%)
Income tax expense	**(86)**	(100)	(14%)	**(39)**	(47)	(17%)
Cash earnings after tax	**189**	219	(14%)	**87**	102	(15%)

Cash earnings after tax of $189 million was $30 million lower than FY18 due largely to higher loan impairment expense driven by increased collective provisions.

Net Interest Income of $527 million was $13 million or three per cent higher than FY18. This was driven by lending growth of seven per cent with the BOQ Specialist and BOQ Finance businesses both performing strongly. Net interest margin reduced 13 basis points over the year due to the changing mix of the portfolio, higher costs and increased competition.

Non-interest income of $50 million was $9 million or 15 per cent lower than FY18. The BOQ merchant offering was 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. Non-interest income generated by asset sales in equipment finance and financial markets also reduced.

Operating expenses of $242 million increased by $14 million or six per cent on FY18 due to increased technology services resulting from the Bank's transformation program and rising compliance and employee costs associated with managing the growing portfolio.

Impairment expense of $60 million increased $34 million on FY18. The increase was attributable to the forward looking CP model and support of the growth in the asset finance portfolio, along with specific provisions related to a small number of large exposures raised in 2H19.

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

		Year End Performance			Half Year Performance		
Key metrics		**Aug-19**	Aug-18	Aug-19 vs Aug-18	**Aug-19**	Feb-19	Aug-19 vs Feb-19
CASH EARNINGS BASIS							
CTI	(%)	**41.9**	39.8	210bps	**42.8**	41.1	170bps
ASSET QUALITY							
90dpd arrears	($ million)	**102**	113	(10%)	**102**	110	(7%)
Impaired assets	($ million)	**130**	104	25%	**130**	98	33%
Loan impairment expense / GLA	(bps)	**28**	13	15bps	**38**	19	19bps
BALANCE SHEET							
GLA	($ million)	**21,433**	20,027	7%	**21,433**	20,783	3%
Housing	($ million)	**5,930**	5,336	11%	**5,930**	5,623	5%
Commercial and other	($ million)	**10,241**	10,096	1%	**10,241**	10,262	–
BOQ Finance	($ million)	**5,262**	4,595	15%	**5,262**	4,898	7%
CREDIT RWA	($ million)	**17,291**	16,317	6%	**17,291**	16,873	2%
CUSTOMER DEPOSITS [1]	($ million)	**8,293**	8,004	4%	**8,259**	7,745	7%
Term deposits	($ million)	**1,512**	1,739	(13%)	**1,512**	1,609	(6%)
Mortgage offsets	($ million)	**838**	671	25%	**838**	781	7%
Savings & investment	($ million)	**4,755**	4,453	7%	**4,755**	4,266	11%
Transaction accounts	($ million)	**1,188**	1,141	4%	**1,188**	1,089	9%
DEPOSIT TO LOAN RATIO	(%)	**39**	40	(100bps)	**39**	37	200bps

(1) Treasury managed deposits are included in the Bank's Other operating segment.

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For the year ended 31 August 2019

4.3 OTHER SEGMENT INCOME STATEMENT AND FINANCIAL PERFORMANCE REVIEW

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

	Year End Performance			Half Year Performance		
$ million	**Aug-19**	Aug-18	Aug-19 vs Aug-18	**Aug-19**	Feb-19	Aug-19 vs Aug-18
Net interest income	**2**	(7)	129%	**2**	-	-
Non-interest income	**15**	19	(21%)	**8**	7	14%
Total income	**17**	12	42%	**10**	7	43%
Operating expenses	**(21)**	(18)	17%	**(12)**	(9)	33%
Underlying profit	**(4)**	(6)	(33%)	**(2)**	(2)	-
Loan impairment expense	**-**	-	-	**-**	-	-
Profit before tax	**(4)**	(6)	(33%)	**(2)**	(2)	-
Income tax expense	**2**	2	-	**1**	1	-
Cash loss after tax	**(2)**	(4)	(50%)	**(1)**	(1)	-

Other segment cash loss after tax was $2 million, driven predominantly by lower non-interest income compared to FY18.

Non-interest income includes St Andrew's insurance and trading income. Contributing to this was St Andrew's insurance income deterioration (further information at Section 2.4 *Insurance overview*), partly offset by higher trading income.

Operating expenses of $21 million increased by $3 million or 17 per cent on FY18, largely as a result of addressing regulatory and compliance requirements for the St Andrew's insurance business in 2H19.

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5. APPENDICES

5.1 ASX APPENDIX 4E

Cross Reference Index	Page
Details of reporting period and previous period (Rule 4.3A Item No. 1)	Inside front cover
Statement of audit (Rule 4.3A Item No. 15)	Annual Report – Page 171–180
Results for announcement to the market (Rule 4.3A Item No. 2)	Inside front cover
Income Statement and Statement of Comprehensive Income (Rule 4.3A Item No. 3)	Annual Report – Page 90–91
Balance Sheets (Rule 4.3A Item No. 4)	Annual Report – Page 92
Statement of Cash Flows (Rule 4.3A Item No. 5)	Annual Report – Page 97
Statement of Changes in Equity (Rule 4.3A Item No. 6)	Annual Report – Pages 93–96
Notes to the Financial Statements	Annual Report – Pages 98–169
Dividends and dividend dates (Rule 4.3A Item No. 7)	Annual Report – Page 110
Dividend Reinvestment Plan (Rule 4.3A Item No. 8)	Annual Report – Page 110
Net tangible assets per security (Rule 4.3A Item No. 9)	Page 31
Details of entities over which control has been gained or lost (Rule 4.3A Item No. 10)	Annual Report– Page 163–165
Details of associates and joint venture entities (Rule 4.3A Item No. 11)	Page 31
Foreign entities (Rule 4.3A Item No. 13)	Not applicable
Earnings per share (Rule 4.3A Item No. 14.1)	Page 8, 35
Return to shareholders (Rule 4.3A Item No. 14.2)	Page 8–9
Commentary on performance (Rule 4.3A Item No. 14.3, 14.5, 14.6)	Page 6
Results of segments (Rule 4.3A Item No. 14.4)	Annual Report – Page 111–112

Details of associates and joint venture entities (Rule 4.3A Item No. 11)	Ownership interest held (%)
Joint arrangements (1)	
Ocean Springs Pty Ltd (Brighton)	9.31
Dalyellup Beach Pty Ltd (Dalyellup)	17.08
East Busselton Estate Pty Ltd (Provence)	25.00
Coastview Nominees Pty Ltd (Margaret River)	5.81
Provence 2 Pty Ltd (Provence 2)	25.00
Associates	
MiFund Pty Ltd	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.

	As at		
Net tangible assets per security (Rule 4.3A Item No. 9)	Aug-19	Feb-19	Aug-18
Net tangible assets per ordinary shares ($) (1)	7.23	7.46	7.50

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

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5.2 RECONCILIATION OF STATUTORY PROFIT TO CASH EARNINGS

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

The main exclusions relate to:

- Regulatory/compliance costs ($6 million after tax) which include external costs and other related costs associated with the Royal Commission, BEAR, Code of Banking Practice ,Comprehensive Credit Reporting, AML and other regulatory matters;
- Amortisation of acquisition fair value adjustments ($6 million after tax) arising from the historical acquisition of subsidiaries; and
- Hedge ineffectiveness ($8 million after tax) which represents earnings volatility from hedges that are not fully effective and create a timing difference in reported profit. These hedges remain economically effective.

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

	Year End Performance			Half Year Performance		
$ million	**Aug-19**	Aug-18	Aug-19 vs Aug-18	**Aug-19**	Feb-19	Aug-19 vs Feb-19
Cash earnings after tax	320	372	(14%)	153	167	(8%)
Amortisation of acquisition fair value adjustments	(6)	(7)	(14%)	(2)	(4)	(50%)
Hedge ineffectiveness	(8)	(3)	167%	(5)	(3)	67%
Integration/transaction costs	(1)	(1)	-	(1)	-	-
Regulatory/compliance	(6)	(9)	(33%)	(3)	(3)	-
Software changes	-	(11)	(100%)	-	-	-
Legacy items	(1)	(5)	(80%)	-	(1)	(100%)
Statutory net profit after tax	298	336	(11%)	142	156	(9%)

(B) NON-CASH EARNINGS RECONCILING ITEMS

$ million	Cash earnings Aug-19	VMA	Amortisation of acquisition fair value adjustments	Hedge ineffectiveness	Integration/ transaction costs	Regulatory/ compliance	Legacy items	Statutory net profit Aug-19
Net interest income	961	-	-	-	-	-	-	961
Non-interest income	128	16	-	(11)	-	-	2	135
Total income	1,089	16	-	(11)	-	-	2	1,096
Operating expenses	(550)	(16)	(7)	-	(1)	(9)	(4)	(587)
Underlying profit	539	-	(7)	(11)	(1)	(9)	(2)	509
Loan impairment expense	(74)	-	-	-	-	-	-	(74)
Profit before tax	465	-	(7)	(11)	(1)	(9)	(2)	435
Income tax expense	(145)	-	1	3	-	3	1	(137)
Profit after tax	320	-	(6)	(8)	(1)	(6)	(1)	298

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5.3 OPERATING CASH EXPENSES

	Year End Performance			Half Year Performance		
	Aug-19	Aug-18	Aug-19 vs Aug-18	**Aug-19**	Feb-19	Aug-19 vs Feb-19
EMPLOYEE EXPENSES						
Salaries	**217**	214	1%	**109**	108	1%
Superannuation contributions	**20**	20	-	**10**	10	-
Payroll tax	**13**	13	-	**6**	7	(14%)
Employee share programs	**8**	10	(20%)	**4**	4	-
Other	**6**	6	-	**3**	3	-
	264	263	-	**132**	132	-
OCCUPANCY EXPENSES						
Lease expense	**30**	32	(6%)	**15**	15	-
Depreciation - fixed assets	**10**	9	11%	**5**	5	-
Other	**2**	3	(33%)	**1**	1	-
	42	44	(5%)	**21**	21	-
GENERAL EXPENSES						
Marketing	**16**	15	7%	**9**	7	29%
Commissions to Owner Managed branches (**OMB**)	**5**	5	-	**3**	2	50%
Communications and postage	**19**	17	12%	**10**	9	11%
Printing and stationery	**3**	3	-	**1**	2	(50%)
Impairment	**4**	2	100%	**2**	2	-
Processing costs	**15**	15	-	**7**	8	(13%)
Other operating expenses	**29**	24	21%	**15**	14	7%
	91	81	12%	**47**	44	7%
IT EXPENSES						
Data processing	**84**	75	12%	**44**	40	10%
Amortisation - intangible assets	**40**	43	(7%)	**21**	19	11%
Depreciation - fixed assets	**1**	1	-	**-**	1	(100%)
	125	119	5%	**65**	60	8%
OTHER EXPENSES						
Professional fees	**18**	13	38%	**12**	6	100%
Directors' fees	**2**	2	-	**1**	1	-
Other	**8**	5	60%	**4**	4	-
	28	20	40%	**17**	11	55%
Total operating expenses	**550**	527	4%	**282**	268	5%

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5.3 OPERATING CASH EXPENSES (CONTINUED)

Employee expenses

Employee expenses of $264 million increased by $1 million on FY18. Flat employee expenses were driven by lower short term incentives paid, including no Key Management Personnel receiving an award under the Short Term Incentive plan. This was offset by higher FTE to support regulatory and compliance programs and targeted growth in BOQ Business.

Occupancy expenses

Occupancy expenses of $42 million decreased by $2 million or five per cent on FY18, due to consolidation of office space which offset increased depreciation on leasehold assets.

General expenses

General expenses of $91 million increased by $10 million or 12 per cent on FY18 due to higher non-lending losses reflecting improved remediation processes, and higher industry levies. In addition, there were higher telecommunication costs during the transition between data centre locations as part of the Bank's infrastructure modernisation program.

IT expenses

IT expenses of $125 million increased by $6 million or five per cent on FY18. Data processing expenses increased by $9 million driven by new technology services associated with the Bank's transformation programs, along with consultancy costs for data collection to support compliance activity. This was offset by a $3 million reduction in amortisation as a result of accelerated amortisation recognised in FY18.

Other expenses

Other expenses of $28 million increased by $8 million or 40 per cent on FY18. Professional fees increased by $5 million as a result of activity to address compliance requirements and support for divisional business strategy development. The Bank's insurance costs also increased by $2 million, in line with a general trend of higher premiums across the industry.

5.4 PROPERTY, PLANT & EQUIPMENT (CONSOLIDATED)

$ million	Leasehold improvements $m	Plant furniture and equipment $m	IT equipment $m	Capital works in progress $m	Assets under operating lease $m	Total $m
COST						
Balance as at 31 August 2018	82	33	34	1	16	166
Additions	3	1	-	4	5	13
Disposals	(4)	(1)	-	-	(7)	(12)
Transfers between categories	1	-	-	(1)	-	-
Balance as at 31 August 2019	**82**	**33**	**34**	**4**	**14**	**167**
DEPRECIATION AND LOSS ON DISPOSAL / IMPAIRMENT						
Balance as at 31 August 2018	43	24	30	-	12	109
Depreciation for the year	8	2	1	-	5	16
Disposals	(2)	-	-	-	(8)	(10)
Balance as at 31 August 2019	**49**	**26**	**31**	**-**	**9**	**115**
Carrying amount as at 31 August 2018	39	9	4	1	4	57
Carrying amount as at 31 August 2019	33	7	3	4	5	52

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5.5 CASH EPS CALCULATIONS

		Year End Performance			Half Year Performance		
		Aug-19	Aug-18	Aug-19 vs Aug-18	**Aug-19**	Feb-19	Aug-19 vs Feb-19
Basic EPS	(cents)	**79.6**	94.7	(16%)	**37.8**	41.8	(10%)
Diluted EPS	(cents)	**74.0**	89.3	(17%)	**35.3**	39.0	(9%)
Reconciliation of cash earnings for EPS							
Cash earnings available for ordinary shareholders	($ million)	**320**	372	(14%)	**153**	167	(8%)
Add: Convertible Preference Shares dividend	($ million)	**-**	7	(100%)	**-**	-	-
Add: WCN	($ million)	**7**	7	-	**4**	3	33%
Add: Capital Notes	($ million)	**14**	9	56%	**7**	7	-
Cash diluted earnings available for ordinary shareholders	($ million)	**341**	395	(14%)	**164**	177	(7%)
Weighted average number of shares (**WANOS**)							
Basic WANOS	(million)	**402**	393	2%	**404**	399	1%
Add: Effect of award rights	(million)	**1**	2	(50%)	**1**	2	(50%)
Add: Effect of CPS	(million)	**-**	12	(100%)	**-**	-	-
Add: Effect of WCN	(million)	**17**	14	21%	**17**	16	6%
Add: Effect of Capital Notes	(million)	**39**	21	86%	**39**	38	3%
Diluted WANOS for cash earnings EPS	(million)	**459**	442	4%	**461**	455	1%

5.6 ISSUED CAPITAL

Ordinary shares

	Consolidated
	2019 Number
Movements during the year	
Balance at the beginning of the year – fully paid	**397,311,850**
Dividend reinvestment plan [1]	**8,472,959**
Balance at the end of the year – fully paid	**405,784,809**

(1) Amounts taken up by shareholders as part of the dividend reinvestment plan:
- 28 per cent of the dividend paid on 14 November 2018, equating to $43 million; and
- 26 per cent of the dividend paid on 22 May 2019, equating to $35 million.

BOQ GROUP - 2019 ANNUAL RESULTS

For the year ended 31 August 2019

5.7 AVERAGE BALANCE SHEET AND MARGIN ANALYSIS

	August 2019 (Full Year)			August 2018 (Full Year)		
$ million	Average balance $m	Interest $m	Average rate %	Interest $m	Average rate %	Average Rate %
INTEREST EARNING ASSETS						
Gross loans & advances at amortised cost	43,616	1,913	4.39	42,763	1,927	4.52
Investments & other securities	6,226	145	2.33	6,055	142	2.35
Total interest earning assets	49,842	2,058	4.13	48,818	2,069	4.25
Non-interest earning assets						
Property, plant & equipment	54			59		
Other assets	1,594			1,555		
Provision for impairment	(215)			(220)		
Total non-interest earning assets	1,433			1,394		
Total assets	51,275			50,212		
INTEREST BEARING LIABILITIES						
Retail deposits	29,236	576	1.97	28,729	578	2.02
Wholesale deposits & borrowings	17,303	521	3.01	16,928	526	3.12
Total interest bearing liabilities	46,539	1,097	2.36	45,657	1,104	2.42
Non-interest bearing liabilities	876			755		
Total liabilities	47,415			46,412		
Shareholders' funds	3,860			3,800		
Total liabilities & shareholders' funds	51,275			50,212		
INTEREST MARGIN & INTEREST SPREAD						
Interest earning assets	49,842	2,058	4.13	48,818	2,069	4.25
Interest bearing liabilities	46,539	1,097	2.36	45,657	1,104	2.42
Net interest spread			1.77			1.83
Benefit of net interest-free assets, liabilities and equity			0.16			0.15
NIM - on average interest earning assets	49,842	961	1.93	48,818	965	1.98

BOQ GROUP – 2019 ANNUAL RESULTS

For the year ended 31 August 2019

5.7 AVERAGE BALANCE SHEET AND MARGIN ANALYSIS (CONTINUED)

	August 2019 (six month period)			February 2019 (six month period)		
$ million	Average balance $m	Interest $m	Average rate %	Interest $m	Average rate %	Average Rate %
INTEREST EARNING ASSETS						
Gross loans & advances at amortised cost	43,781	952	4.31	43,455	961	4.46
Investments & other securities	6,439	71	2.19	5,986	74	2.49
Total interest earning assets	50,220	1,023	4.04	49,441	1,035	4.22
Non-interest earning assets						
Property, plant & equipment	52			56		
Other assets	1,625			1,535		
Provision for impairment	(224)			(207)		
Total non-interest earning assets	1,453			1,384		
Total assets	51,673			50,825		
INTEREST BEARING LIABILITIES						
Retail deposits	29,485	285	1.92	28,927	291	2.03
Wholesale deposits & borrowings	17,328	253	2.90	17,305	268	3.12
Total interest bearing liabilities	46,813	538	2.28	46,232	559	2.44
Non-interest bearing liabilities	1,000			734		
Total liabilities	47,813			46,966		
Shareholders' funds	3,860			3,859		
Total liabilities & shareholders' funds	51,673			50,825		
INTEREST MARGIN & INTEREST SPREAD						
Interest earning assets	50,220	1,023	4.04	49,441	1,035	4.22
Interest bearing liabilities	46,813	538	2.28	46,232	559	2.44
Net interest spread			1.76			1.78
Benefit of net interest-free assets, liabilities and equity			0.16			0.16
NIM – on average interest earning assets	50,220	485	1.92	49,441	476	1.94

BOQ GROUP - 2019 ANNUAL RESULTS

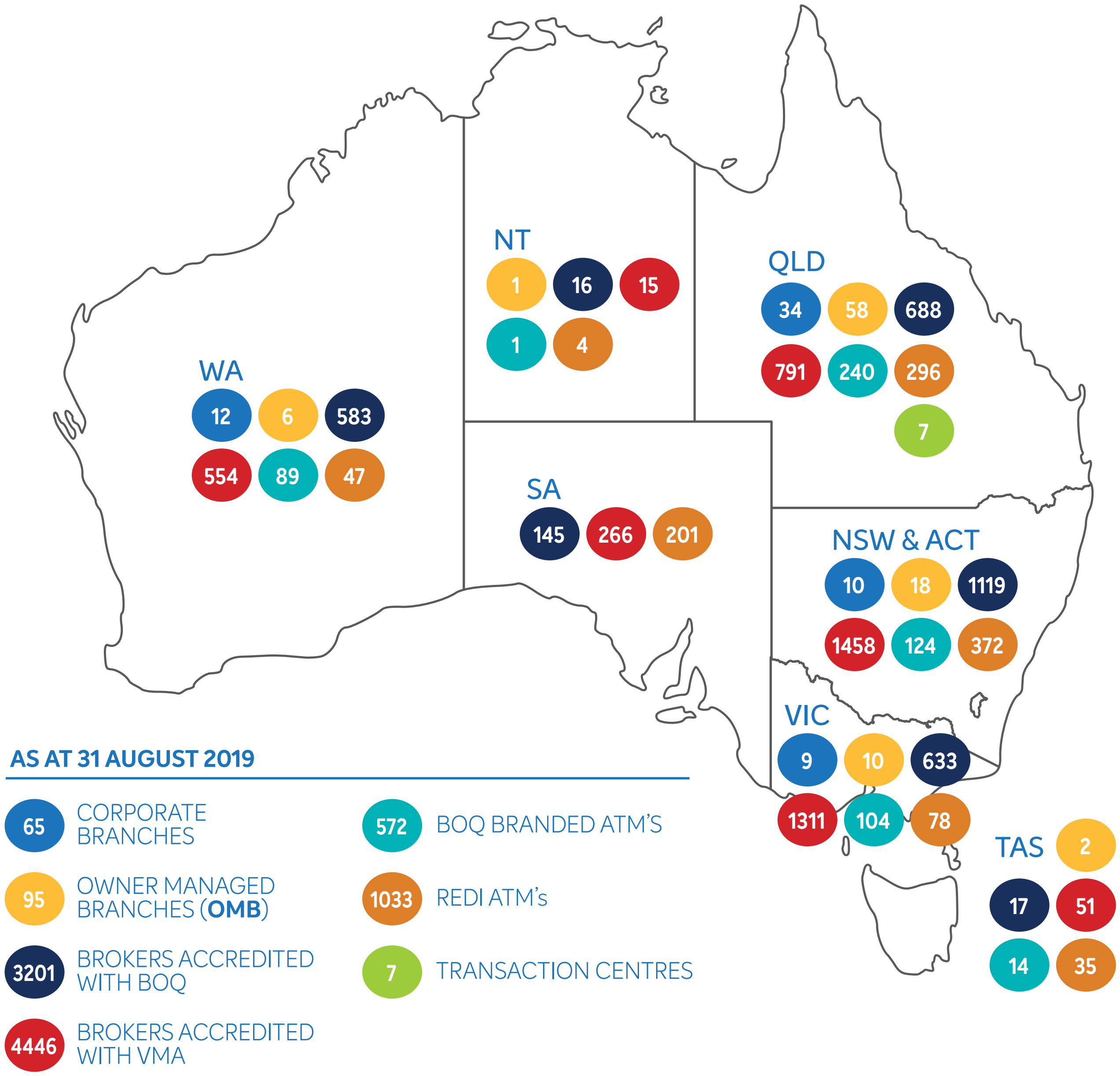
For the year ended 31 August 2019

5.8 DISTRIBUTION FOOTPRINT

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

Branch numbers reduced by 16 during 2019 as closures, conversions and portfolio mergers occurred. The franchise network remains a key differentiator for BOQ and is pivotal to the Bank's deposit raising capabilities. A new revenue share remuneration structure is on track to be introduced early in the new financial year. This will better align outcomes for the Bank and Owner Managers, whilst being more attractive to potential new franchisees.

In a market where many customers prefer using third party channels, BOQ has continued to build its broker presence during 2019 with 29 per cent of housing settlements being originated through the VMA and BOQ branded accredited brokers. The majority of these brokers are domiciled outside of Queensland, which continues to accelerate the geographic diversification of the portfolio and provide deeper access to the Sydney and Melbourne markets where BOQ has traditionally been under represented.



BOQ GROUP – 2019 ANNUAL RESULTS

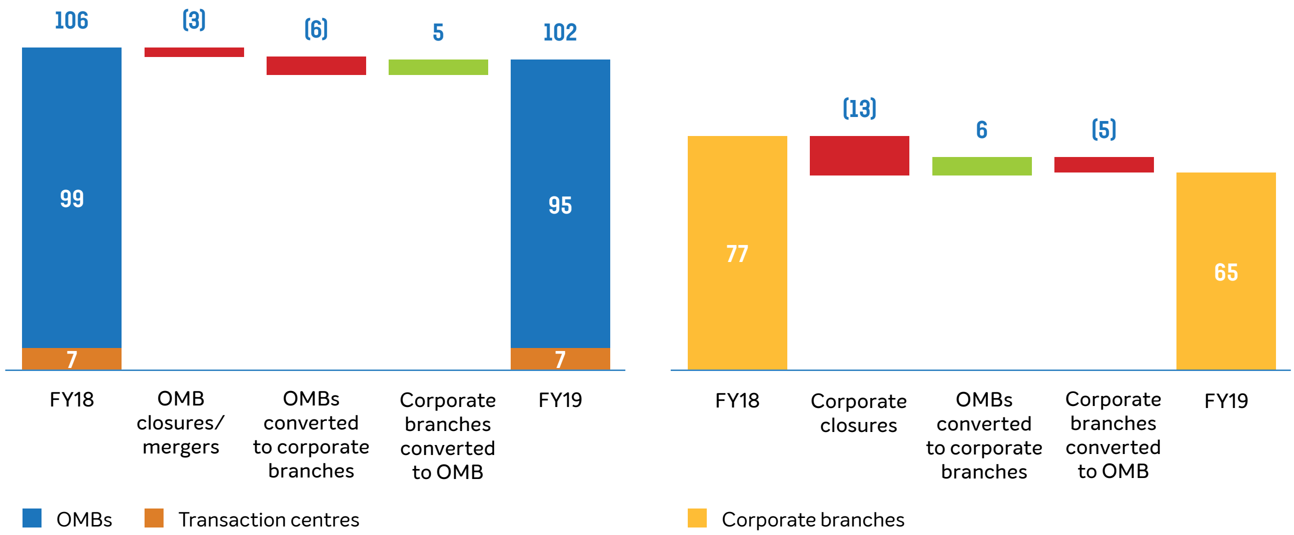
For the year ended 31 August 2019

5.8 DISTRIBUTION FOOTPRINT (CONTINUED)

As at Aug-19	QLD	NSW / ACT	VIC	WA	NT	TAS	SA	Total
Corporate branches	34	10	9	12	–	–	–	65
OMB	58	18	10	6	1	2	–	95
Transaction centres	7	–	–	–	–	–	–	7
	99	**28**	**19**	**18**	**1**	**2**	**–**	**167**

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

Corporate, Owner Managed Branches (OMB) & Transaction Centres



5.9 CREDIT RATING

The Bank monitors rating agency developments closely. Entities in the Group are rated by Standard & Poor's (**S&P**), Moody's Investor Service and Fitch Ratings. BOQ's current debt ratings are shown below. There have been no changes to the credit ratings from FY18.

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

5.10 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 instrument disclosures are available at the regulatory disclosures section of the Bank's website at the following address: *https://www.boq.com.au/regulatory_disclosures*

GLOSSARY

TERM	DESCRIPTION
APRA Prudential Standard (**APS**)	Prudential standards issued by APRA which are applicable to ADIs.
Australian Accounting Standards Board (**AASB**)	The AASB produces a series of technical pronouncements that set out the measurement and recognition requirements when accounting for particular types of transactions and events, along with the preparation and presentation requirements of an entity's financial statements.
Australian Finance Industry Association (**AFIA**)	AFIA is the national association for the equipment leasing and financing industry. Formerly Australian Equipment Lessors Association.
Australian Prudential Regulation Authority (**APRA**)	APRA is the prudential regulator of the Australian financial services industry. APRA is an independent statutory authority that supervises institutions across banking, insurance and superannuation and promotes financial system stability in Australia.
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**)	ASF 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 APS.
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.
Consolidated Entity (**the Group**)	BOQ and its subsidiaries
Corporations Act 2001	*The Corporations Act 2001* (Cth)
Covered bond guarantor	Perpetual Corporate Trust Limited ABN 99 000 341 533, incorporated with limited liability in the Commonwealth of Australia and having its registered office at Level 18, 123 Pitt Street, Sydney, NSW 2000, as trustee of the BOQ Covered Bond Trust (the Trustee).
Days past due (**dpd**)	A loan or lease payment that has not been made by a customer by the due date.
Dividend payout ratio	Dividends paid on ordinary shares divided by earnings.
Dividend reinvestment plan (**DRP**)	A plan which provides shareholders with the opportunity to convert all or part of their entitlement to a dividend into new shares.
Dividend yield	Dividend shown as a percentage of the share price.
Earnings per share (**EPS**)	Measure 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 trust (**EHP trust**)	EHP trust under the REDS securitisation program, issuing asset backed securities to the term market.
Euro-Commercial Paper (**ECP**)	ECP is an offshore short term commercial paper program.
Euro Medium Term Note (**EMTN**)	EMTN is an offshore medium term note program.
Full time equivalent (**FTE**)	A calculation based on number of hours worked by full and part time employees as part of their normal duties.

GLOSSARY

TERM	DESCRIPTION
General reserve for credit losses (**GRCL**)	An estimate of the reasonable and prudent expected credit losses over the remaining life of the portfolio and on non-defaulted assets, not covered by provisions for impairment.
Gross loans and advances (**GLA**)	Initially recognised at fair value plus incremental direct transaction costs and subsequently measured at each reporting date at amortised cost using the effective interest method.
High Quality Liquid Asset (**HQLA1**)	Comprises of the Bank's notes and coins and marketable securities representing claims on or guaranteed by the Australian Government or Semi-Government authorities.
Impaired assets	Exposures that have deteriorated to the point where full collection of principal and interest is in doubt.
Interest bearing liabilities	The Bank's liabilities that accrue interest expense.
International Financial Reporting Standards (**IFRS**)	IFRS 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 HQLA1 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 ASF relative to the amount of required stable funding. This ratio should be equal to at least 100% on an on-going basis. ASF 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 programmes.
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 notes that may convert into common shares in certain circumstances as described in the offer documentation of the notes.

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Find out more
boq.com.au/Shareholder-centre