BOQ GROUP

2019 ANNUAL REPORT

Year ended 31 August 2019

CONTENTS

Bank of Queensland Limited
ABN 32 009 656 740
AFSL NO. 244616

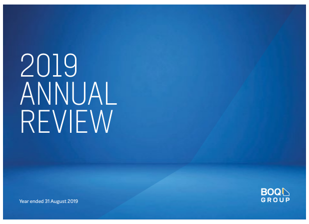
ABOUT THIS REPORT

This 2019 Annual Report (**Report**) incorporates the Group's audited financial statements and other statutory disclosures. The Report is lodged with the Australian Securities Exchange (**ASX**). Bank of Queensland (**BOQ**) is publicly listed in Australia. The financial statements have been prepared in accordance with Australian Accounting Standards and interpretations issued by the Australian Accounting Standards Board (**AASB**) and the *Corporations Act 2001*.

Unless otherwise stated, the Report encompasses all BOQ activities for the financial year commenced 1 September 2018 and ended 31 August 2019. All monetary values in this document are presented in Australian dollars, which is the Bank's functional currency.

OUR 2019 REPORTING SUITE

BOQ produces a range of reports designed to meet the evolving expectations of a wide range of stakeholders. Our 2019 reporting suite consists of the following additional documents:



ANNUAL REVIEW

BOQ's 2019 Annual Review (**Review**) provides an overview of BOQ's operations across the Group and outlines our commitment to, and strategies for creating long-term value for shareholders, customers, suppliers, employees, and the community. It can be found on the Annual Reports page of our website.

SUSTAINABILITY REPORT

Our 2019 Sustainability Report outlines information about our performance against social, environmental and economic opportunities and challenges. This report is available on the Annual Reports page of our website and is supported by supplementary information available on the Sustainability section of our website.

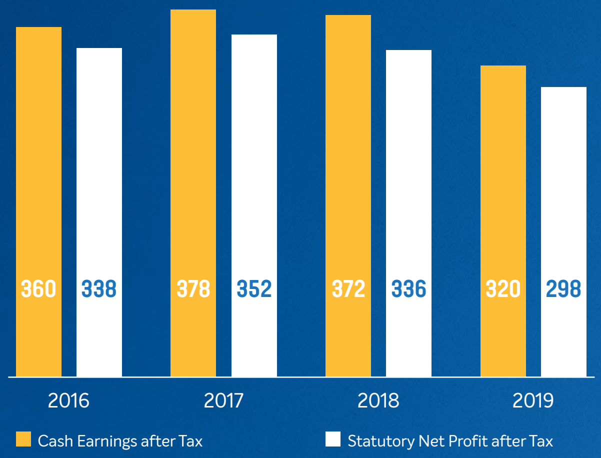
CORPORATE GOVERNANCE STATEMENT

Our 2019 Corporate Governance Statement discloses how we have complied with the ASX Corporate Governance Council's *Corporate Governance Principles & Recommendations* (3rd edition) and is available on the Corporate Governance page of our website.

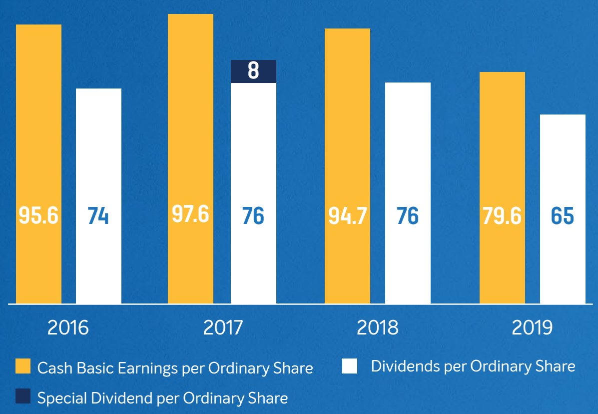
We are always looking for ways to evolve and improve our reporting. Please send your questions, comments or suggestions to our Investor Relations team at **InvestorRelations@boq.com.au**.

OUR 2019 PERFORMANCE

PROFIT RESULTS
($m)



EARNINGS & DIVIDENDS
(¢ per ordinary share)



2019 CASH EARNINGS AFTER TAX

$320m

↓14% from FY18

STATUTORY NET PROFIT AFTER TAX

$298m

↓11% from FY18

CASH BASIC EARNINGS PER ORDINARY SHARE
(¢ per share)

79.6¢

↓16% from FY18

DIVIDENDS PER ORDINARY SHARE
(¢ per share)

65¢

↓14% from FY18

NET INTEREST MARGIN

1.93%

Down 5bps from FY18

CASH COST TO INCOME RATIO

50.5%

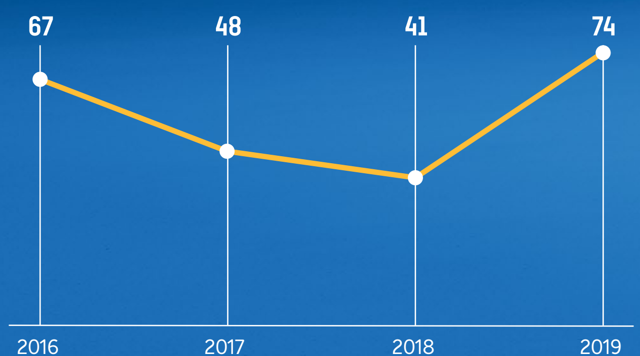
Up 300bps from FY18

CASH RETURN ON EQUITY

8.3%

Down 160bps from FY18

LOAN IMPAIRMENT EXPENSE ($m)



$74m

16bps of gross loans

CHAIRMAN'S REVIEW

Dear Shareholder

2019 has been a year of significant change for the banking industry and for BOQ. As we reported at our first half results, the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (**Royal Commission**) will have long lasting effects on the Australian financial services landscape. We have already started to see the impact of higher costs as a result of the increase in expectations from regulators and the community. Meanwhile, the sector has also faced challenges of an uncertain outlook for housing prices and credit growth and the lower for longer interest rate environment, including the recent move to a record low cash rate of 0.75%.

At BOQ, we have also seen changes in leadership throughout the year. Our former Managing Director & CEO Jon Sutton announced his resignation for health reasons in December 2018. We finalised plans for the Chairman succession in May 2019 with the announcement of Patrick Allaway as BOQ's next Chairman effective 18 October 2019, and announced the appointment of our new Managing Director & CEO, George Frazis in June 2019.

During this period of change, the business has continued to execute on a strategy of growing our niche business segments, while enhancing our technology platforms and processes to make it easier for our customers to deal with us through their channel of choice. We have also maintained our prudent risk settings and sought to further enhance our risk and compliance capability to meet rising stakeholder expectations.

A major achievement for the year has been the development and refinement of our purpose and values. Our purpose is to deliver more human, empathetic experiences that help customers and communities prosper. Our values are: we show we care; we act with integrity; we achieve together; and we make a difference. We believe that by living our purpose and values and helping customers and communities prosper, we will deliver on our financial performance objectives and deliver returns for shareholders.

In terms of our 2019 financial performance, our results have been below expectations and reflective of the difficult operating environment. Cash earnings after tax decreased 14 per cent from 2018 to $320 million and cash basic earnings per share decreased 16 per cent to 79.6 cents per share. Return on equity also decreased 160 basis points to 8.3 per cent. These reductions were driven by lower income, higher operating expenses and a large increase in loan impairment expense.

A two per cent contraction in income was the result of subdued asset growth, a five basis point reduction in net interest margin and a 12 per cent reduction in non-interest income. We achieved growth in lending balances of two per cent across the Group. This included strong growth of 15 per cent or $667 million in the asset finance and leasing businesses of BOQ Finance. The growth momentum continued in Virgin Money Australia and BOQ Specialist housing loans, with growth of $914 million and $626 million respectively. Our core BOQ housing loan portfolio, however, contracted during the year. This is attributable to a number of factors including a reduced distribution footprint, more onerous lending processes and digital customer offerings which lag our peers. We have plans in place to address these issues and anticipate improved performance from our Retail Bank in 2020.

The contraction in net interest margin was most pronounced in the first half of the year, due in part to the higher bank bill swap rate which normalised later in the year, as well as ongoing price competition for new business. The reduction in non-interest income was driven by ongoing downward pressure on fees and insurance income.

Operating expenses increased by four per cent which took our cost to income ratio to 50.5 per cent. We have continued to invest for the future by improving our technology, risk and compliance capability. As we flagged at the 2018 results and in the first half this year, the increased capitalised investment expenditure we have been incurring will lead to an increase in amortisation as these important foundational projects are completed. We continue to explore opportunities to offset this increase through digitation and automation of processes to improve efficiency.

Our underlying asset quality remains sound. Despite this, impaired assets increased 20 per cent from a very low level to $197 million. This represents 43 basis points of our total loan balances. Our loan impairment expense also increased substantially during the year, reflecting the move to a new collective provisioning model to align with new accounting standards, as well as the deterioration in a number of forward looking economic indicators and a small number of larger exposures. Arrears trends have increased slightly but remain at relatively low levels. We remain comfortable with the overall performance of the loan portfolio, with no systemic issues emerging and support from the recent stabilisation of house prices, low interest rates and low levels of unemployment.

BOQ's capital position remains appropriate with a Common Equity Tier 1 ratio (**CET1**) of 9.04 per cent. CET1 has reduced in recent years as we have reinvested in the future of the business and continued growth in higher capital-consumptive commercial lending segments.

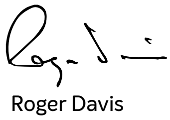
Given the challenging outlook, the dividend was reduced by 14 per cent, in line with the reduction in cash earnings, to 65 cents per share. We have taken a prudent approach which keeps the payout ratio consistent with the level of the first half.

An important milestone in 2019 has been the decision to proceed with additional investment in Virgin Money Australia to build a new digital bank. We are very excited about the prospects for this business given the recent success the brand has demonstrated in attracting customers across its other product lines. You will hear more about how this will contribute to BOQ's future through 2020.

We have also made considerable progress in the modernisation of our technology infrastructure, which has involved shifting our data centres to a cloud-based environment. This will deliver benefits in the future as we have better capacity to scale up, reduce cost, implement change and partner with external providers to deliver better solutions for our customers. We are also on track to rollout a more contemporary mobile banking offering to our customers in 2020. These are critical investments that will support our transformation and future aspirations.

Many challenges remain for BOQ, including changes in regulation, technology and customer behaviour, as well as the broader economic challenges facing the sector. However, there are good opportunities available for BOQ to capitalise on and again return to growth with a clear and focused strategy. I am confident that under Patrick and George's leadership, I am leaving the Bank in very good hands to do just this.

It has been a privilege to serve on the BOQ Board and as your Chairman. I would like to thank my colleagues on the Board, the management team and everyone at BOQ, our customers and you, our shareholders, for your ongoing support.



Roger Davis
Retiring Chairman

CHAIRMAN'S WELCOME

Dear Shareholder

I take on the role as Chair of BOQ effective from 18 October with appreciation of the considerable responsibility for the Board and management to deliver better outcomes for our stakeholders.

Our FY19 cash earnings after tax of $320 million represents a 14 per cent decline on last year. We are operating in a low growth environment with rising investment needs, regulatory costs and community expectations. Irrespective of the challenging operating environment, we are not satisfied with our performance. We recognise that BOQ needs to take decisive action to transform to a more sustainable business model with a clear strategy to return to growth whilst continuing to deliver our purpose of helping customers and communities prosper. We are confident that in transforming BOQ we can grow long term sustainable shareholder value.

At the half year we foreshadowed providing our strategy update later this calendar year. Whilst we are well into the process of our strategic review, we are now of the view that it would be prudent to defer this market update to February 2020. This will enable our new Chief Executive Officer, George Frazis, to optimise the strategy and conduct a productivity review to ensure we have a fit for purpose operating model aligned with our niche growth strategy.

In the interim, George, a seasoned banker with considerable leadership experience in transformation and digital innovation, has settled into his new role well. We are excited about the change he will lead at BOQ. The foreshadowed transformation strategy will focus on five high level priorities for BOQ:

1. Return to profitable and sustainable growth. We will continue to focus on niche growth segments, lift the performance of our Retail Bank and seek to optimise risk adjusted returns.
2. Embed our purpose led, customer culture. To achieve this we need to attract, develop and retain the right talent. We will invest in developing our people and building an inclusive and diversified workforce that respects and endorses BOQ as a great place to work.
3. Simplify our business, improve productivity and address costs. We will address our rising cost to income ratio through a structural productivity and operating model review, aimed at reducing complexity and adopting technology to drive efficiency.
4. Close the digital and data gap, delivering our mobile and Virgin Money Australia investments. We are committed to delighting our customers by providing a seamless end to end experience across all channels, including new internet and mobile banking platforms.
5. Continue to strengthen the Bank through strong governance, compliance and prudent risk management. We have more work to do in improving our non-financial risk governance and are investing in continuous improvement.

Looking ahead, the environment in banking and the broader global and local economy remains challenged. We anticipate that industry disruption will accelerate, requiring BOQ to transform to an agile challenger bank with a refocus of our retail strategy on targeted segments, as we have successfully achieved through our niche segment strategy in BOQ Business. This includes the rollout of Virgin Money Australia as a digital bank of the future in FY20, following a successful proof of concept earlier this year.

We recognise that our transformation will take time. The investments being made to make BOQ stronger will mean FY20 will be a difficult year. We anticipate a decline in year on year cash earnings in FY20, largely driven by low revenue growth, higher regulatory compliance costs and increased amortisation and operating expenses related to our increased investment in technology. Following the finalisation of our strategic and productivity review we will provide a further update to the market in relation to the impact of these initiatives on our FY20 performance. We will be transparent about our transformation when we outline our plans to the market in February 2020, providing clear benchmarks to monitor progress.

We recognise that many of our shareholders rely on dividends to support their income. We have paid a full year divided for FY19 of 65 cents per share, representing a payout ratio of 82 per cent. We will continue to factor the importance of dividends for shareholders into our future capital management plans as we invest in the business to return to profitable and sustainable growth.

We have announced that our outgoing Chair, Roger Davis, will be stepping down from the Board in October. In addition, David Willis will be stepping down at the AGM, providing for an orderly succession plan. I would like to thank Roger and David for their significant contribution to BOQ. During their tenure, BOQ has made a number of niche investments that have delivered strong growth for shareholders in specialty sectors providing a good foundation for our strategy to return the Group to growth. We will take this opportunity to both refresh and reduce the size of the Board. I would also like to thank Anthony Rose, our interim CEO, and Matt Baxby, our outgoing CFO, for their contribution to BOQ and wish them all the best in their future careers.

It is a great honour to be appointed Chair of BOQ and I relish the opportunity to be a change agent and harness the collective strength of the Board and the organisation to transform BOQ and to grow long term sustainable value uplift for all stakeholders.

Thank you for your continued support,

Patrick Allaway
Chairman Elect

INTRODUCTION TO THE MANAGING DIRECTOR & CEO

Dear Shareholder

I am delighted to join Bank of Queensland as CEO, at a time of evolution and change for BOQ and the banking sector as a whole. I have been in banking for 18 years and am passionate about the important role it plays in our society.

What excites me most about leading BOQ is the genuine love our people have for BOQ and our customers, along with the opportunity to build an organisation that is innovative and makes banking easy for our customers. My experience has taught me that building strong relationships with our customers begins with our people – our purpose, values, culture and the way we go about our business.

In the recent past BOQ has not lived up to its full potential and has underperformed for its key stakeholders, including our shareholders. However, let me assure you, I am very focused on delivering sustainable and profitable growth and improved shareholder returns.

Our success will come from a clear vision for growth coupled with inclusive leadership that harnesses the diverse skills of all of our team. But achieving this will take time – 2020 will be another tough year of transition. There are challenges ahead, however, fundamentally, BOQ is a good business. Our capital is well positioned for unquestionably strong, we have a good funding position and our underlying asset quality is sound. A strong balance sheet will be a focus.

We have good opportunities to differentiate and profitably grow. This is evidenced by the success of Virgin Money Australia and our niche business segments which have developed clear customer propositions that are differentiated in the market.

My high level priorities are:

1. return to profitable and sustainable growth;
2. embed our purpose led, customer culture;
3. simplify our business, improve productivity and address costs;
4. close the digital and data gap, delivering our mobile and Virgin Money Australia investments; and
5. continue to strengthen the Bank.

I would like to thank our outgoing Chairman Roger Davis and congratulate our incoming Chairman Patrick Allaway. I will be working closely with the Board on my strategic review of the business and look forward to updating you on the outcomes early in the coming year.

Thank you for your support.

George Frazis
Managing Director and CEO

2019 DIRECTORS' REPORT

DIRECTORS' REPORT

For the year ended 31 August 2019

The Directors present their report together with the financial report of Bank of Queensland Limited (**the Bank** or **BOQ**) and of the Consolidated Entity (or **the Group**), being the Bank and its controlled entities, for the year ended 31 August 2019 and the independent auditor's report thereon.

DIRECTORS' DETAILS

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

Name, qualifications and independence status	Experience, special responsibilities and other Directorships
ROGER DAVIS *B.Econ. (Hons), Master of Philosophy* Retiring Chairman Non-Executive Independent Director	Mr Davis was appointed Chair of BOQ on 28 May 2013 and has been a Non-Executive Director since August 2008. He has over 30 years' experience in banking and investment banking in Australia, the US and Japan. He was previously a Managing Director at Citigroup where he worked for over 20 years and more recently was a Group Managing Director at ANZ Bank. Mr Davis is currently Chair of AIG Australia Limited and Charter Hall Retail Management Limited, a Non-Executive Director of Argo Investments Limited and was formerly a Non-Executive Director of Aristocrat Leisure Ltd, Ardent Leisure Group, Ardent Leisure Management Ltd and Ardent Leisure Ltd. Mr Davis has a Bachelor of Economics (Hons) degree from the University of Sydney and a Master of Philosophy degree from Oxford. Mr Davis is Chair of the Investment Committee and Nomination & Governance Committee, a member of each of the Audit and Risk Committees, and an attendee at all other Board Committees.
PATRICK ALLAWAY *BA/LLB* Chairman Elect Non-Executive Independent Director (commencing as Chairman on 18 October 2019)	Mr Allaway was appointed as a Non-Executive Director of the Bank in May 2019. Mr Allaway has extensive senior executive, non-executive, and corporate advisory experience across the financial services, property, media and retail sectors. Mr. Allaway's executive career was in financial services with Citibank and Swiss Bank Corporation (now UBS) working in Sydney, New York, Zurich and London. Mr. Allaway was Managing Director SBC Capital Markets & Treasury with direct responsibility for a global business operating in 16 countries. Mr Allaway brings over 30 years' experience in financial services across financial markets, capital markets, and corporate advisory. This included an advisory role in the media sector, responding to considerable digital disruption. Mr Allaway has over 15 years' Non-Executive Director experience and was formerly a Non-Executive Director of Macquarie Goodman Industrial Trust, Metcash Limited, Fairfax Media, Woolworths South Africa, David Jones, and Country Road Group. Mr Allaway Chaired the Audit & Risk Committees for Metcash, David Jones, and Country Road Group. Mr Allaway is currently a non-executive Director of Nine Entertainment Co and Domain Limited. He is also a member of the Information Technology Committee and Human Resources & Remuneration Committee at BOQ.
BRUCE CARTER *B Econ, MBA, FAICD, FICA* Non-Executive Independent Director	Mr Carter was appointed as a Non-Executive Director of BOQ on 27 February 2014. Mr Carter was a founding Managing Partner of Ferrier Hodgson South Australia, a corporate advisory and restructuring business, and has worked across a number of industries and sectors in the public and private sectors. He has been involved with a number of state government-appointed restructures and reviews including chairing a task force to oversee the government's involvement in major resource and mining infrastructure projects. Mr Carter had a central role in a number of key government economic papers including the Economic Statement on South Australian Prospects for Growth, the Sustainable Budget Commission, and the Prime Minister's 2012 GST Distribution Review. Mr Carter has worked with all the major financial institutions in Australia. Before Ferrier Hodgson, Mr Carter was at Ernst & Young for 14 years including four years as Partner in Adelaide. During his time at Ernst & Young, he worked across the London, Hong Kong, Toronto and New York offices. Mr Carter is the Chair of Australian Submarine Corporation and Aventus Capital Limited, Deputy Chair of SkyCity Entertainment Group Limited and a Non-Executive Director of Eudunda Farmers Ltd and Genesee & Wyoming Inc. Mr Carter is Chair of the Risk Committee and a member of the Audit Committee, Information Technology Committee, Investment Committee and the Nomination & Governance Committee.

DIRECTORS' REPORT

For the year ended 31 August 2019

Name, qualifications and independence status	Experience, special responsibilities and other Directorships
RICHARD HAIRE *B.Ec, FAICD* Non-Executive Independent Director	Mr Haire was appointed as a Non-Executive Director of BOQ on 18 April 2012. Mr Haire has more than 29 years' experience in the international cotton and agribusiness industry, including 27 years in agricultural commodity trading and banking. He is Chair of the Cotton Research and Development Corporation, Reef Corporate Services Limited and Endeavour Foundation. He also serves as a Non-Executive Director of BEC Stockfeed Solutions Pty Ltd. Mr Haire was formerly a Director of Open Country Dairy (NZ) and New Zealand Farming Systems Uruguay. Mr Haire is a member of each of the Risk, Human Resources & Remuneration and Information Technology Committees.
JOHN LORIMER *B Com* Non-Executive Independent Director	Mr Lorimer was appointed as a Non-Executive Director of BOQ on 29 January 2016. Mr Lorimer has spent more than 30 years in financial services and held executive roles in Australia, Asia and Europe. Mr Lorimer's most recent executive roles were in the United Kingdom where he was Group Head of Finance and then Group Head of Regulatory Risk and Compliance for Standard Chartered Bank. He also held a number of management positions in the retail bank of Citigroup and served as the Chairman of CAF Bank Limited (a subsidiary of Charities Aid Foundation based in the United Kingdom). He is Chair of Bupa Asia Ltd (HK) Ltd, and a Non-Executive Director of Bupa Australia Pty Ltd, Bupa Aged Care Holdings Pty Ltd and Aberdeen New Dawn Investment Trust plc. Mr Lorimer is a member of the Information Technology and Risk Committees.
WARWICK NEGUS *B Bus, M Com, SF Fin* Non-Executive Independent Director	Mr Negus was appointed as a Non-Executive Director of BOQ on 22 September 2016. Mr Negus brings more than 30 years' of finance industry experience in Asia, Europe and Australia. His most recent executive roles include Chief Executive Officer of 452 Capital, Chief Executive Officer of Colonial First State Global Asset Management and Goldman Sachs Managing Director in Australia, London and Singapore. He was also a Vice President of Bankers Trust Australia and a Director of the University of NSW (UNSW) Foundation and FINSIA. Mr Negus is Chair of Pengana Capital Group and URB Investments Limited and a Non-Executive Director of Washington H Soul Pattinson & Co Ltd, Virgin Australia Holdings Limited and Terrace Tower Group. He is a member of the Council of UNSW and Chair of UNSW Global Limited. Mr Negus is a member of the Audit Committee, Human Resources & Remuneration Committee and Investment Committee.
KAREN PENROSE *B Com, CPA, FAICD* Non-Executive Independent Director	Ms Penrose was appointed as a Non-Executive Director of BOQ on 26 November 2015. Ms Penrose has been a full-time director since 2014. Her executive career was in leadership and CFO roles, mainly in financial services. She is passionate about customer outcomes, financial management and well-versed in operating in a rapidly changing regulatory environment, which stems from her 20 years in banking with Commonwealth Bank of Australia and HSBC and eight years to early 2014 as a listed-company CFO and COO. Ms Penrose is a Non-Executive Director of Vicinity Centres Limited, Spark Infrastructure Group and Estia Health Limited. Ms Penrose was formerly a Non-Executive Director of AWE Limited, Landcom and Future Generation Global Investment Company Limited. She is a member of Chief Executive Women. Ms Penrose is Chair of the Audit Committee and is a member of each of the Human Resources & Remuneration, Risk and Investment Committees.
MICHELLE TREDENICK *B Sc, FAICD, F Fin* Non-Executive Independent Director	Ms Tredenick was appointed a Non-Executive Director of BOQ in February 2011. Ms Tredenick is an experienced company director and corporate advisor with over 30 years' experience in leading Australian businesses. Ms Tredenick is currently a Non-Executive Director of Insurance Australia Group Limited (IAG), Cricket Australia and Urbis Pty Ltd. She is a member of the Senate of the University of Queensland (UQ) as well as sitting on the board of the Ethics Centre. Ms Tredenick has previously held executive roles and been a member of the Executive Committee at National Australia Bank, MLC and Suncorp. Her experience includes holding the position of Chief Information Officer with each of these companies as well as Head of Strategy and Marketing and divisional profit and loss roles in Corporate Superannuation, Insurance and Funds Management. Ms Tredenick is Chair of the Information Technology Committee, and is a member of each of the Human Resources & Remuneration, Risk and Nomination & Governance Committees.

DIRECTORS' REPORT

For the year ended 31 August 2019

Name, qualifications and independence status	Experience, special responsibilities and other Directorships
DAVID WILLIS *B Com, ACA, ICA* Non-Executive Independent Director	Mr Willis was appointed as a Non-Executive Director of BOQ in February 2010. Mr Willis has over 35 years' experience in financial services in the Asia Pacific, the UK and the USA. He is a qualified Accountant in Australia and New Zealand and has had 26 years' experience working with Australian and foreign banks. Mr Willis is the founder of Sydney-based Charity "The Horizons Program". Mr Willis is Chair of the Human Resources & Remuneration Committee, and is a member of each of the Audit and the Nomination & Governance Committees. He is also a Non-Executive Director of BOQ's insurance subsidiaries, St Andrew's Australia Services Pty Ltd, St Andrew's Life Insurance Pty Ltd and St Andrew's Insurance (Australia) Pty Ltd.
KATHLEEN BAILEY-LORD *BA (Hons), MAMP, FAICD* Non-Executive Independent Director	Ms Bailey-Lord was appointed as a Non-Executive Director of BOQ in May 2019. Ms Bailey-Lord is an experienced company director and corporate advisor. Ms Bailey-Lord is currently a Non-Executive Director of QBE Insurance (AUSPAC), Melbourne Water and Monash College. Ms Bailey-Lord has 20 years of senior executive experience across Australia, New Zealand and Asia. Ms Bailey-Lord has led businesses through complex and transformational change, often leveraging digital solutions to enable new business models. Ms Bailey-Lord's experience spans the technology industry at IBM, financial services at ANZ Bank, professional services and marketing/media. Ms Bailey-Lord sits on the AICD Victorian Council and the AICD Technology, Governance and Innovation Panel (pro bono roles). She is a member of Chief Executive Women. Ms Bailey-Lord is a member of the Information Technology Committee and Human Resources & Remuneration Committee.
GEORGE FRAZIS *B. Eng (Hons), MBA* *Managing Director & CEO* Executive Director	Mr Frazis was appointed as Managing Director & CEO of the Bank on 5 September 2019. Mr Frazis has 26 years' corporate experience, the past 17 years in Banking and Finance. Most recently, he was Chief Executive of Westpac Group's Consumer Bank responsible for managing the end to end relationship with consumer customers. Prior to that Mr Frazis was Chief Executive Officer, St. George Banking Group and Chief Executive, Westpac New Zealand Limited and has also been Group Executive General Manager at National Australia Bank. Mr Frazis has held senior executive roles in Commonwealth Bank of Australia's Institutional and Business Banking Divisions as well as Air New Zealand. He has also been a partner with the Boston Consulting Group and an officer in the Royal Australian Air Force.
JON SUTTON *Managing Director & CEO* Executive Director (resigned 5 December 2018)	Mr Sutton was appointed Managing Director & CEO in January 2015 following four months as our Acting Chief Executive Officer. Mr Sutton originally joined BOQ in July 2012 as our Chief Operating Officer. Mr Sutton has more than 20 years' experience in banking and prior to BOQ was the Managing Director of Bankwest. Before that, as Executive General Manager of Commonwealth Bank Agribusiness (CBA), he was central to the establishment of CBA's agribusiness segment which grew strongly under his guidance and leadership. Prior to this, Mr Sutton was General Manager of Client Risk Solutions at CBA, responsible for marketing derivative products including interest rates, commodities and foreign exchange. He was also Head of Resources and Agribusiness and Head of Corporate Risk Management Commodities, charged with marketing and commodity hedging products to Australian institutions within the base metals, precious metals and energy sectors.

DIRECTORS' REPORT

For the year ended 31 August 2019

COMPANY SECRETARIES

VICKI CLARKSON

BA/LLB (Hons), FGIA, FCIS, GAICD

Ms Clarkson joined BOQ on 3 April 2017. Ms Clarkson commenced her career as a corporate lawyer at Blake Dawson Waldron (now Ashurst) before joining Clayton Utz. Prior to her role as BOQ's GM Corporate Governance & Head of Secretariat, Ms Clarkson held senior legal and governance roles in ASX listed entities including Aurizon Holdings Limited, Flight Centre Limited and Shine Corporate Ltd. Ms Clarkson is an active member and Deputy Chair of the Queensland State Council of the Governance Institute of Australia.

FIONA DALY

LLB, LLM, AGIA, ACIS, MAICD

Ms Daly joined BOQ in October 2018 and was appointed joint company secretary on 30 April 2019. Ms Daly commenced her career as a corporate lawyer at Phillips Fox (now DLA Piper) before joining Allens. Prior to working for BOQ, Ms Daly held senior legal and regulatory roles including as senior legal counsel, global regulatory affairs manager and joint company secretary at Energy Developments, an international energy company.

DIRECTORS' MEETINGS

The number of meetings of the Bank's Directors (including meetings of Committees of Directors) and the number of meetings attended by each Director during the financial year were:

	Board of Directors		Board of Directors – St Andrews		Risk Committee		Audit Committee		Nomination & Governance Committee		Human Resources & Remuneration Committee – BOQ & St Andrews		Information Technology Committee		Investment Committee	
	A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B
Roger Davis [(1)]	12	13	–	–	7	7	6	8	2	2	–	–	–	–	2	2
Jon Sutton [(2)]	2	2	3	3	–	–	–	–	–	–	–	–	–	–	–	1
Warwick Negus	13	13	–	–	–	–	7	8	–	–	7	7	–	–	2	2
Bruce Carter	13	13	–	–	7	7	8	8	2	2	–	–	6	6	2	2
Richard Haire	13	13	–	–	7	7	3	3	–	–	7	7	6	6	–	–
John Lorimer	13	13	–	–	7	7	–	–	–	–	–	–	6	6	–	–
Karen Penrose	13	13	–	–	5	5	8	8	–	–	6	7	–	–	1	1
Michelle Tredenick	13	13	–	–	7	7	–	–	2	2	6	7	6	6	–	–
David Willis [(3)]	13	13	7	7	2	2	5	5	2	2	7	7	–	–	–	–
Patrick Allaway [(4)]	4	4	–	–	–	–	–	–	–	–	1	1	1	1	–	–
Kathleen Bailey-Lord [(5)]	4	4	–	–	–	–	–	–	–	–	–	–	3	3	–	–
Total number of meetings held	13		7		7		8		2		7		6		2	

A – Number of meetings attended

B – Number of meetings held during the time the director was a member of the Board/Committee during the year.

(1) Roger Davis is Chair of the Nomination & Governance Committee, a member of each of the Audit Committee and Risk Committees, and an attendee at all other Board Committees,

(2) Jon Sutton was also a member of St Andrew's Audit Committee and Risk Committee. Additionally, Mr Sutton was invited by the Board to attend the Risk Committee, Audit Committee, Human Resources & Remuneration Committee, Investment Committee and Information Technology Committee meetings (or part thereof). Mr Sutton resigned on 5 December 2018.

(3) David Willis is also a member of the St Andrew's Audit Committee and Risk Committee.

(4) Patrick Allaway joined the Board on 1 May 2019 and the Information Technology Committee and Human Resources & Remuneration Committee on 1 July 2019.

(5) Kathleen Bailey-Lord joined the Board and Information Technology Committee on 1 May 2019.

2019 Corporate Governance Statement

BOQ's governance arrangements and practices are set out in our Corporate Governance Statement. BOQ must also comply with its constitution, the *Corporations Act 2001* (Cth), the ASX Listing Rules, the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (3rd Edition) (**ASX Principles**), the *Banking Act 1959* (Cth), including Part IIAA of the Banking Executive Accountability Regime (**BEAR**) amongst other laws, and, as an Authorised Deposit-taking Institution, with governance requirements prescribed by APRA under Prudential Standard CPS 510 *Governance*.

Information about BOQ's Board and management, corporate governance policies and practices and Enterprise Risk Management Framework can be found in the 2019 Corporate Governance Statement available at: *http://www.boq.com.au/aboutus_corporate_governance.htm*

DIRECTORS' REPORT

For the year ended 31 August 2019

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DIRECTORS' REPORT

For the year ended 31 August 2019

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 5.1 *Reconciliation of statutory profit to cash earnings* of the *Appendices* for a reconciliation of cash earnings to statutory net profit after tax.

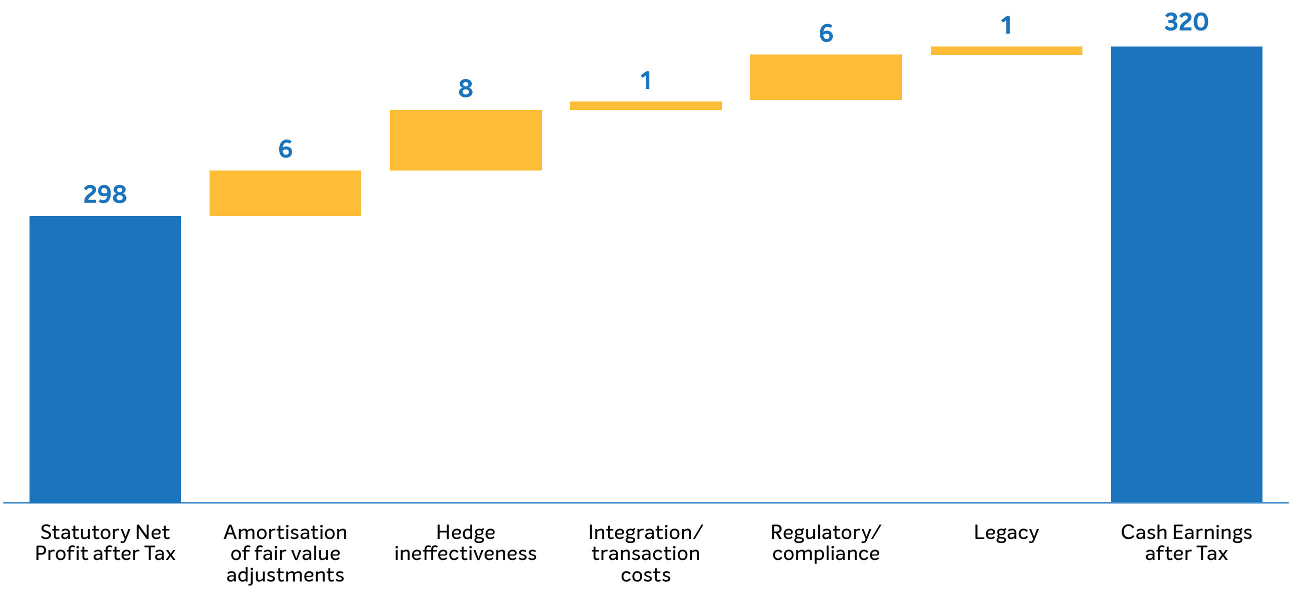
Refer to the Reconciliation of statutory profit to cash earnings chart below. The main exclusions relate to:

- 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)

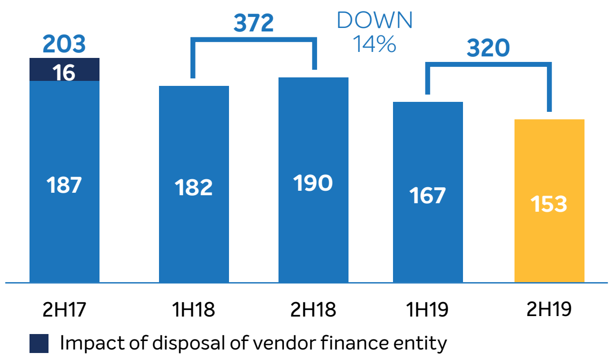


DIRECTORS' REPORT

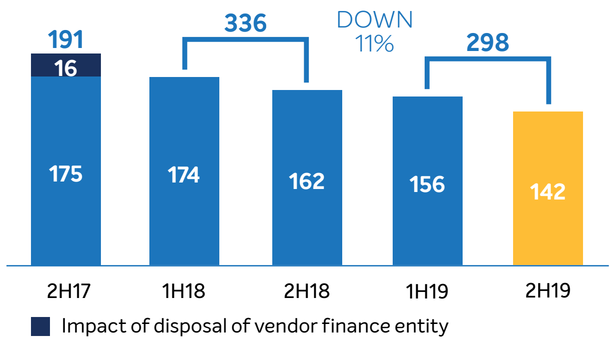
For the year ended 31 August 2019

1.2 GROUP HIGHLIGHTS

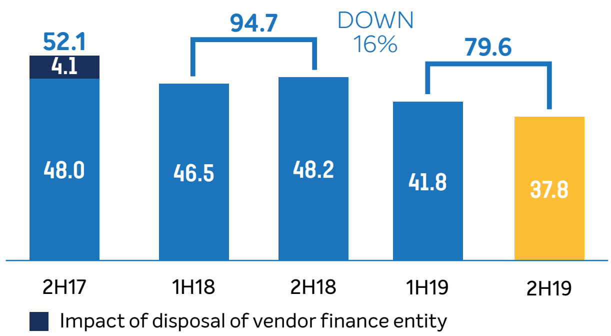
Cash earnings after tax ($m)



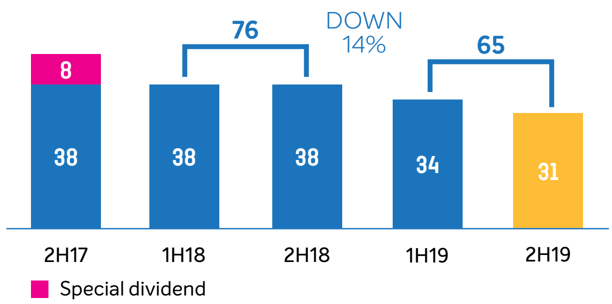
Statutory profit after tax ($m)



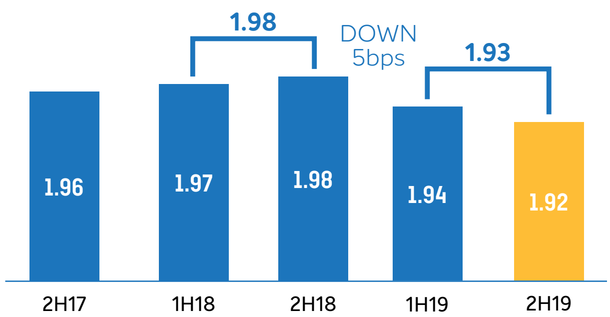
Cash basic earnings per share (**EPS**) (cents)



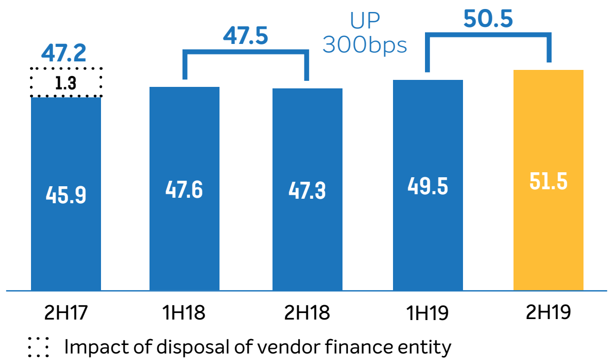
Dividends per ordinary share (cents)



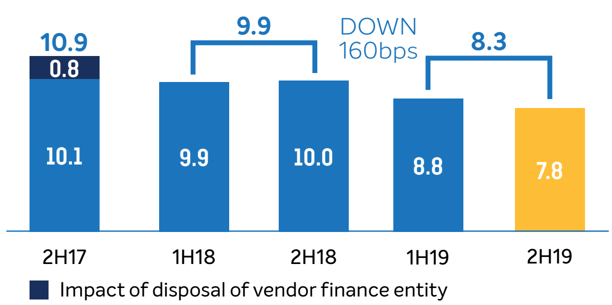
Cash net interest margin (**NIM**) (%)



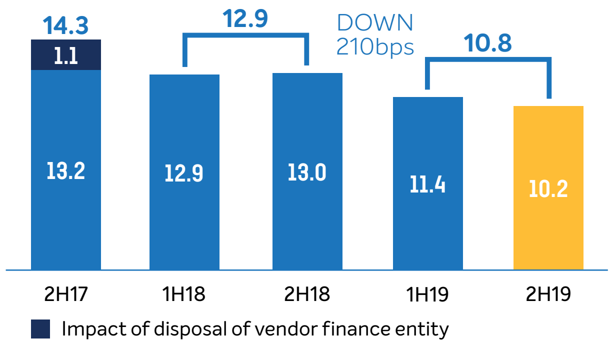
Cash cost to income (**CTI**) (%)



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



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



DIRECTORS' REPORT

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.

DIRECTORS' REPORT

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.

DIRECTORS' REPORT

For the year ended 31 August 2019

1.4 RISK AND REGULATORY DEVELOPMENTS

The financial services industry continues to face heavy scrutiny from the Federal Government, regulators, investors and consumers. In recent years, a significant number of regulatory consultations, inquiries and industry reviews led to a number of changes that could impact BOQ. A summary of the key areas of reform and areas of increased risk focus are outlined below.

REGULATORY DEVELOPMENTS

Anti-Money Laundering and Counter Terrorism Financing Act 2006 Compliance

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

As noted in the Directors Report for the half year ended 28 February 2019, following this scheduled on-site review, the Bank received a Compliance Assessment Report from AUSTRAC on 21 December 2018 (**Report**). The Report identified potential compliance contraventions of the *Anti-Money Laundering and Counter Terrorism Financing Act 2006* (Cth). Since receipt of the Report, the Bank has continued to consult and update AUSTRAC about the significant progress that has been made to investigate and address the issues identified in the Report. In addition, the Bank has continued to strengthen its AML/CTF Program. This work involves additional investment in prevention mechanisms, ensuring an effective and efficient control environment, and uplifting compliance capability.

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

Unfair contracts

In November 2016, the Bank implemented new terms and conditions for its small business customers in response to the introduction of unfair contract terms legislation by the Federal government. Notwithstanding the measures taken by the Bank, on 4 September 2019, the Australian Securities and Investments Commission (**ASIC**) commenced proceedings alleging that certain terms in the Bank's small business contracts were nevertheless unfair contract terms in breach of the ASIC Act.

Both prior to and following the issue of proceedings, the Bank has sought to engage with ASIC at all times in a constructive manner to achieve a resolution of this issue. As part of that process, the Bank has pro-actively volunteered to carry out a review of all small business lending contracts entered into on or after November 2016 with a view to identifying if there are any instances where the Bank has relied upon or enforced one or more of the terms (alleged by ASIC to be unfair) in a manner which is adverse to the customer's interests. While the Bank's review is ongoing, it currently believes that very few, if any, customers have been adversely affected by the alleged unfair contract terms.

While any question of liability for compensation for any affected customer would turn, in part, on whether ASIC is correct in any of its assertions made in the proceedings, on any likely scenario the potential total compensation payable to customers will be very limited, if not zero, even if any terms are determined to be unfair contract terms within the meaning of the Act. The Bank continues to communicate with ASIC regarding the proceedings.

In the meantime, the Bank has also commenced a further review of its small business contract terms and conditions. This project involves additional investment in reviewing various suites of standard terms applicable to relevant Bank contracts. Consistent with the Bank's long history of working co-operatively with regulators and law enforcement agencies, the Bank will continue to monitor compliance with the ASIC Act and its unfair contract terms provisions, and seek to continue to work constructively with ASIC.

Meeting revised regulatory reporting requirements

The economic and financial statistics (**EFS**) collection – previously the Domestic Books collection – is a series of reporting requirements administered on behalf of the Australian Bureau of Statistics (**ABS**) and the Reserve Bank of Australia (**RBA**) (collectively, the Agencies) by APRA. The collection focuses on the Australian (domestic) operations and activities of authorised deposit-taking institutions (**ADIs**) and Registered Financial Corporations (**RFCs**).

The EFS collection is being introduced in three phases progressively over late FY19 and FY20.

The EFS collection materially increased the quantity of data required from ADIs and RFCs, and has resulted in heightened scrutiny regarding the quality and governance supporting the relevant data.

The Bank is committed to meeting its regulatory reporting requirements. In relation to EFS, this has created challenges given data requirements, complexity of origination systems and the need for additional controls. A material program of work has been prioritised to raise the standards of data quality and data governance to support the Bank's ability to provide timely and accurate EFS data to APRA on behalf of the Agencies. The Bank acknowledges the priority of this work and will continue to work closely with APRA and other Agencies.

Consumer Credit Insurance

Regulatory and community expectations continue to impact the insurance sector, particularly consumer credit insurance. In response to the release of ASIC's *Report 622* relating to consumer credit insurance, St Andrew's has made the decision to cease sale of consumer credit insurance.

Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry

The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry was established on 14 December 2017 and conducted through 2018 and 2019. The Commissioner, the Honourable Kenneth Madison Hayne AC QC, submitted an Interim Report to the Governor-General on 28 September 2018 which was tabled in Parliament on 28 September 2018. The final report was submitted to the Governor-General on 1 February 2019 and it tabled in Parliament on 4 February 2019. In response, the Government announced that it was taking action on all 76 recommendations contained within the Commission's Final Report and in a number of important areas is going further.

DIRECTORS' REPORT

For the year ended 31 August 2019

1.4 RISK AND REGULATORY DEVELOPMENTS (CONTINUED)

The Government said its response would address the issues identified by the Royal Commission and substantially build on the Government's existing agenda by:

- strengthening protections for consumers, small businesses and rural and regional communities;
- enhancing accountability;
- ensuring strong and effective financial system regulators; and
- further improving consumer and small business access to redress.

In undertaking these reforms, the Government stated it would ensure that the financial system continued to provide consumers and small businesses with access to credit and other affordable financial services that they need, and that the financial system remains competitive, efficient and resilient.

To ensure these reforms are implemented efficiently and effectively, the Government stated that the Treasury Royal Commission Taskforce will continue as a Financial Services Reform Implementation Taskforce. To ensure ongoing coordinated delivery of reforms, a Financial Services Reform Implementation Committee was also established consisting of the Treasury, ASIC, APRA, the Office of the Parliamentary Counsel and other agencies as required.

Starting in three years, the Government will establish an independent inquiry to review and assess whether industry practices have changed following the Royal Commission and have led to better consumer outcomes. The Government will also require a similar assessment of the regulators in three years by a new regulator oversight body that the Government has agreed to establish.

A number of the recommendations made by the Royal Commission, and the subsequent response from the Government and regulators, have and will impact BOQ as reforms continue to be implemented in the years ahead. BOQ is committed to meeting its regulatory and compliance obligations and will implement changes as required to comply with regulatory changes emanating from the Royal Commission and the Government's response.

APRA self-assessments

In June 2018, APRA wrote to the boards of 36 authorised deposit-taking institutions, insurers and superannuation licensees, including Bank of Queensland, requesting a written self-assessment of the effectiveness of governance, accountability and culture in their institution. The request followed the release of the Final Report of the Prudential Inquiry into the Commonwealth Bank of Australia.

Across the industries, four themes emerged:

- non-financial risk management requires improvement;
- accountabilities are not always clear, cascaded and effectively enforced;
- acknowledged weaknesses are well-known and some have been long-standing; and
- risk culture is not well understood, and therefore may not be reinforcing the desired behaviours.

BOQ continues to evolve and mature its capability to manage non-financial risks in order to deliver sustainable improvement in risk management practices. BOQ will be undertaking an on-site review with APRA in the near term.

Banking Executive Accountability Regime

As part of the 2017-18 Budget, the Federal Government announced that it would legislate to introduce a new Banking Executive Accountability Regime (**BEAR**). The intention of BEAR is to enhance the responsibility and accountability of banks and their directors and senior executives.

The Treasury Laws Amendment (Banking Executive Accountability and Related Measures) Bill 2017 (Cth) passed through Federal Parliament on 7 February 2018 and received its Royal Assent on 20 February 2018. Large financial institutions needed to comply with the regime on 1 July 2018, with a deferral period for commencement of the variable remuneration requirements to 1 January 2019. Small and medium sized ADIs (which includes BOQ) needed to comply with BEAR from 1 July 2019.

Parliamentary Joint Committee on Corporations and Financial Services – Operation and effectiveness of the Franchising Code of Conduct

On 22 March 2018, the Senate referred an inquiry into the operation and effectiveness of the Franchising Code of Conduct to the Parliamentary Joint Committee for report by 30 September 2018. The Committee's report was released in March 2019 and, in response, the Government has established an inter-agency Franchising Taskforce to examine the feasibility and implementation of recommendations in the report. The Taskforce will provide advice to the Minister for Employment, Skills, Small and Family Business and the Assistant Treasurer in the second half of 2019, which will inform the Government's response to the Committee's report. The response will provide an achievable plan for the reform of the franchising framework that is fair, effective and accountable for franchisors and franchisees while avoiding unnecessary regulatory burden. BOQ will continue to engage cooperatively with the Government when the response is released.

Australian Financial Complaints Authority (AFCA)

On 1 May 2018, the Government announced the authorisation of Australian Financial Complaints Limited to operate AFCA, and members of the inaugural AFCA Board. AFCA has become the one-stop shop external dispute resolution (**EDR**) body for disputes arising in the financial sector. The objective of AFCA is to provide free, fast and binding dispute resolution for consumers and small businesses and to increase transparency of dispute resolution practices by enabling ASIC to publish banks' internal dispute resolution data. AFCA commenced accepting complaints from 1 November 2018. Any existing FOS disputes continued to be dealt with under the previous FOS terms of reference until resolved.

Earlier this year, the Government approved amendments to the AFCA Rules which allows AFCA to accept eligible complaints about conduct that occurred on or after 1 January 2008. This change took effect from 1 July 2019, and customers will be able to raise these complaints with AFCA until 30 June 2020.

DIRECTORS' REPORT

For the year ended 31 August 2019

1.4 RISK AND REGULATORY DEVELOPMENTS (CONTINUED)

New Banking Code of Practice

The new Banking Code of Practice took effect from 1 July 2019. The Banking Code is enforceable as part of a customer's contract with their bank. This is a strong commitment to ethical and transparent behaviour, responsible lending and greater financial protections for customers.

New additions to the Banking Code include:

- More information about changes to customers' accounts and greater assistance to vulnerable customers;
- Simplified small business loan contracts with fewer conditions for more than 92 per cent of businesses;
- New cooling off periods for guarantors; and
- An independent compliance committee with specific small business and agribusiness expertise to investigate breaches of the Banking Code.

The recommendations from the Royal Commission include six proposed further changes to the Banking Code. Amendments to the Code covering five of these changes have been drafted and submitted to the regulators for approval. These changes are due to be implemented by March 2020.

Consumer Data Right Bill and Open Banking

From 2017 to 2018, the Government consulted on exposure draft legislation to implement the Consumer Data Right (**CDR**). The CDR will provide individuals and businesses with a right to efficiently and conveniently access specified data in relation to them held by business; and authorise secure access to this data by trusted and accredited third parties. The CDR will also require businesses (like BOQ) to provide public access to information on specified products they have on offer.

CDR is designed to give customers more control over their information, leading to more choice in where they take their business, or more convenience in managing their money. The Government has committed to applying the CDR in the banking, energy and telecommunications sector. For the banking sector, this is referred to as "Open Banking" and will be the first sector to apply the CDR.

The CDR is intended to reduce the barriers that currently prevent customers from switching between banks. Banks will be required to provide open access to data on product terms and conditions, transaction use, and will have the ability to direct that their data be shared with other service providers (banks and non-banks).

On 9 May 2018, the Government agreed to the recommendations of the Review into Open Banking, both for the framework of the overarching CDR and for the application of the right to Open Banking. The CDR bill passed Parliament on 1 August 2019. The CDR rules for banking (or Open Banking) were published by the ACCC on 2 September 2019, providing increased detail on the rules for Open Banking and a refined approach to phasing. The first important compliance milestone for major banks is 1 February 2020, where they will need to be able to share consumer data with accredited persons on transactional accounts, with loan account data required by 1 July 2020. All remaining banks (including BOQ) will be required to comply with CDR rules with a 12-month delay from when majors must comply.

Introduction of the Modern Slavery Act

On 28 June 2018, the Government introduced the Modern Slavery Bill 2018. This Bill requires certain organisations based in, or operating in Australia, which have an annual consolidated revenue of more than $100 million (defined as 'reporting entities'), to annually report on the risks of modern slavery in their operations and supply chains, and to address those risks. The annual statements will need to address mandatory criteria set out in the Bill, including the entity's key modern slavery risks and describing their actions to address those risks. These criteria will provide certainty for business about how to report and ensure statements can be easily compared.

The Modern Slavery Act was passed by Parliament on 29 November 2018 and the reporting requirement entered into force on 1 January 2019. BOQ will submit its first Modern Slavery Statement to the Minister of Home Affairs within six months after the end of BOQ's FY20 reporting period (by the end of February 2021).

APRA's proposed revisions to the capital framework for ADIs

On 14 February 2018, APRA released two discussion papers for consultation with ADIs on proposed revisions to the capital framework. The papers include proposed revisions to the capital framework resulting from the Basel Committee finalising the Basel III reforms in December 2017, as well as other changes to better align the framework to risks, including in relation to housing lending. APRA also released a discussion paper on implementation of a leverage ratio requirement. APRA stated that it is not seeking to increase capital requirements beyond what was already announced in July 2017 as part of the 'unquestionably strong' benchmarks. The key proposed changes to the capital framework include:

- lower risk weights for low LVR mortgage loans, and higher risk weights for interest-only loans and loans for investment purposes, than apply under APRA's current framework;
- amendments to the treatment of exposures to small-to medium-sized enterprises (**SME**), including those secured by residential property under the standardised and IRB approaches;
- constraints on IRB ADIs' use of their own parameter estimates for particular exposures, and an overall floor on risk weighted assets relative to the standardised approach; and
- a single replacement methodology for the current advanced and standardised approaches to operational risk.

On 7 June 2019, APRA released its response to the first round of consultation on proposed changes to the capital framework for ADIs. APRA is proposing to revise some of its initial proposals, including:

- for residential mortgages, some narrowing in the capital difference that applies to lower risk owner-occupied, principal-and-interest mortgages and all other mortgages;
- more granular risk weight buckets and the recognition of additional types of collateral for SME lending, as recommended by the Productivity Commission in its report on Competition in the Financial System; and
- lower risk weights for credit cards and personal loans secured by vehicles.

DIRECTORS' REPORT

For the year ended 31 August 2019

1.4 RISK AND REGULATORY DEVELOPMENTS (CONTINUED)

APRA's consultation on the revisions to the ADI capital framework is a multi-year project. APRA expects to conduct one further round of consultation on the draft prudential standards for credit risk prior to their finalisation. It is intended that they will come into effect from 1 January 2022, in line with the Basel Committee on Banking Supervision's internationally agreed implementation date. An exception is the operational risk capital proposals for ADIs that currently use advanced models: APRA is proposing these new requirements be implemented from the earlier date of 1 January 2021.

APRA's consultation on increasing the loss-absorbing capacity of authorised deposit-taking institutions

On 8 November 2018, APRA released a discussion paper outlining its proposed changes to the application of the capital adequacy framework for authorised deposit-taking institutions (**ADIs**) to support orderly resolution in the unlikely event of failure. On 8 July 2019, APRA released its response to submissions on proposed changes. For small to medium ADIs, APRA stated that extra loss-absorbing capacity would be considered on a case-by-case basis as part of the resolution planning process.

APRA's amendments to guidance on residential mortgage lending

On 4 July 2019, APRA announced that it would proceed with proposed changes to its guidance on the serviceability assessments that ADIs perform on residential mortgage applications. APRA confirmed its updated guidance on residential mortgage lending would no longer expect ADIs to assess home loan applications using a minimum interest rate of at least 7 per cent. Instead, ADIs will be able to review and set their own minimum interest rate floor for use in serviceability assessments and utilise a revised interest rate buffer of at least 2.5 per cent over the loan's interest rate.

KEY BUSINESS RISKS AND AREAS OF INCREASED RISK FOCUS

The following business risks are considered to be key risks to BOQ's performance and growth and identified under BOQ's Risk Management Framework.

Compliance Risk

The risk to earnings and capital arising from violations of or non-compliance with laws, rules, regulations, prescribed practices or ethical standards. It also includes overseeing the establishment and maintenance of risk-based controls to mitigate the risks associated with money laundering and terrorism financing. The policies adopted to manage Compliance Risk include a Conflicts of Interest Policy, Whistleblower Policy and Breach & Incident Management Process. BOQ employees also undertake a range of compliance training to manage Compliance Risk, including in relation to Consumer Credit Insurance, Consumer Protection, Code of Banking Practice, National Consumer Credit Protection, Privacy and Anti-money Laundering & Counter Terrorism Financing. BOQ continues to enhance and develop policies, frameworks and training to meet ongoing and new compliance obligations.

Regulatory Risk

The risk that new or changes in legislation and regulations will materially impact a security, business, sector, or market. A change in legislation, regulations or made by government, regulatory and/or industry bodies may increase the costs of operating a business, reduce the attractiveness of an investment, or change the competitive landscape.
BOQ manages Regulatory Risk through monitoring changes to legislation, regulations and/or industry codes, understanding and assessing the potential impacts to BOQ's products, services, businesses and operations and developing programs that support the implementation of any changes impacting BOQ or its customers.

Credit Risk

The risk that a debtor or transactional counterparty will default and/or fail to meet their contractual obligations, and includes the risk of loss of value of assets due to deterioration in credit quality and credit concentration risk. This risk primarily arises from BOQ's lending activities and the holding of various financial instruments for investment or liquidity purposes. BOQ has a set of well documented credit risk policies to manage these risks within the limits set by the Board. They include the Treasury Credit Policy, Large Exposures Policy, Sector Risk Concentration Policy, the Delegated Approval Authority Policy, and specific credit policies for each customer segment and their respective lending products.

Insurance Risk

The risk that BOQ incorrectly assesses its risk of exposure to financial loss and inability to meet its liabilities due to inadequate or inappropriate insurance product design, claims management or reinsurance management.

Liquidity and Funding Risk

The risk that BOQ cannot meet or generate sufficient cash resources to meet its payment obligations in full as they fall due, or can only do so at materially disadvantageous terms. BOQ's Liquidity and Funding Policy and Contingency Funding Plan are used to manage this risk.

Market Risk

This includes Traded Market Risk (the risk that the value of an investment will decrease due to moves in market factors such as foreign exchange rates, interest rates, equity prices, commodity price and credit spreads) and Non Traded Market Risk (the risks arising from the various structural dimensions of the balance sheet including Interest Rate Risk in the Banking Book, Liquidity, Funding, Securitisation and Capital Risk). BOQ has adopted a number of Treasury Risk Policies to manage Market Risk.

Operational Risk

The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Operational risk management covers a wide variety of risks including legal risk, franchise risk, environmental sustainability, Enterprise Continuity Management (comprising business continuity management, crisis management and disaster recovery, IT Security and technology/system risk) and human resources risk management. BOQ has implemented a number of systems and policies to address operational risks including a Code of Conduct, Outsourcing Policy (including off-shoring of services), Product Development Policy, Information Security Policy and IT risk management policies, Workplace Health & Safety Policy, Workplace Rehabilitation Standard and Harassment, Discrimination & Bullying Standard.

DIRECTORS' REPORT

For the year ended 31 August 2019

1.4 RISK AND REGULATORY DEVELOPMENTS (CONTINUED)

Contagion Risk

The risk that problems arising in BOQ's subsidiary companies may compromise the financial and operational position of BOQ as an ADI.

Reputation Risk

The risk to earnings and capital arising from negative public opinion resulting from the loss of reputation, public trust or standing, and is considered to be a risk derived from business activities and is considered in conjunction with the underlying risks resulting from those activities.

Securitisation Risk

The risk to earnings in the event of a major disruption in market demand for asset backed securities thereby increasing BOQ's funding costs as the BOQ Group seeks alternative, more expensive, funding sources. This may have an impact on net interest margin, profitability and may limit securitisation as a funding and capital management tool.

Strategic Risk

The potential for financial loss associated with the vulnerability of business earnings to changes in the strategic environment.

Talent Risk

The risk arising from the inability to attract or retain the quality of talent required to deliver for customers, shareholders and the communities in which the Bank operates.

Cyber Security Risk

The risk arising from failure to secure and protect computers, networks, programs and data from unintended or unauthorised access.

Conduct Risk

The risk of inappropriate, unethical or unlawful behaviour by Management or employees, which could have significant ramifications for our customers, shareholders, clients, counterparties and the markets in which the Bank operates.

Sustainability and Climate Change Risk

Climate change is becoming increasingly relevant to businesses in the Australian economy. The ongoing effects of climate change risks may impact the long-term prosperity of Australia's economy, environment and society.

In addition to the above, there are a number of areas of increased risk focus, driven largely by external developments such as changes in community expectations, technology and regulatory activity. These include:

Ethics and business conduct

The conduct of the financial services industry has been under increasing scrutiny with a range of regulatory investigations impacting not just the brand and reputation of the companies involved, but also heightening attention across the broader industry. Regardless of the outcome, these investigations incur a cost and a loss of value, so it's understandable that stakeholders want greater clarity on how ethics and business conduct are managed.

While it is not possible to control the actions of every individual within a company, strong management controls and a culture that values integrity go a long way to minimising the risk of adverse employee behaviour.

BOQ's values, together with its range of policies and frameworks are the foundational elements for how its people behave and are accountable for the decisions they make. BOQ is committed to ensuring an ethical and accountable behaviour across all staff within the Group and its strategic partners, which is supported through:

- Ongoing education of all staff in ethics and values;
- Dedicated Ethics & Security Committee made of Senior Executive and Management who both review and make decisions on actual or alleged misconduct issues in addition to analysing potential trends for future risks to the group;
- Appointment of a Customer Advocate who champions the voice of the customer and acts as the key internal arbitrator with a continual focus on the best interests of the customer and minimising the likelihood of future complaints or incidents;
- Active participation in independent Industry Risk Culture Survey that benchmarks BOQ against peers around attitudes to risk and governance. The outcomes from the survey are then used to assist the ongoing development of risk and culture program across the group; and
- The reporting and monitoring of Risk Culture has continued to mature, with the ongoing enhancement of risk culture dashboards and the rollout of divisional operational risk committees that support good governance of both Risk and Culture.

Cyber and business resilience

Risk events that result from the external environment continue to be a major focus for all financial institutions and third parties that support us. The increase of cyber-related attacks, environmental and weather events, pandemics or systems failures can significantly disrupt the systems and processes that enable us to protect our staff, customers and shareholders.

Across BOQ both Cyber and Business Continuity are regarded as material business risks that are actively managed and monitored across the Group. Critical to BOQ's investment in Cyber and Business Resilience is its:

- Specialised and highly-experienced staff;
- Ongoing simplification of systems to reduce the point of potential compromise;
- Development of policies, processes and controls that reflect international and industry standards and best practices;
- Relationships with strategic partners, including the assessment of their systems and processes, to ensure they continue to maintain the same level of resilience and security as BOQ; and
- Ongoing development of business continuity plans and responses through scenario based testing of systems and processes.

DIRECTORS' REPORT

For the year ended 31 August 2019

1.4 RISK AND REGULATORY DEVELOPMENTS (CONTINUED)

Climate change

The risks and opportunities of climate change are becoming increasingly relevant to most businesses in the Australian economy. Through the Paris Agreement of 2015, governments around the world agreed to take action to limit global warming to less than 2 degrees Celsius above pre-industrial levels and as close to 1.5 degree Celsius as possible and to transition to net zero emissions by 2050. As a result, the Australian Government has set a target to reduce emissions by 26-28 per cent below 2005 levels by 2030. The transition to a low carbon economy and the ongoing effects of climate change will impact the long-term prosperity of Australia's economy, environment and society. Therefore businesses are increasing the level of disclosure around how the risks and opportunities of climate change are relevant to their particular business.

In 2017, the Financial Stability Board's Taskforce on Climate-related Financial Disclosures (**TCFD**) published its final report which set out its recommendations for helping businesses disclose climate-related financial information. The TCFD report establishes recommendations for disclosing clear, comparable and consistent information about the risks and opportunities presented by climate change, and provide decision-useful information to lenders, insurers, and investors. The recommendations are structured around four thematic areas that represent core elements of how organisations operate: governance, strategy, risk management, and metrics and targets. An overview of the information relevant to BOQ across these themes is provided below.

Governance

Management of risk is ultimately overseen by the BOQ Board and Risk Committee. BOQ has an integrated Risk Management Framework in place to identify, assess, manage and report risks on a consistent and reliable basis. This framework has been developed to accord with the tolerance levels set out in the BOQ Risk Appetite Statement. A number of risks have been identified as material business risks for BOQ under this Risk Management Framework, including credit risk, operational risk, reputation risk and strategic risk.

The Board delegates day to day management of the business to the management team. This includes identification of opportunities for the business as well as management of risk within the risk appetite that has been approved by the Board. The management team utilises the Executive Committee, Business Performance Committee and Executive Credit Committee as well as various policies to assess and manage risks.

Strategy

Risks

The following tables outline the potential climate-related risks which are currently considered to be most relevant to BOQ in the context of its future strategies. The physical risks identified are more likely to manifest over the medium to long term (5-30 years+). The timing and magnitude of transition risks are less certain but have the potential to arise sooner (3-5 years), depending on actions taken by governments, regulators, businesses and consumers to expedite a transition to a low carbon economy.

Transition risks

Climate-related risks	Potential financial impacts for BOQ	Potential actions for BOQ to mitigate
Reduced income for businesses or individuals currently reliant on income from unsustainable sources, or increased climate-related transition expenses	Increased loan impairment expense (due to reduced capacity for customers to repay)	Identify existing customers most at risk and assist with transition; Consider sustainability of income in any new lending.
Changing customer behaviour, including reduced demand for certain products	Decreased income (if BOQ product/service offerings do not meet customer needs/ expectations)	Monitor community attitudes and customer behaviour; Operate in a way that aligns with customer and community expectations; Design and distribute products and services that meet customer needs and expectations.
Costs to offset emissions or transition to lower emissions energy/fuel sources; Regulatory change; Enhanced reporting obligations; Increased stakeholder concern; Exposure to litigation; Increased insurance premiums	Increased expenses	Identify opportunities to reduce exposure to higher emission energy/fuel sources; Monitor community and stakeholder views and expectations; Continue to enhance disclosures to meet stakeholder expectations.

BOQ will continue to monitor and assess external developments which may lead to increased transition risk, in order to better understand the likely risks that may arise for BOQ over the short, medium and long term. In its commercial lending and BOQ Finance portfolios, BOQ has limited direct lending exposure to the sectors at highest risk from a more rapid transition.

DIRECTORS' REPORT

For the year ended 31 August 2019

1.4 RISK AND REGULATORY DEVELOPMENTS (CONTINUED)

Physical risks

Climate-related risks	Potential financial impacts for BOQ	Potential actions for BOQ to mitigate
Decline in value of assets due to: Increase in impact of climate-related extreme weather events; Rising sea levels; Rising temperatures; Rise in insurance premiums or inability to obtain insurance.	Increased loan impairment expense	Identify existing customers and assets most at risk; Assist customers to understand risks and mitigate where possible; Assess climate-related risk of new lending.
Business disruption due to climate-related extreme weather events, rising sea levels or rising temperatures	Decreased income; Increased expenses.	Prepare for business disruption scenarios

As part of its annual portfolio stress testing simulation, in 2018 BOQ included a weather-related event as a scenario to be tested. This involved a severe flood scenario in South-East Queensland, with inundation to a level of seven metres (compared to the 2011 Brisbane flood level of four metres). The financial impact of this scenario was immaterial in terms of direct physical impact on BOQ's lending portfolio.

BOQ's 2019 stress testing scenarios include a severe long term drought scenario and a long term sea-level rise analysis (based on data from the Intergovernmental Panel on Climate Change's (**IPCC**) RCP8.5 high emissions scenario). The final results of these scenarios are expected to be available later in the 2019 calendar year and will be included in BOQ's Internal Capital Adequacy Assessment Process (**ICAAP**) Report.

Opportunities

The following are the key climate-related opportunities which are most relevant to BOQ:

- Funding investment in renewable energy.
- Developing finance solutions to meet the needs of businesses and consumers in a lower-carbon economy.

These opportunities would primarily impact BOQ through increased revenues. There may also be opportunities to achieve lower costs through pursuit of more resource and energy efficient operations.

An example of this is that in FY19, BOQ Finance established a new Energy Efficient Equipment Finance Program, by joining the Clean Energy Finance Corporation (**CEFC**) co-financing program. The CEFC is a government entity established to facilitate increased flows of finance into Australian based renewable energy, energy efficiency and low emissions technology. This program will allow BOQ to provide small business owners with competitive finance for eligible equipment.

Risk management

BOQ's process for identifying, assessing and managing risks is integrated into its overall Risk Management Framework. Climate risk can emerge in the assessment of credit risk, operational risk, reputation risk, and strategic risk, which have been identified as material risks under BOQ's Risk Management Framework. The management team utilises the Executive Credit Committee and credit policies such as the Ecological Care and Sustainability Lending Policy to assess potential implications to credit risk. Credit risk is assessed at a portfolio level as well as at an individual credit exposure level on a case-by-case basis. On an individual exposure level this would include consideration of future cash flows available to service debt as well as valuations of assets taken as security. Property valuations take into account factors such as flooding and environmental risk in estimating the value of properties, which BOQ uses as a basis for determining an appropriate level of lending to be extended relative to that property value. In addition, BOQ's loan agreements require customers to maintain comprehensive insurance for any property provided as security for a loan. Where flood is identified as a potential risk in the valuation, flood cover is required to be included in the insurance policy. This provides a level of protection to the value of security in the event that there is damage or destruction caused by extreme weather events.

Reputation risk is managed in line with BOQ's Conduct and Reputational Risk Framework, through monitoring of both the internal and external environment and regular stakeholder engagement with customers, investors, suppliers, employees, government, media, regulators and community partners. This includes a combination of structured engagement through surveys, regular reporting and industry forums as well as direct feedback from customers and staff or indirect information gathering and monitoring of issues that may be or may become relevant to BOQ.

BOQ's Risk team is conducting a review of its current approach to managing climate-related risk with a view to making recommendations which will be considered for implementation in 2020, to better embed climate-related risk in BOQ's policies and processes.

DIRECTORS' REPORT

For the year ended 31 August 2019

1.4 RISK AND REGULATORY DEVELOPMENTS (CONTINUED)

Metrics and targets

BOQ is reviewing metrics that would be most relevant to monitor specific climate-related risks for the business. A metric that is currently reported is the dollar value and proportion of the loan portfolio that has been extended to businesses who are directly involved in fossil fuel mining ($30 million or <0.1 per cent of BOQ's total loan portfolio as at 31 August 2019). This is a metric that will reduce to zero by 2023 as BOQ has committed to no further financing of equipment directly involved in the extraction of fossil fuels. BOQ has no direct exposure to coal-fired power generators and has no appetite for lending to this sector. For BOQ's housing loan portfolio, lending identified in mining- dependent regions are subject to specific policy considerations. Monthly internal reporting on exposures and arrears levels is used to monitor risk in these locations. Given the size and nature of its business, BOQ's greenhouse gas (**GHG**) emissions are not significant, with purchased electricity for its support centres and branches being the biggest contributor to emissions. Electricity consumption and other environmental impact metrics are published in the Non-financial performance measures section of BOQ's Sustainability Report.

DIRECTORS' REPORT

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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 5.1 *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

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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).

DIRECTORS' REPORT

For the year ended 31 August 2019

2.2 NET INTEREST INCOME

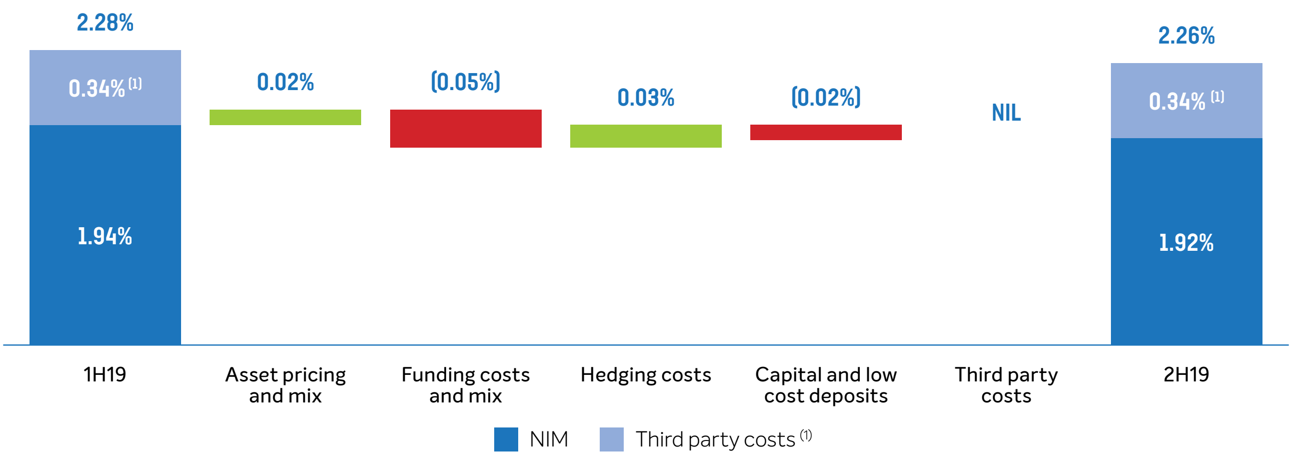
	Year End Performance			Half Year Performance		
$ million	**Aug-19**	Aug-18	Aug-19 vs Aug-18	**Aug-19**	Feb-19	Aug-19 vs Feb-19
Net interest income	**961**	965	-	**485**	476	2%
Average interest earning assets	**49,842**	48,818	2%	**50,220**	49,441	2%
NIM	**1.93**	1.98	(5bps)	**1.92**	1.94	(2bps)

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.

DIRECTORS' REPORT

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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 5.1 (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 5.1 (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.

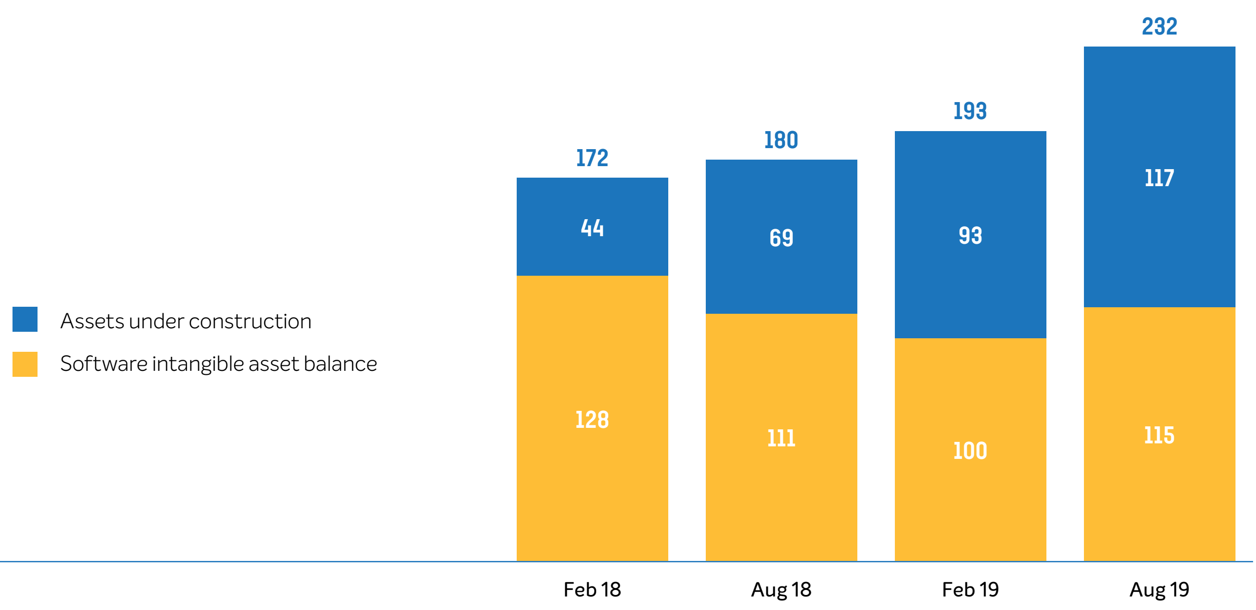
IT costs increased due to data collection activities addressing compliance requirements and new technology services resulting from the Bank's technology transformation programs.

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)



DIRECTORS' REPORT

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**).

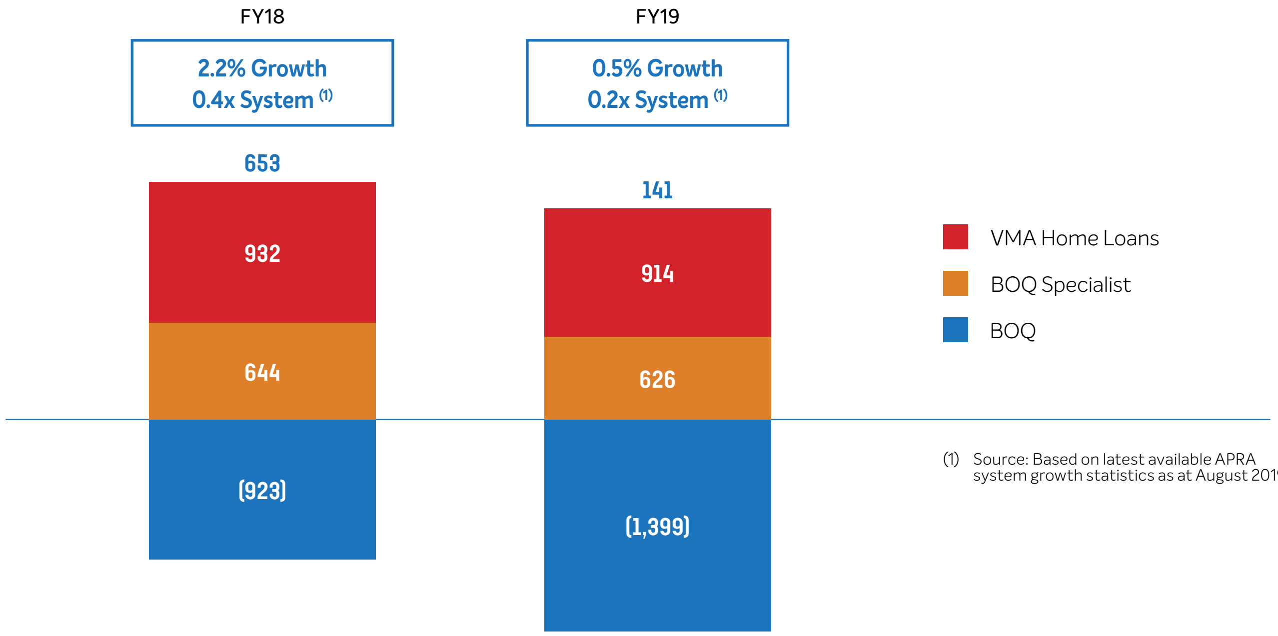
DIRECTORS' REPORT

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.

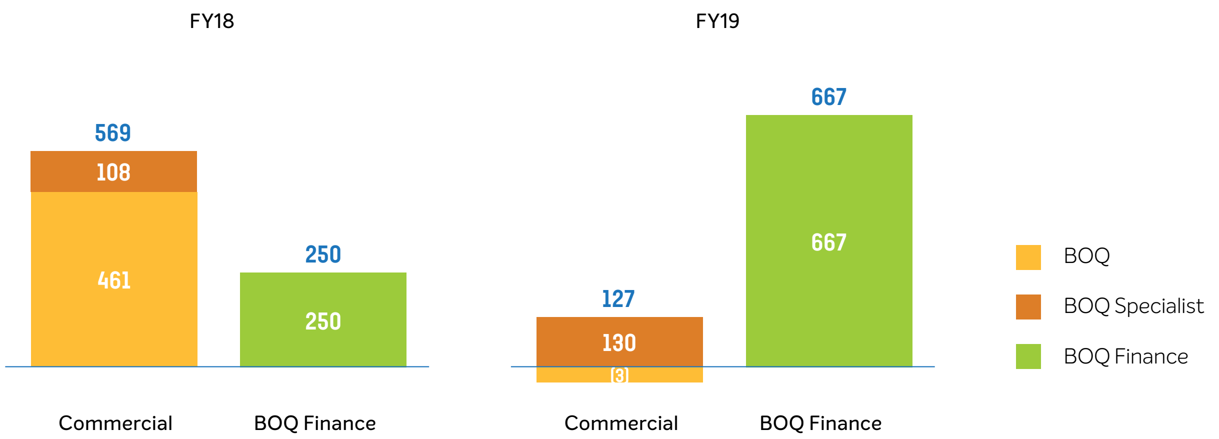
BOQ's growth through the mortgage broker channel improved in 2H19 as retention rates improved. The broker support team has continued to work closely with key aggregator partners to further improve turnaround times and enhance the customer experience.

DIRECTORS' REPORT

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, cashflow finance, equipment finance and dealer wholesale solutions. New green energy solutions have recently been developed to support future growth.

DIRECTORS' REPORT

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.

DIRECTORS' REPORT

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.

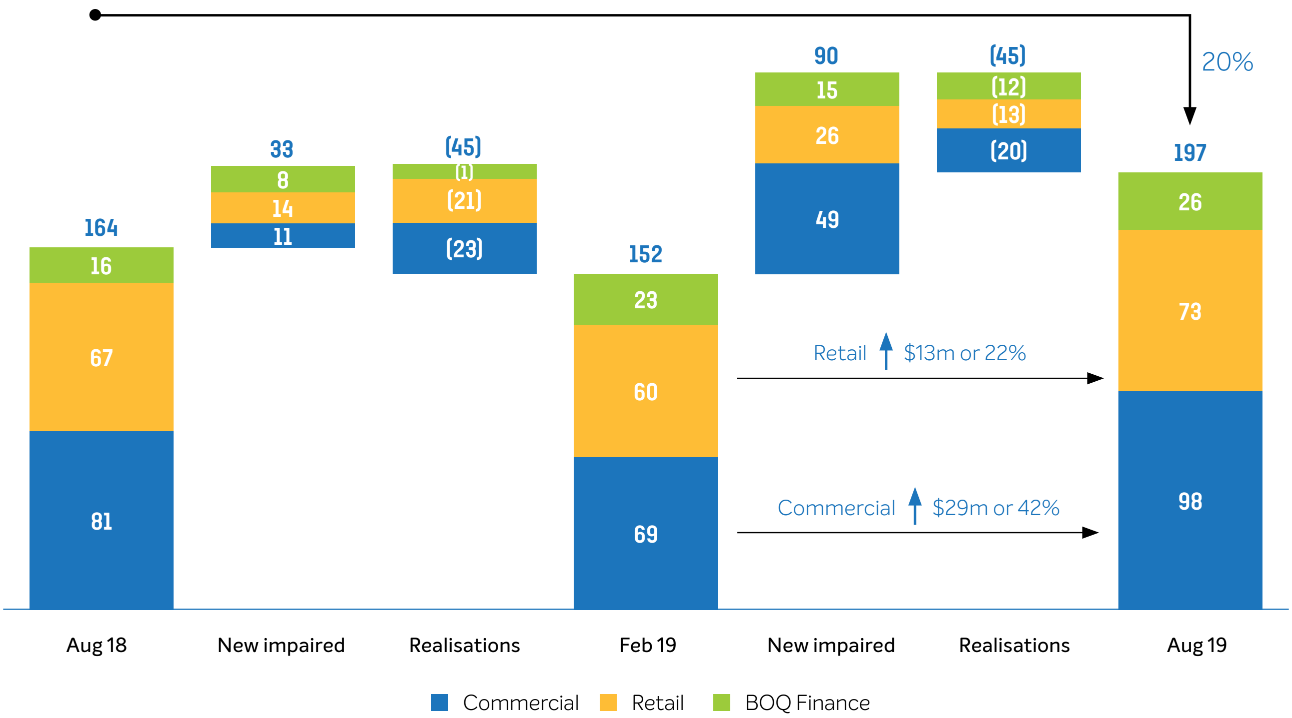
The Group now holds five impaired exposures greater than $5 million with a combined total of $57 million, with two of these exposures greater than $10 million. The Group held three exposures greater than $5 million at 1H19 and FY18 for a combined total of $18 million and $25 million respectively.

DIRECTORS' REPORT

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

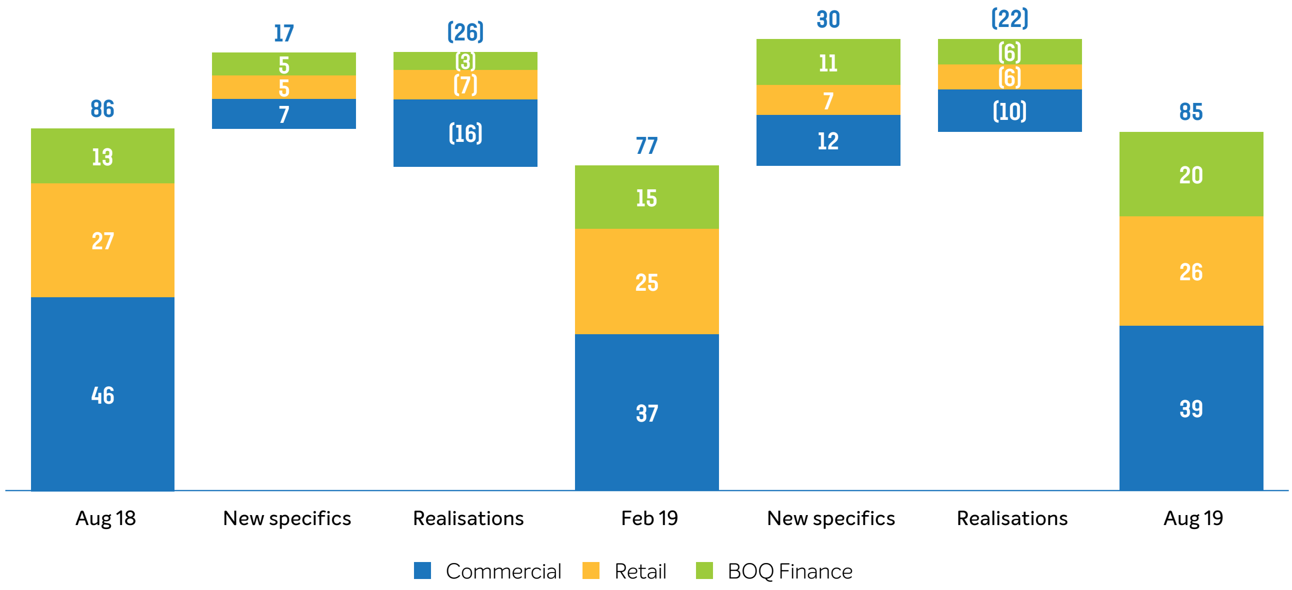
(1) GRCL gross of tax effect.

DIRECTORS' REPORT

For the year ended 31 August 2019

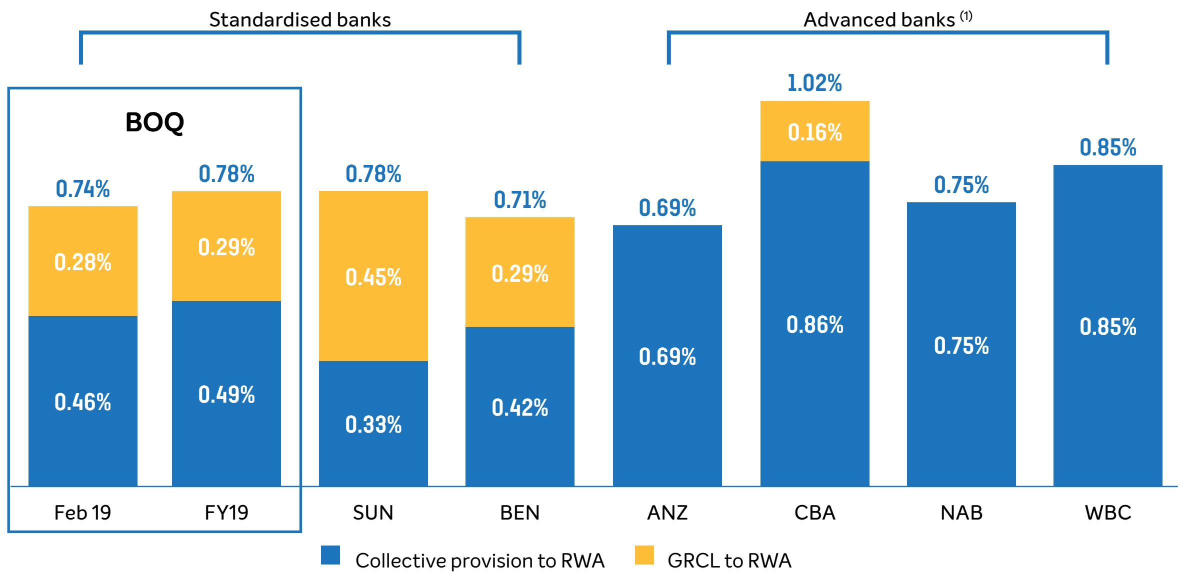
3.1 ASSET QUALITY (CONTINUED)

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.

DIRECTORS' REPORT

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

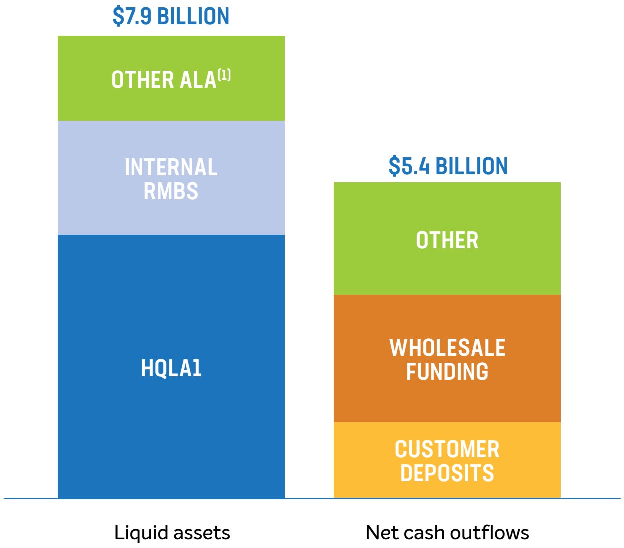
BOQ's liquidity strategy and risk appetite are designed to ensure it has the ability to meet financial obligations as they fall due in all market conditions. BOQ has developed a robust liquidity risk management framework including Board approved liquidity risk tolerances, detailed strategy and policy 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.

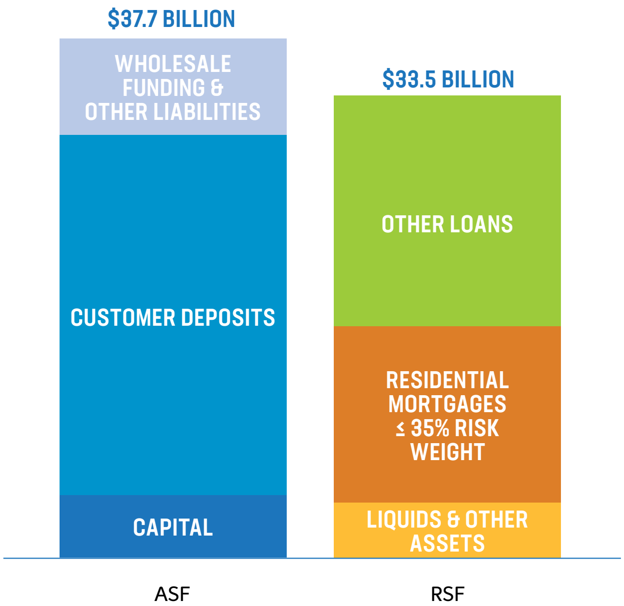
Net Stable Funding Ratio (NSFR)

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%)

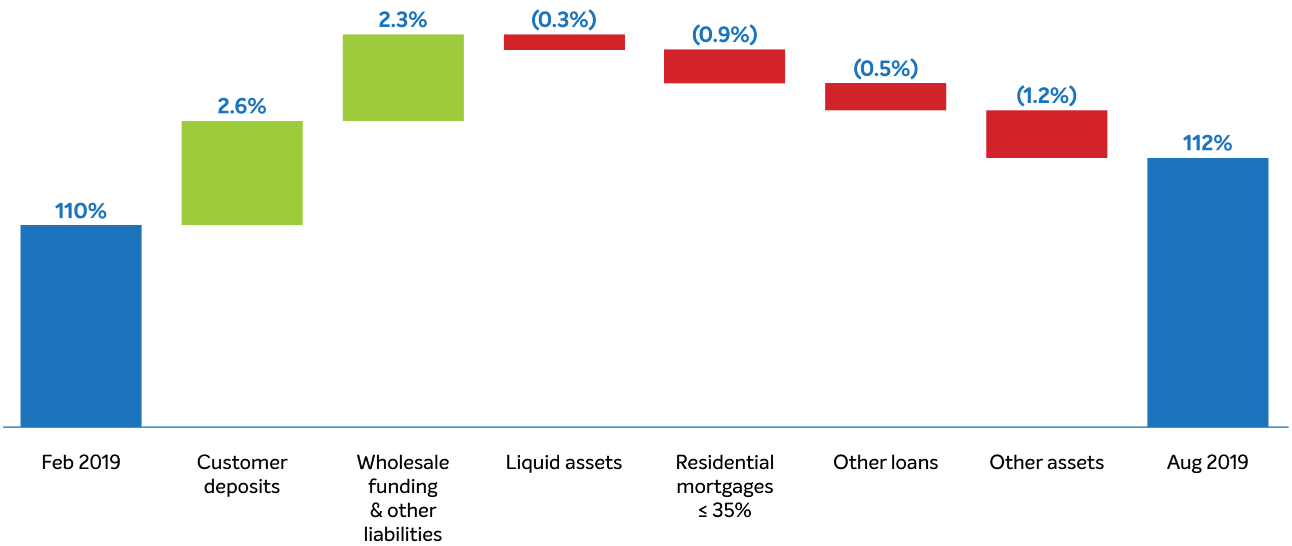


DIRECTORS' REPORT

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.

DIRECTORS' REPORT

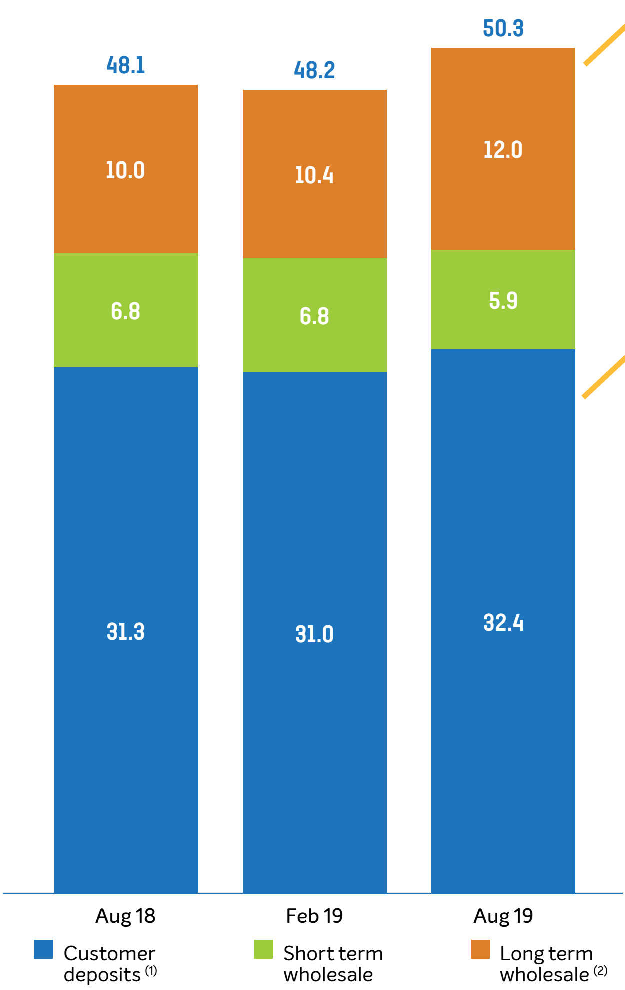
For the year ended 31 August 2019

3.2 FUNDING AND LIQUIDITY (CONTINUED)

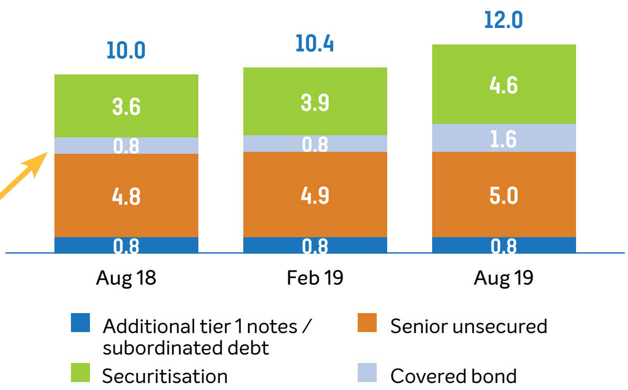
Funding

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.

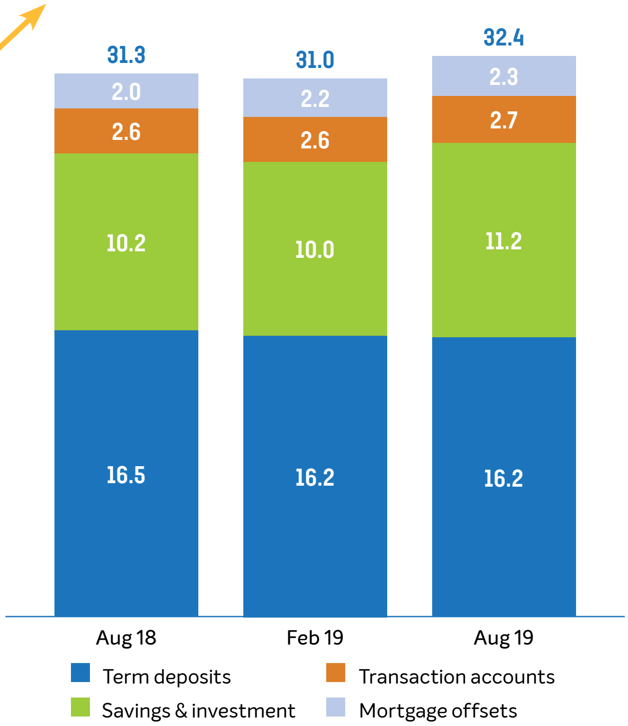
Funding mix ($billion)



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.

DIRECTORS' REPORT

For the year ended 31 August 2019

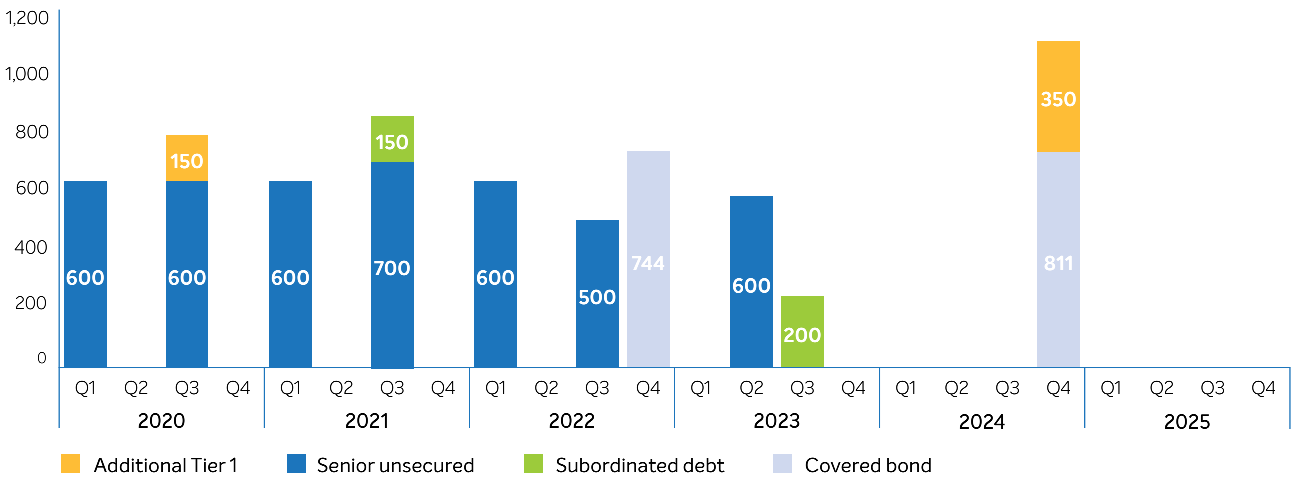
3.2 FUNDING AND LIQUIDITY (CONTINUED)

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.

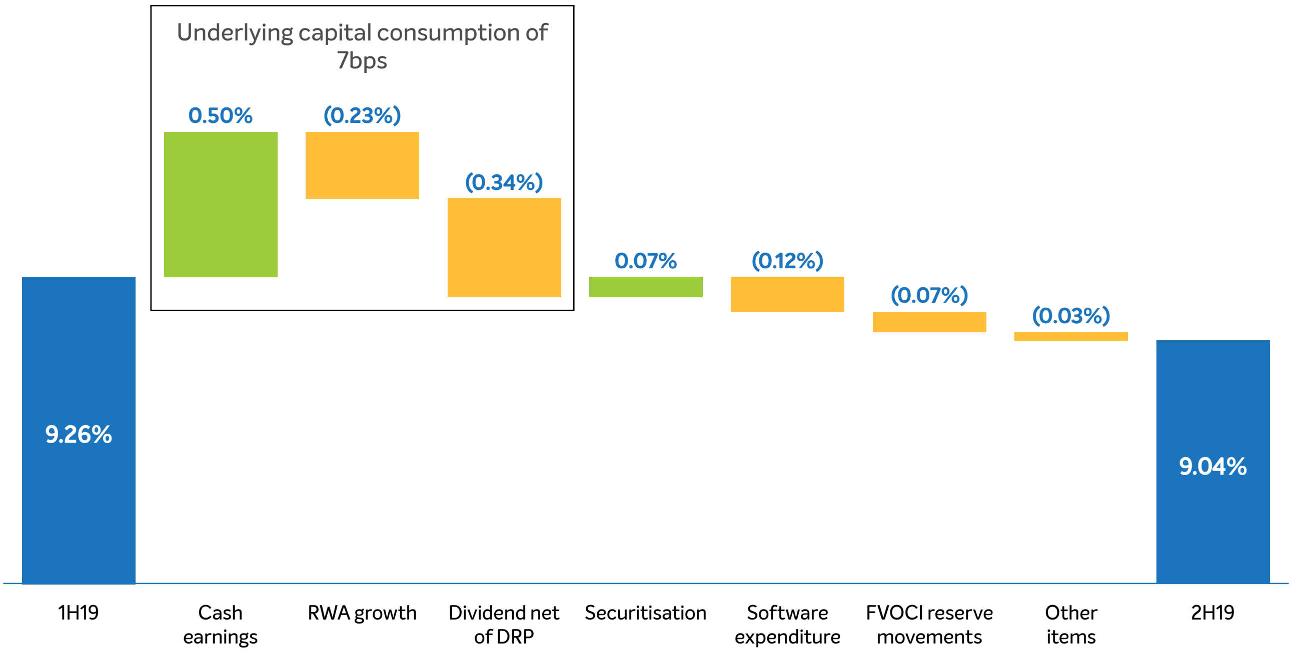
BOQ completed a $1 billion capital efficient RMBS transaction during 2H19, which generated seven basis points of capital benefit.

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 5.1 (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.

DIRECTORS' REPORT

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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.

DIRECTORS' REPORT

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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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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 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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5.2 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%

DIRECTORS' REPORT

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5.2 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.

5.3 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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5.4 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%

5.5 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.

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5.6 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

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5.6 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

DIRECTORS' REPORT

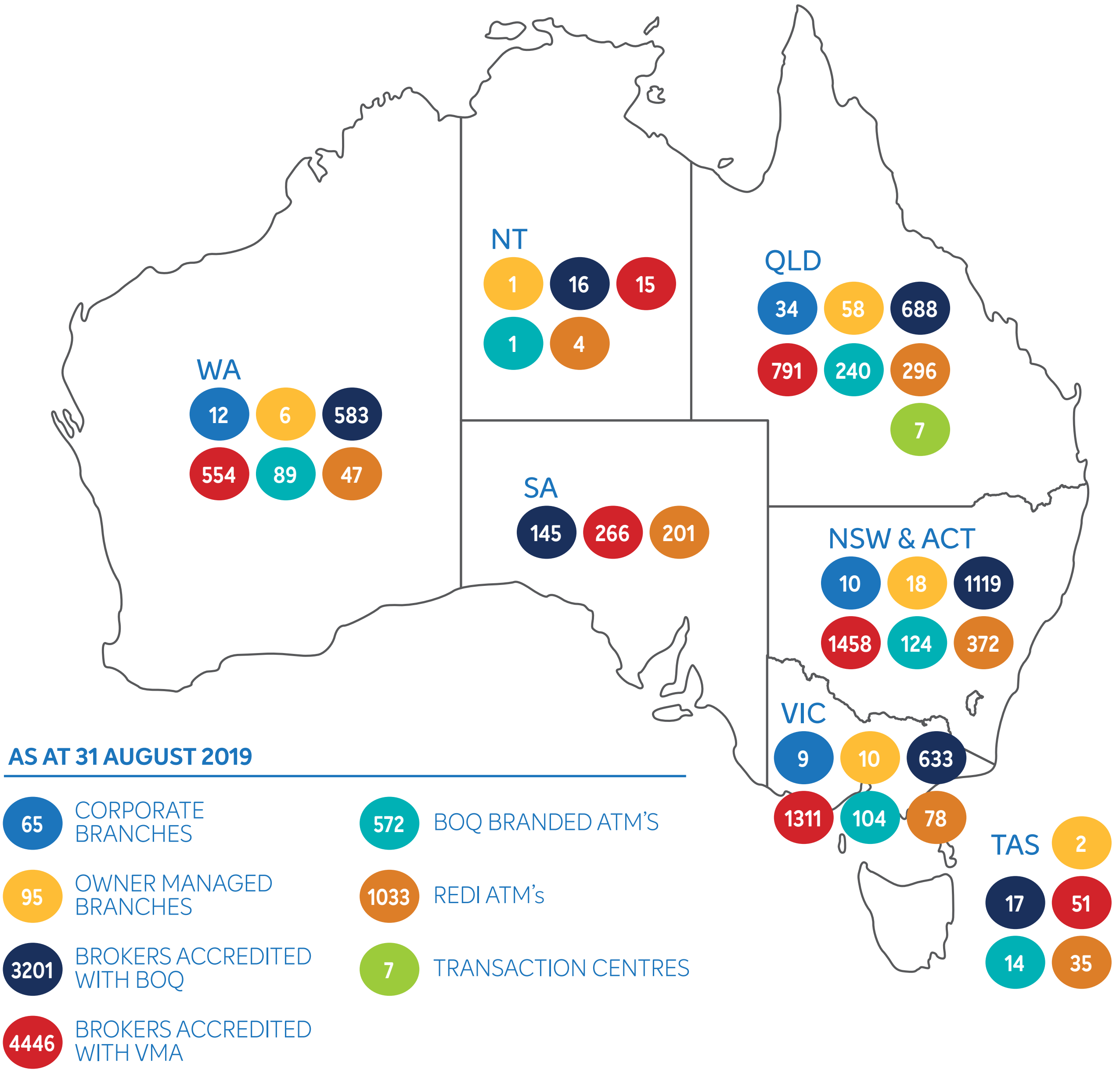
For the year ended 31 August 2019

5.7 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.



DIRECTORS' REPORT

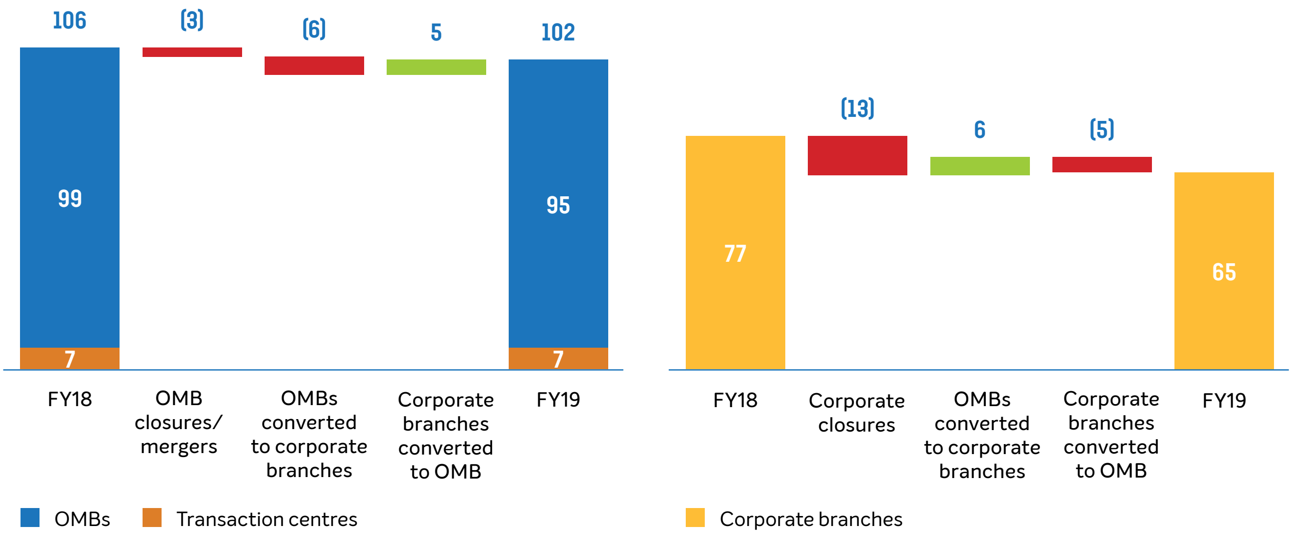
For the year ended 31 August 2019

5.7 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



5.8 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

5.9 REGULATORY DISCLOSURES

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

REMUNERATION REPORT

For the year ended 31 August 2019

CONTENTS

Dear Shareholder,

Introduction

On behalf of the Board I have pleasure in presenting the 2019 Remuneration Report.

This Report is provided in an environment of some uncertainty and considerable change for the sector as a whole. Regulatory, Statutory and other industry requirements include the Sedgwick Recommendations, BEAR, APRA's draft Prudential Standard CPS 511 *Remuneration* (**CPS 511**) and outcomes from the Hayne Royal Commission. These are challenging our thinking about fundamental remuneration structure and policy as we seek to balance the interests of customers, shareholders, the community and employees.

Over the past year we have again consulted widely with regulators, customers, shareholders and their representatives, employees and the community. Additionally we have met with regulators, banks and their advisors outside of Australia. The feedback from stakeholders and others continues to influence our remuneration structure and policy.

In 2018 whilst we made some changes consistent with the BEAR requirements, our remuneration structure was retained. In 2019 we refined and clarified several parts of the remuneration framework but have refrained from any significant changes until the latest regulatory requirements are better understood.

2019 Outcomes

Fixed increases across BOQ will on average be no greater than inflation. This includes a 3% increase for employees covered by our collective agreement. No KMP will receive an increase in fixed remuneration as a result of the 2019 review.

The BOQ Short Term Incentive (STI) Plan has financial and behavioural gateways and for 2019 the financial gateways have not been met. The Board has not awarded any STI to KMP and the most senior leaders of BOQ. The Board has also considered the importance of our customer facing and support employees to the continued systems, risk and control work being undertaken by a number of our people. Having regard for this, the Board has determined to use its discretion as provided under the plan, and make an incentive pool available for select employees. On average, individual awards will reduce by more than 40% relative to the prior year.

The BOQ Long Term Incentive (**LTI**) Plans are awarded on the basis of potential and retention. These have 3 and 4 year vesting periods, are issued at face value, are hurdled for senior executives and are subject to malus and clawback. The Board will award KMP LTI in accordance with plan guidelines at 100% of fixed remuneration with a 4 year vesting period.

The Board has explicitly considered risk events, behaviours and outcomes with input from the Chief Risk Officer and Chair of the Risk Committee. On balance, taking into account both positive and negative outcomes together with cancellations and forfeitures which occurred during the year, the Board has determined no further adjustments will be made at this time.

Finally the Board will not be seeking any increase to the directors' fee pool and is not proposing to increase individual directors' fees.

Separately the Board has considered the external and internal challenges facing BOQ over the next three years and the importance of key senior employees to the significant transformation required over this period. In this context the Board has determined to offer conditional equity to select senior employees with 50% vesting after eighteen months and the remainder after three years. These awards will be subject to continued employment and earnings growth or specific transformation projects. The pool for this is capped at $5 million and will not be offered to KMP including the Managing Director and Chief Executive Officer (**MD & CEO**).

Governance

The principles by which remuneration is governed have not changed in the 2019 year and are included in the body of the report. We have been considering the impact of the APRA proposed Prudential Standard CPS 511 on our remuneration structures and believe if these remain in the final standard changes will be necessary to our existing structure. Any changes will be disclosed in future Remuneration Reports.

Conclusion

The BOQ Board remains committed to designing remuneration structures which balance stakeholders' interests in the short and long term. In doing so we will ensure compliance with the regulatory and legal obligations under which we operate.

In the current climate the Board has been very conscious of the environment, stakeholders and regulators in determining appropriate outcomes for the 2019 year. It is the Board's view that the remuneration outcomes for the 2019 year are appropriate.

This is my final report presented to you as Chair of the Human Resources and Remuneration Committee (**HRRC**). I retire at the 2019 AGM after three terms and nearly 10 years with BOQ. It has been a privilege to fulfill this role as a director and Chair of the HRRC, and I have been very appreciative of the level of shareholder advice and support for our remuneration process.

Thank you.
Yours sincerely,

David Willis
Chairman, BOQ HRRC

REMUNERATION REPORT

For the year ended 31 August 2019

This Remuneration Report has been prepared for consideration by the Bank's shareholders at the 2019 AGM. It outlines the overall remuneration strategy, framework and practices adopted by the Consolidated Entity for the period 1 September 2018 to 31 August 2019 (**FY19**). It has been prepared in accordance with Section 300A of the *Corporations Act 2001* and has been audited in accordance with section 308(3C).

This report comprises the following sections:

- Section One: A summary of FY19 remuneration highlights and changes for FY20.
- Section Two: A list of the FY19 KMP including changes.
- Section Three: FY19 Remuneration Outcomes.
- Section Four: Remuneration Strategy and Structure.
- Section Five: Remuneration Governance policies and principles.
- Section Six: Non-Executive Directors' remuneration.
- Section Seven: Statutory tables required by the *Corporations Act.*

SECTION 1. REMUNERATION SUMMARY

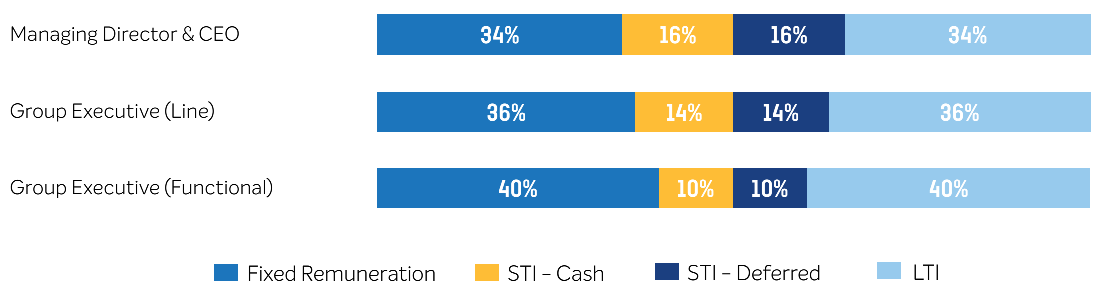
This section provides a summary of how remuneration worked at BOQ for the FY19 year covering both the structure in place and the associated outcomes. Changes made during FY19 are highlighted.

1.1 REMUNERATION STRUCTURE IN PLACE FOR FY19 (SEE SECTION 4)

Remuneration at BOQ comprises three components being: Fixed Remuneration, STI and LTI. The STI and LTI together constitute Variable Remuneration. Together Fixed and Variable components comprise Total Remuneration.

Figure 1 below illustrates the components of remuneration at the target/performing level and are expressed as a percentage of Total Remuneration:

Figure 1 – Remuneration Mix (at Performing level)



In Figure 1 the LTI value has been presented at 100% of Fixed Remuneration. LTI grants are made within the range of 80% to 120% of Fixed Remuneration.

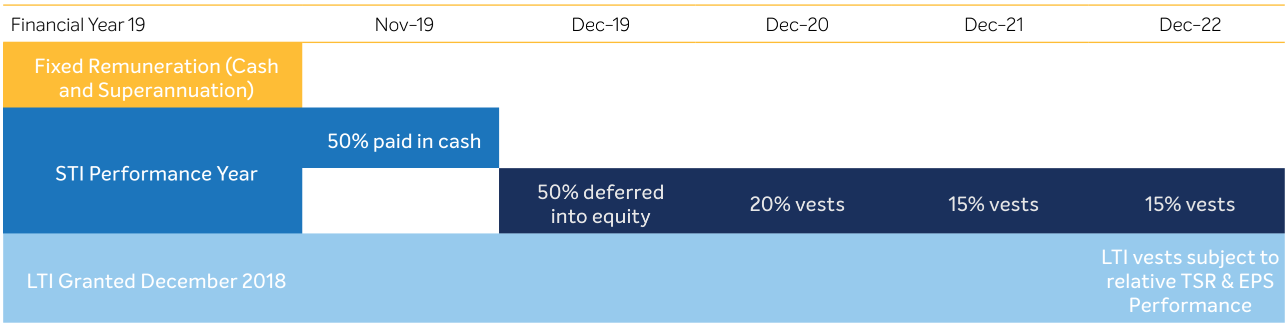
Remuneration is awarded by way of cash and equity. Fixed Remuneration and a portion of the STI is delivered as cash with the remaining STI and the full LTI awarded in equity and deferred to a future period.

Figure 2 below illustrates the delivery profile of the different components of KMP remuneration. It shows the time period over which performance is measured, when each component is awarded and when the deferred elements vest. The deferred STI and LTI awards for FY19 will not fully vest until after year end results are announced in October 2022 (FY23).

REMUNERATION REPORT

For the year ended 31 August 2019

Figure 2 – Remuneration Components Delivery

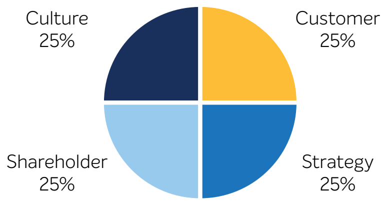


STI performance is assessed by way of financial and non-financial measures separately at the group and individual level under four distinct pillars. These are set at the beginning of the financial year with KMP sharing the same group scorecard and individual scorecards tailored to each KMP's role. LTI vests subject to comparative financial measures, Total Shareholder Return (**TSR**) and Earnings Per Share (**EPS**).

STI is subject to financial, risk and behaviour gateways. The financial gateway requires basic cash EPS to be above 90% of budget. Where awarded, STI is paid 50% in cash and 50% in equity deferred over three years. 20% vests after one year, 15% after two years, and 15% after three years, subject to specified employment conditions.

Figure 3 below illustrates the four STI pillars, each of which contains a number of measures. Outcomes are calculated by scoring the measures and multiplying the group and individual scores. Final awards are subject to Board discretion.

Figure 3 – KMP STI Pillars



Pillar	Examples of Measures
Culture	Employee engagement, diversity and risk management
Shareholder	Financial measures e.g. NPAT, divisional expenditure
Customer	Customer Advocacy and Net Promoter Score (**NPS**)
Strategy	Implementation of Board approved strategy including divisional projects

LTI consists of annual equity grants, which vest at the end of four years subject to relative TSR (80%), relative EPS (20%) and continued employment.

1.2 ACTUAL OUTCOMES FOR FY19 (SEE SECTION 3)

1.2.1 Fixed Remuneration

During FY19, Anthony Rose and Doug Snell were appointed to interim roles as Chief Executive Officer (**CEO**) and Group Executive, BOQ Business respectively. For the period they held these roles, they received temporary increases in remuneration. In addition, Adam McAnalen was appointed to the role of Chief Risk Officer. All three received fixed remuneration increases which were below that of their predecessors. Permanent replacements have been subsequently appointed for both of the interim roles.

1.2.2 STI

EPS performance did not meet the financial gateway under the STI plan and the Board chose not to exercise its discretion to pay incentives to KMP. As a result no KMP received an STI for FY19.

1.2.3 LTI

The 2015 grant of LTI was subject to relative TSR and EPS and was tested in FY19 with 16% of the grant vesting.

The Board has approved LTI grants to be made to KMP in FY20 at 100% of fixed remuneration with unchanged performance conditions. The MD & CEO grant of 100% of fixed remuneration will be subject to shareholder approval at the 2019 AGM.

REMUNERATION REPORT

For the year ended 31 August 2019

1.3 CHANGES MADE IN FY19 AND THOSE APPLYING FOR FY20

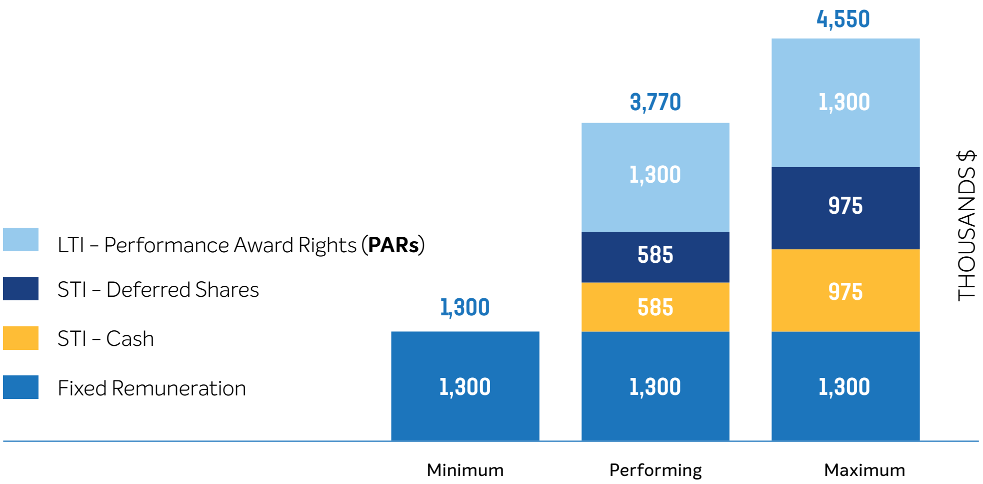
During 2019 the following changes were made to BOQ's remuneration structure and policy:

1. Changes were made to STI plan measures to better align with BOQ's strategic pillars (customer, shareholder, strategy and culture). These changes were made bearing in mind the plan's overarching financial gateway.
2. Grants of LTI made from FY19 onwards have a performance/vesting period of four years (previous grants were based on performance/vesting periods of three years) which aligns with the BEAR legislation.
3. As part of the implementation of the BEAR legislation during FY19, the Board reviewed and updated the BOQ Executive Service Agreement (**ESA**).
4. BOQ is in the process of changing KMP notice periods, excluding the MD & CEO. These are being increased to six months (from three months) following an assessment of market practice.
5. The LTI plan Good Leaver policies were updated to provide further clarity.
6. Implementation of a Non-Executive Director (**NEDs**) Fee Sacrificed Rights Plan (**NED Plan**) allowing NEDs to sacrifice a portion of their Board fees to acquire BOQ shares. The equity under this plan is not subject to any conditions apart from a disposal restriction for a minimum of three years.
7. The Bank has made continued progress towards implementing the Sedgwick Recommendations within its business. In addition, the outcomes of the Banking Royal Commission and APRA's draft Prudential Standard CPS 511 are being actively contemplated.

For the FY20 year the following changes are being implemented or considered:

1. George Frazis commenced with BOQ on 5 September 2019 as MD & CEO. The Board received independently sourced benchmarking, and his remuneration package is consistent with that of the previous MD & CEO. This information was disclosed to the ASX on 6 June 2019 and is presented in Figure 4 below:

Figure 4 - MD & CEO Remuneration: FY20 Potential



2. Remuneration for KMP is independently benchmarked against both the external market and internal relativities. No KMP will receive an increase in fixed remuneration as a result of the FY19 review. KMP have not received an increase to fixed remuneration since 2016.
3. The Board has considered the criticality of key senior employees to the changing operating environment and the transformation challenge for the Bank over the next three years. In light of these factors the Board has determined to offer a Transformation Incentive with the objective of retaining, aligning and rewarding select employees for achieving BOQ's transformation strategy. Grants will be subject to conditions including continued employment and earnings growth or specific transformation projects, with vesting occurring after 18 months and three years. This plan will be capped at $5 million and offered to those senior employees below KMP level who are considered critical talent and core to the implementation of the strategy. The MD & CEO and other KMP will not be eligible to participate in the Transformation Incentive.
4. Following the Hayne Royal Commission and the release of draft CPS 511, the Board has consulted with advisers and regulators. Subject to finalisation of the prudential standard it is the Board's view that there are a number of changes which should be considered as part of a redesign of BOQ variable remuneration. These changes will focus on both the STI and LTI plans as well as the overarching framework. Further details of any changes will be provided in future Remuneration Reports.

REMUNERATION REPORT

For the year ended 31 August 2019

SECTION 2. KMP

This section outlines those directors and executives who are the focus of this report.

There were several changes to KMP over FY19. The table below identifies Directors and Group Executives who are KMP and sets out the changes that have occurred in FY19 and up until the date of this report.

TABLE 1 – DIRECTORS AND GROUP EXECUTIVES

Directors (Executive and Non-Executive)	
Roger Davis	Chairman (Non-executive) Ceased as Chairman 17 October 2019 Will retire as a Director on 31 October 2019
Patrick Allaway	Director (Non-executive) Chair-Elect (Chair from 18 October 2019) Appointed effective from 1 May 2019
Kathleen Bailey-Lord	Director (Non-executive) Appointed effective from 1 May 2019
Bruce Carter	Director (Non-executive)
George Frazis	MD & CEO Appointed effective from 5 September 2019
Richard Haire	Director (Non-executive)
John Lorimer	Director (Non-executive)
Warwick Negus	Director (Non-executive)
Karen Penrose	Director (Non-executive)
Jon Sutton	MD & CEO Resigned effective 5 December 2018
Michelle Tredenick	Director (Non-executive)
David Willis	Director (Non-executive)

Senior Executives	
Anthony Rose	Chief Operating Officer *from 1 September to 5 December 2018* Interim CEO *from 6 December 2018 to 4 September 2019*
Matthew Baxby	Chief Financial Officer
Peter Deans	Chief Risk Officer *Retired effective 31 May 2019*
Debra Eckersley	Group Executive, People and Culture *from 3 September 2018*
Adam McAnalen	Chief Risk Officer *from 1 June 2019*
Lyn McGrath	Group Executive, Retail Banking
Peter Sarantzouklis	Group Executive, BOQ Business *from 12 August 2019*
Doug Snell	Interim Group Executive, BOQ Business *from 21 December 2018 to 11 August 2019*
Donna-Maree Vinci	Chief Digital and Information Officer
Brendan White	Group Executive, BOQ Business *Resigned 6 December and ceased in role on 20 December 2018*

In addition to the above table the following is relevant to KMP changes:

- Anthony Rose was not a BOQ director in the period that he was Interim CEO. Consistent with the previous permanent MD & CEO, George Frazis is a director of BOQ. Upon his commencement, Anthony ceased being KMP and will leave BOQ on 31 December 2019.
- Adam McAnalen was not a KMP in his previous role as CEO of BOQ Finance prior to his permanent appointment as Chief Risk Officer.
- Doug Snell was not a KMP in his previous role of General Manager, BOQ Business prior to his appointment as Interim Group Executive, BOQ Business. Upon the appointment of Peter Sarantzouklis, Doug moved back into his previous role and ceased to be KMP.
- Brendan White resigned on 6 December 2018 and ceased in the role of Group Executive, BOQ Business on 20 December 2018. His notice period lasted until 6 March 2019.
- Peter Deans' retirement was notified to the ASX on 8 March 2019 and he entered into a consultancy agreement effective from his retirement on 31 May 2019 for a period of seven months to ensure continuity, provide transitional support and access to organisational knowledge with respect to risk at BOQ.
- The Chief Operating Officer role was held vacant while Anthony Rose was Interim CEO.
- Matthew Baxby's resignation as Chief Financial Officer was notified to the ASX on 20 June 2019 and he will remain with BOQ until the end of October 2019.
- Roger Davis' retirement as Chairman was announced on 29 May 2019 and is effective 17 October 2019. Patrick Allaway will assume the chair role from 18 October 2019. Roger will retire from the Board on 31 October 2019.
- David Willis announced his retirement as a director and Chair of the HRRC on 8 August 2019 with effect from the 2019 AGM on 10 December 2019. He will retain his role as a director of St Andrews Insurance Group.
- On 10 October 2019 it was announced that Ewen Stafford will be appointed to the role of Chief Financial Officer and Chief Operating Officer. Ewen will commence with BOQ later in FY20.

REMUNERATION REPORT

For the year ended 31 August 2019

SECTION 3. REMUNERATION OUTCOMES

This section provides further information concerning remuneration outcomes for the FY19 year.

3.1 LINKING PERFORMANCE & REWARD OUTCOMES – VARIABLE REMUNERATION

The Consolidated Entity's financial performance is summarised in Table 2 below together with its relationship to the aggregate amount of Short Term Incentive paid to KMP.

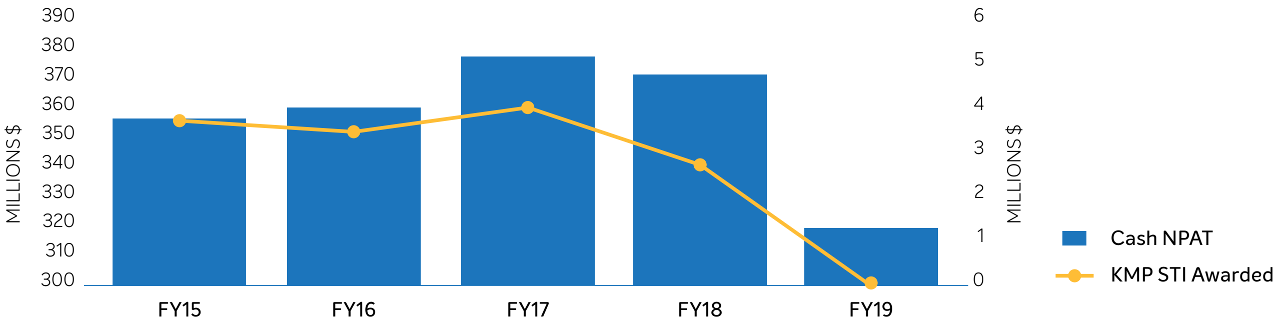
TABLE 2 – BOQ CONSOLIDATED ENTITY PERFORMANCE

5 Year Company Performance	2019	2018	2017	2016	2015
Statutory net profit/(loss) after tax	$298m	$336m	$352m	$338m	$318m
Cash net profit after tax (**NPAT**) (1)	$320m	$372m	$378m	$360m	$357m
Cash Basic earnings per share (**EPS**) (1)	79.6c	94.7c	97.6c	95.6c	97.3c
Cash cost to income ratio (**CTI**) (1)	50.5%	47.5%	46.6%	46.8%	46.0%
Share price at balance sheet date	$9.17	$11.49	$12.59	$10.55	$12.67
Total Shareholder Return (**TSR**) (1)	-13.9%	-2.70%	26.5%	-10.7%	6.3%
Value of Dividends paid	$288m	$341m	$308m	$300m	$272m
KMP STI Awarded ($m)	-	$2.73	$4.02	$3.55	$3.73

(1) Non-statutory measures are not subject to audit

Figure 5 – KMP STI Awarded in Comparison to NPAT

The below graph compares the total STI awarded to KMP with BOQ's Cash NPAT over the past 5 years:



REMUNERATION REPORT

For the year ended 31 August 2019

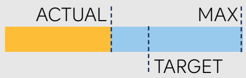
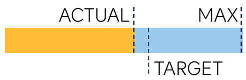
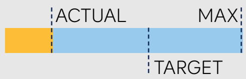
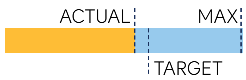
3.2 FY19 STI OUTCOMES

Cash Basic EPS achieved for FY19 did not meet the financial gateway at 90% of budget. As a result no KMP were eligible to receive an award under the STI Plan and the Board elected not to exercise its discretion in the award of STI for FY19.

Whilst no FY19 STI is payable, the Board reviewed each KMP's performance in accordance with their STI measures. This included a review of risk behaviours as well as performance against group and individual scorecards.

The table below provides outcomes against the group scorecard measures. Each measure is assessed individually and overall performance is determined by the averaged outcome. For FY19 the overall performance against the Group Scorecard was below expectations.

TABLE 3 – SUMMARY OF GROUP PERFORMANCE OUTCOMES

Pillar	Weighting	Measure	Outcome
Customer	25%	NPS Ranking Customer Advocacy Main Financial Institution (**MFI**) Ranking Improvement	
Strategy	25%	Implementation of Board approved strategy	
Shareholder	25%	NPAT ROE CTI Loan Impairment Expense / Gross Loans & Advances (**GLA**)	
Culture	25%	Employee Engagement & Enablement Diversity & Inclusion Risk Management	

Scorecard outcomes for individual KMP were no higher than performing.

3.3 FY19 LTI OUTCOMES

3.3.1 FY19 LTI Awards Vesting

PARs awarded to KMP in 2015 were tested after year end results were announced in October 2018 consistent with plan terms.

The 2015 LTI grant had two performance hurdles being relative TSR with an 80% weighting and relative EPS with a 20% weighting. At the date of vesting, qualifying KMP had to be employed, not serving out a notice period or subject to performance review due to any adverse risk behaviours.

The statutory tables in Section 7 set out the detail of LTI awards vesting to individual qualifying KMP. The results of the testing is presented in Table 4 below.

Vesting outcomes for the 2015 PARs grant are as follows:

TABLE 4 – LTI VESTING OUTCOMES

LTI VESTING OUTCOMES – 2015 Grant

Grant Date	Performance Period	Vesting Hurdle	Performance Outcome
15/12/2015	8 October 2015 to 4 October 2018	TSR ranking of at least 50th percentile	BOQ TSR achieved ranking of 34th percentile, which was below the threshold level of performance, resulting in none of the TSR tranche vesting
		Relative EPS ranking of at least 60th Percentile	BOQ EPS achieved ranking of 77th percentile resulting in 78%of the EPS tranche vesting

Overall 16% of the PARs granted in 2015 vested in 2018.

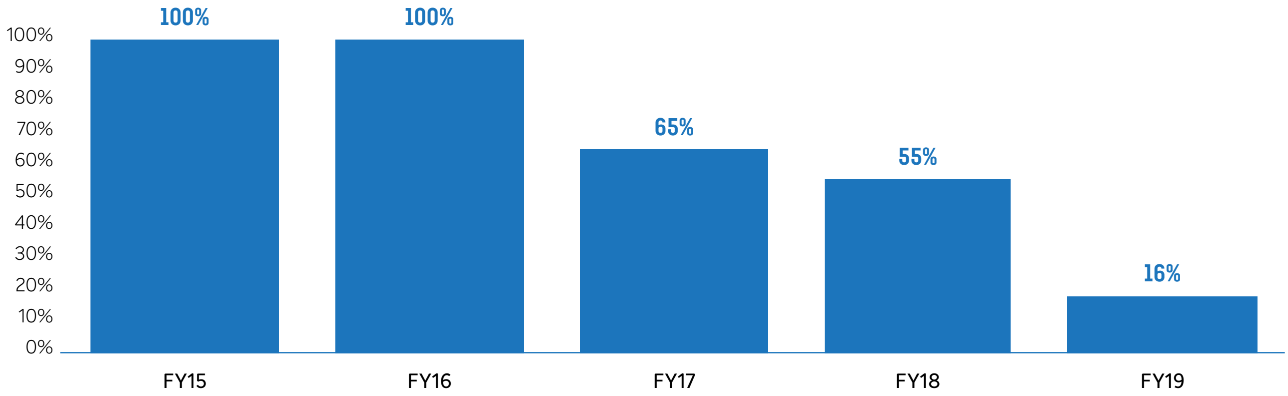
REMUNERATION REPORT

For the year ended 31 August 2019

3.3 FY19 LTI OUTCOMES (CONTINUED)

Figure 6 shows the proportion of LTI which has vested over the past 5 years:

Figure 6 – Percentage of LTI vesting over the last five years



3.3.2 FY20 LTI (Granted December 2019)

Grants are made on the basis of potential and retention, following the FY19 Remuneration Review. The Board has determined that FY20 LTI grants will be awarded in December 2019.

Grants are subject to unchanged performance conditions, a four year vesting period and are made at face value. FY20 grants have been made within guidance at 100% of Fixed Remuneration. Table 5 below summarises KMP LTI grants (**PARs**) proposed for FY20:

TABLE 5 – LTI GRANTS PROPOSED FOR FY20

Name	Position Title	FY20 Fixed Remuneration	LTI% of Fixed Remuneration	LTI Grant at Face Value $
George Frazis	Managing Director & CEO	$1,300,000	100%	$1,300,000
Debra Eckersley	Group Executive, People & Culture	$525,000	100%	$525,000
Adam McAnalen	Chief Risk Officer	$600,000	100%	$600,000
Lyn McGrath	Group Executive, Retail Banking	$635,000	100%	$635,000
Peter Sarantzouklis	Group Executive, BOQ Business	$690,000	100%	$690,000
Donna-Maree Vinci	Chief Digital & Information Officer	$580,000	100%	$580,000

Awards for the MD & CEO are subject to shareholder approval at the 2019 AGM.

3.4 KMP TOTAL REWARD OUTCOMES FOR FY19 (NON-STATUTORY DISCLOSURE)

This section provides a summary of the total benefit earned by KMP with respect to performance over the FY19 period. As with previous years this non-statutory table is provided to show what KMP actually received in FY19 including the value of any other benefits plus deferred STI and LTI which has vested. It excludes unvested STI and LTI.

The table below includes a breakdown of the following components of KMP remuneration:

- FY19 fixed remuneration which includes base salary plus superannuation;
- The value of non-monetary and other short-term benefits provided in FY19; and
- Variable remuneration which comprises:
  - The value of the cash component of the STI relating to performance in FY19 (Nil in FY19); and
  - The value of previously granted deferred STI and LTI which vested. In addition we have provided the value of deferred STI or LTI which lapsed or forfeited during the period.

REMUNERATION REPORT

For the year ended 31 August 2019

3.4 KMP TOTAL REWARD OUTCOMES FOR FY19 (NON-STATUTORY DISCLOSURE) (CONTINUED)

TABLE 6 – NON-STATUTORY DISCLOSURE

Name	Position Title	Year	Fixed Remuneration (1)	Value of Benefits (2)	STI Cash	Value of Deferred Equity Vested in Period (3)	Termination Benefits	Value of LTI Vested in Period (4)	Total Reward Value (5)	Prior Years' Equity Forfeited / Lapsed (6)
Jon Sutton (7)	Managing Director & CEO	2019	532,621	40,639	–	435,630	975,000	150,436	2,093,687	(2,629,401)
		2018	1,295,135	70,477	475,000	578,495	–	759,282	3,107,912	(621,244)
Anthony Rose (8)	Interim CEO	2019	919,607	–	–	156,057	–	78,225	1,153,889	(410,685)
	Chief Operating Officer	2018	707,395	–	165,000	221,845	–	379,641	1,473,881	(310,615)
Matthew Baxby	Chief Financial Officer	2019	652,596	–	–	193,064	–	67,993	913,653	(356,980)
		2018	652,606	–	190,000	248,844	–	318,908	1,410,358	(260,916)
Peter Deans (9)	Chief Risk Officer	2019	481,802	37,548	–	157,883	–	81,237	720,922	(1,482,725)
		2018	669,318	49,808	165,000	221,845	–	394,828	1,450,991	(323,047)
Debra Eckersley (10)	Group Executive, People and Culture	2019	524,651	–	–	–	–	–	524,651	–
Adam McAnalen (11)	Chief Risk Officer	2019	150,206	1,453	–	–	–	–	150,206	–
Lyn McGrath (12)	Group Executive, Retail Banking	2019	520,530	37,196	–	483,274	–	–	1,003,804	–
		2018	56,252	1,722	–	–	–	–	56,252	–
Peter Sarantzouklis (13)	Group Executive, BOQ Business	2019	39,294	450	–	–	–	–	39,294	–
Doug Snell (14)	Interim Group Executive, BOQ Business	2019	315,089	3,282	–	–	–	–	315,089	–
Donna-Maree Vinci	Chief Digital & Information Officer	2019	575,740	56,800	–	140,274	–	148,729	864,743	(781,287)
		2018	571,458	47,803	150,000	96,633	–	–	818,091	–
Brendan White (15)	Group Executive, BOQ Business	2019	414,449	10,668	–	201,448	–	77,028	692,925	(1,421,686)
		2018	687,472	20,669	220,000	284,583	–	364,454	1,556,509	(298,197)

(1) Base remuneration and superannuation make up a Group Executive's fixed remuneration, including annual leave paid during the year. For departing KMP this includes any leave which is paid out upon termination of employment, which is not included in Table 10 in Section 7.1.
(2) Value of benefits includes both non-monetary and other short term benefits and relate to benefits (and associated FBT) such as car parking, accommodation or relocation, travel and gifts received on leaving BOQ for former Executives disclosed above.
(3) The value of all deferred cash and/or equity awards (closing share price on vesting date) that vested during FY19. This excludes deferred equity awards granted in previous years which have not vested in FY19.
(4) This relates to PARs that vested during the financial year (closing share price on vesting date).
(5) This is the total $ value of fixed remuneration, STI cash, Value of Deferred Equity Vested in Period, Termination Benefits and Value of LTI Vested in Period.
(6) This relates to PARs which lapsed during the year as a result of hurdles not being met and/or as a result of ceasing employment (closing share price on lapsed date).
(7) Jon Sutton ceased employment on 5 December 2018. The Value of LTI Vested in Period for 2018 has been restated.
(8) Anthony Rose held the role of Chief Operating Officer until 6 December 2018 when he became Interim Chief Executive Officer.
(9) Peter Deans ceased employment on 31 May 2019.
(10) Debra Eckersley assumed the role of Group Executive, People & Culture on 3 September 2018.
(11) Adam McAnalen was promoted into the KMP role of Chief Risk Officer on 1 June 2019. The amounts shown relate to the period Mr McAnalen was KMP.
(12) Lyn McGrath assumed the role of Group Executive, Retail Banking on 1 August 2018.
(13) Peter Sarantzouklis assumed the role of Group Executive, BOQ Business on 12 August 2019.
(14) Doug Snell held the role of Interim Group Executive, BOQ Business from 21 December 2018 to 12 August 2019 The amounts shown relate to the period Mr Snell was KMP.
(15) Brendan White ceased employment on 6 March 2019.

REMUNERATION REPORT

For the year ended 31 August 2019

3.5 TREATMENT FOR DEPARTING KMP

Departing KMP are subject to plan rules and Board policy in relation to any unvested equity.

Payments provided for all departing KMP were within the termination benefit limit under the Corporations Act and are made in accordance with their individual employment agreements. Any restricted shares or PARs from previous years retained by departing KMP are held on foot and remain subject to the clawback and malus provisions of the associated plan rules.

Upon his resignation Jon Sutton received a payment of 9 months fixed remuneration in lieu of notice and was not eligible for either the FY19 STI award or LTI grant. He retained his restricted shares granted under the FY17 and FY18 STI and a portion of his PARs for testing at future dates, with the remainder of his PARs being forfeited.

Brendan White was on leave for his three month notice period and was not eligible for either the FY19 STI award or LTI grant. Brendan retained his restricted shares from the deferred FY17 STI and forfeited any entitlement to FY18 restricted shares along with all PARs.

Peter Deans forfeited his previously granted PARs but retained his FY17 and FY18 restricted shares for future vesting. Peter did not receive any FY19 STI award or LTI grant.

SECTION 4. REMUNERATION STRATEGY & STRUCTURE

This section provides an overview of the remuneration strategy and framework covering employees within BOQ.

The Board's remuneration strategy is supported by objectives that are common to all employees and are consistent with prior years, these include:

- Attraction and retention of appropriately skilled and experienced employees through the provision of market competitive remuneration;
- No distinction or difference in pay between genders for those that are performing the same role, other than where this is a difference as a result of performance, skill and experience;
- Provide opportunities for executives and employees to earn incentives linked to achievement of BOQ's objectives and performance, performance of their business unit and their individual contribution within an appropriate risk control framework;
- Align executive and employee interests with those of the Bank's stakeholders;
- Ensure that remuneration structures and their operation encourage behaviours that are consistent with the Bank's values and deliver good customer outcomes; and
- Provide remuneration structures that remain current and keep pace with the prevailing remuneration trends, practice and governance frameworks.

4.1 FIXED REMUNERATION

Fixed remuneration, which comprises salary, superannuation and other benefits is determined based upon the following factors:

1. Benchmarking using companies exhibiting similar characteristics and dynamics as BOQ.
2. Comparative fixed remuneration within BOQ for roles at a similar level.
3. The competitive dynamics of the hire.
4. The candidate's existing or most recent remuneration.
5. Any regulatory considerations concerning quantum.
6. Changing market trends and expectations.

REMUNERATION REPORT

For the year ended 31 August 2019

4.2 BOQ STI PLAN

Purpose	The STI Plan aims to reward KMP's contribution to specific annual BOQ Group and individual performance objectives.
Performance Period	BOQ's financial year, i.e. the 12 months from 1 September to 31 August.
Award Opportunity – expressed as a % of Fixed Remuneration (FR)	Target/Performing: MD & CEO – 90%; Line KMP – 75%; Functional KMP – 53% Exceptional/Maximum: MD & CEO – 150%; Line KMP – 140%; Functional KMP – 100%
Gateway	To be eligible for an STI award two gateway hurdles must be satisfied: 1. 90% of budgeted cash basic EPS 2. Behavioural and risk measures If either gateway is not achieved the KMP will not be eligible for a STI regardless of performance under the Group or Individual scorecards.
Pillars/Measures	The Group and individual KPI Score is based upon four equally weighted pillars aligned to BOQ's strategy. The same pillars are used for all participants with the exception of the Chief Risk Officer (**CRO**), these are: • Customer (measures cover customer satisfaction and advocacy) – 25% • Strategy (measures progress towards the Board's yearly strategy) - 25% • Shareholder (covers financial performance including NPAT, ROE, CTI and Loan Impairment Expense / GLA) - 25% • Culture (including both people and risk measures) – 25% The Board approves financial and non-financial measures for the year. The Customer, Strategy and Culture measures are designed to provide a focus on non-financial performance and to achieve the BOQ's long term objectives in areas such as customer satisfaction and advocacy, employee engagement and risk management. The financial measures are designed to provide a direct link with shareholders, to encourage prudent cost management and to ensure asset quality. The financial measures are supplemented by the STI Plan's financial gateway. Individual scorecards include financial and non-financial measures specific to the participant's division. For the revenue generating divisions (Retail and BOQ Business) measures include divisional NPAT, CTI and Loan Impairment Expense / GLA along with divisional customer satisfaction, strategic, employee engagement and risk measures. For the functional division heads, scorecards include reporting, project, strategic, cost management, and stakeholder specific measures. All scorecards include cultural, risk and compliance measures. For the CRO, objectives are set by the Board Risk Committee, due to the need to maintain the independence of Adam McAnalen's role. His Individual Scorecard does not include profitability or financial measures.
Award Determination	Performance intervals are provided across a range of outcomes with Performing/Target being aligned to the yearly budget. STI may be earned across the performance range up to a capped maximum at the exceptional level of performance. HRRC and the Board approve KMP scorecard outcomes. The amount of an STI award which a participant may receive is calculated by multiplying the Group KPI and Individual KPI score for each KMP by using the following formula: Participant's Fixed Remuneration x STI Target Opportunity % x Group KPI Score % x Individual KPI Score % = STI Award The multiplicative design results in the Individual KPI score serving as a modifier on the Group KPI score and can result in the STI award being scaled up to the maximum opportunity or down to zero.
Board Discretion/Overlay	The Board approves all KMP STI awards and retains overarching discretion to pay or withhold any STI award. When reviewing STI awards the Board is able to view performance retrospectively having regard for factors which may not have been foreseen when the measures were set at the beginning of the financial year.
Delivery	STI Awards are paid in cash where the value is $100,000 or less. Where the value of the STI award is above $100,000, 50% is paid in cash and the remaining 50% is deferred over three years in the form of Restricted Shares. The cash component of any STI award is generally paid in November following release of the full year results. The Restricted Shares are subject to forfeiture under certain conditions and vest 40% after 1 year, 30% after 2 years and 30% after 3 years subject to specified employment conditions.

REMUNERATION REPORT

For the year ended 31 August 2019

4.3 BOQ LTI PLAN

Purpose	The LTI Plan's purpose is to align executive's interests with stakeholders over the medium to long term. LTI is granted to executives on the basis of retention and potential.
Instrument	LTI is provided to KMP under the BOQ Group Award Rights Plan, which includes ability to grant: • Deferred Award Rights (**DARs**), subject to service related vesting conditions (not currently offered to KMP); and • PARs, subject to both performance and service related vesting conditions. Each PAR confers the right to one ordinary share in BOQ upon vesting. Shares delivered upon vesting are either issued or procured on market at the Board's discretion.
Opportunity	Grants to KMP of LTI are typically made in the range of 80% to 120% of Fixed Remuneration. The number of PARs granted is determined by dividing the Participant's dollar denominated grant by a Volume Weighted Average Price (**VWAP**) of the five trading days after the announcement of BOQ's full year results. Accordingly PAR grants are made at face value. The FY20 LTI allocation for George Frazis (MD & CEO) has a performance period starting on his commencement date of 5 September 2019, with the VWAP calculation on the five trading days immediately prior to that date.
Measurement Period	PARs have a four year measurement/vesting period. The measurement period generally begins in October following the announcement of BOQ's full year results.
Vesting Conditions	A participant must remain employed during the measurement period or be considered a good leaver for PARs to vest. Vesting is also subject to the performance conditions: • 80% of the PARs are subject to a relative TSR condition; and • 20% of the PARs are subject to a relative cash EPS condition.
Total Shareholder Return	TSR is the measurement of the entire return (including dividends) a shareholder would obtain from holding an entity's securities over the period. The LTI plan uses relative TSR which compares the TSR of BOQ with the performance of a Peer Group comprising the companies in the S&P/ASX 200 excluding resources, real estate investment trusts, telecommunications (offshore headquartered), energy and utilities. Vesting of the TSR tranche is tested independently and is subject to the following scale:

BOQ's TSR vs ASX 200 Peer Group	% of TSR Tranche Vesting
At or above 75th Percentile	100%
Between 50th and 75th Percentile	Pro-rata on a straight-line basis between 50% and 100%
At 50th Percentile	50%
Below 50th Percentile	0%

Cash Earnings per share	Cash EPS is the measure of financial performance of cash flow generated by the company on a per share basis. It is calculated by dividing cash NPAT by the total number of ordinary shares on issue. BOQ's EPS is measured against a Peer Group comprising five Financial Services companies: Australia & New Zealand Banking Group, Commonwealth Bank of Australia, National Australia Bank, Westpac Banking Corporation and Bendigo & Adelaide Bank. Vesting of the EPS tranche is tested independently and is subject to the following scale:

BOQ's EPS vs Financial Services Peer Group	% of EPS Tranche Vesting
At or above 90th Percentile	100%
Between 60th and 90th Percentile	Pro-rata on a straight-line basis between 50% and 100%
At 60th Percentile	50%
Below 60th Percentile	0%

Retesting	There is no retesting of any of the vesting conditions and any PARs which do not vest on the testing date lapse.
Board Discretion	The Board has discretion to reduce the vesting of any LTI award to zero where the Board feels it would be inappropriate for the PARs to vest such as where there has been a material misstatement of financial results or serious misconduct by an individual.
Exercise	The exercise price of each PAR is nil. Once the PARs vest, participants can exercise them at any time before the 7th anniversary of the grant.
Disposal Restrictions	Participants may not dispose of PARs prior to exercise. The Board has the discretion to specify any disposal restrictions to be applied to any shares received on exercise of PARs. Any restrictions will be included in the offer provided to Participants. Current unvested PARs on foot do not have any specific disposal restrictions as part of their offers apart from complying with BOQ's Securities Trading Policy.

REMUNERATION REPORT

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SECTION 5. REMUNERATION GOVERNANCE

Remuneration is governed by principles, policy and oversight of the HRRC in accordance with its charter and on behalf of the Board. The HRRC and Board may exercise discretion in accordance with parameters described below.

The remuneration strategy and the principles adopted to support this were described in Section 4. In accordance with the HRRC Charter, the remuneration policy was updated during the period, and was approved by the Board. The remuneration strategy and policy will be reviewed regularly as developments and changes in the regulatory environment become known. This includes the outcomes of APRA's proposed prudential standard CPS 511.

A report was provided by the CRO in assessing executive performance in FY19. The Chair of the Risk Committee attended the HRRC meeting to discuss the CRO's report. This is supplemented by a meeting of the HRRC to which the full Risk Committee was invited when reviewing and finalising STI amounts for FY19 and LTI grants for FY20.

5.1 REGULATORY CHANGES/IMPLEMENTATION

During FY19 further progress was made towards implementing the Sedgwick recommendations across BOQ and in particular at replacing commission based sales plans with balanced scorecards incorporating a mixture of financial and non-financial measures. FY19 marked the second year of the new scorecard across BOQ's Corporate Branch network staff. Further work was undertaken during FY19 in incorporating the principles of the Sedgwick recommendations within the BOQ Business Division by reviewing the plans covering these employees with the first new balanced scorecard coming into effect on 1 September 2019. Further work will be undertaken in FY20 focusing on replacing the remaining commission plans within BOQ Business as well as moving the existing scorecards to a majority weighting on non-financial performance. BOQ is on track to meet the Sedgwick deadline of 1 September 2020.

The BEAR legislation came into effect on 1 July 2019 and BOQ's remuneration governance framework and policies were updated accordingly.

Work will be undertaken during FY20 with regards to APRA's draft prudential standard CPS 511. This may require banks to implement changes to both remuneration design and remuneration governance. The Board and the HRRC are working with all stakeholders including APRA to determine the appropriate changes.

5.2 REMUNERATION PRINCIPLES

The below principles govern how remuneration works at BOQ:

- Total reward is linked to performance and reflects stakeholder interests;
- Fixed and total remuneration for each KMP is periodically benchmarked to the market to ensure it remains competitive;
- Key performance measures apply to all executives, covering both financial and non-financial measures;
- The Bank's LTI is awarded on the basis of a VWAP (face value) and not a risk adjusted value (fair value);
- Total remuneration for KMP is targeted to achieve a balanced mix between fixed, short term and long term variable at risk remuneration;
- Variable remuneration is capped and subject to deferral and/or clawback/malus of unvested deferred STI and LTI;
- Cash payments are not made to executives joining BOQ; and
- The Board has discretion over the outcomes under both the STI and LTI plans.

5.3 HRRC CHARTER

Under the Consolidated Entity's HRRC charter, the Committee undertakes to conduct regular reviews and provide advice to the Board with regard to the following:

- Review the Consolidated Entity's Remuneration Policy, at least on a biennial basis, to ensure compliance with the Consolidated Entity's objectives including the risk management framework and to reflect changes in the regulatory environment;
- Reviewing and making recommendations to the Board on the design and terms of all employee equity plans;
- Provide recommendations to the Board on remuneration, recruitment, succession, retention and termination policies for Group Executives;
- An annual review of the individual remuneration arrangements for Group Executives (MD & CEO and his direct reports), any other Accountable Persons under BEAR and all other Responsible Persons (as defined by the APRA Prudential Standard CPS 520);
- Reviewing and making recommendations to the Board on diversity at all levels below the Board and overseeing execution of the Consolidated Entity's People & Culture strategy; and
- Recommending NED remuneration, including ensuring that the structure of NED remuneration is clearly distinguished from that of Group Executives.

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5.4 SECURITIES TRADING POLICY

The Securities Trading Policy regulates dealing by Directors, Employees and Contractors in BOQ securities. Under the policy, Prescribed Persons (those employees with the authority, responsibility or a participatory role in the planning, directing or controlling of the activities of the Consolidated Entity) are prohibited from trading in BOQ securities during certain blackout periods:

- The period commencing 1 March and ending at the close of trading on the ASX one trading day after the announcement of BOQ's half year results;
- The period commencing 1 September and ending at the close of trading on the ASX one trading day after the announcement of BOQ's full year results; or
- Any other period of time nominated from time-to-time by the Chairman, the MD & CEO or the Chief Financial Officer of BOQ.

If a Director, Employee or Contractor has inside information about the BOQ Group, they must not trade in BOQ securities at any time whilst in possession of such information, including outside of a Blackout period.

5.5 USE OF REMUNERATION CONSULTANTS

Where necessary, the Board seeks advice from independent experts and advisors, including remuneration consultants. The remuneration consultants are engaged by the Chairman of the HRRC which ensures, upon engagement, that the appropriate level of independence exists from the Consolidated Entity's Management. Reports provided by independent consultants are submitted directly to the Chairman of the HRRC. Where the consultant's engagement requires a recommendation, the recommendation is provided to, and discussed directly with the HRRC Chairman in accordance with the requirements of the Corporations Act.

During FY19 the HRRC engaged independent advisors from PricewaterhouseCoopers (**PwC**), Ernst & Young (**EY**) and Egan Associates to assist with the decision making process. None of the advisors provided a remuneration recommendation as defined under the Corporations Act.

5.6 BOARD DISCRETION

Group Executives' remuneration is determined by the remuneration strategy, policy and plans such as STI and LTI. Remuneration outcomes are assessed against a range of performance measures and awarded in accordance with the plan design and plan rules.

The Board and HRRC recognise that there are a number of factors which are specific to the current and forward years and these may be taken into account when considering the overall remuneration outcomes for each year. To account for these factors, the HRRC and Board may make discretionary adjustments to the outcomes for Group Executives (as well as those employees classified as Responsible Persons) that may impact their remuneration negatively or positively. Through this process, remuneration outcomes have been adjusted both positively and negatively in previous years.

Criteria used by the HRRC to apply discretionary adjustments include:

- Factors either not known or relevant at the beginning of a financial year, which can impact performance positively or negatively during the course of the financial year;
- The degree of 'stretch' implicit in the measures and targets and the environment and market context in which the targets were set;
- Whether the operating environment during the financial year was materially different than forecast;
- Comparison with the performance of the Consolidated Entity relative to its competitors;
- The emergence of any major positive or negative risk or reputational issues;
- The quality of the financial result as shown by its composition and consistency;
- Whether leadership behaviours and BOQ values have been consistently demonstrated throughout the year; and
- Any other matters that the Board and the HRRC deem to be relevant and which are not outlined above.

5.7 CLAWBACK AND MALUS

Clawback and malus provisions are set out in plan rules. In circumstances where it becomes evident there was a material misstatement of financial results or serious misconduct by an individual where this may result in reputational damage to the Bank, the Board can exercise discretion to reduce or forfeit (malus) a pro-rated amount or the full value of any unvested awards or compel the participant to pay back any award or vested equity (clawback).

The Board has reviewed the clawback and malus provisions of the incentive plan rules as part of its overarching review into risk and consequence management and intends to broaden these policies in part to better align with BEAR and APRA's CPS 511 standard.

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For the year ended 31 August 2019

5.8 GOOD LEAVER AND CHANGE OF CONTROL PROVISIONS

Group Executives are not eligible to receive an STI or LTI if they resign or are terminated for misconduct or poor performance. However the Board has discretion to consider a pro-rated retention based on circumstances where they meet the "good leaver" definition. Commonly good leaver status is granted in the case of redundancy, retirement, Total and Permanent Disablement, death in service or the divestment of a portion of BOQ. Under the STI Plan rules if a participant is deemed a good leaver, their award for the year will be pro-rated and subject to the same performance testing as if their employment had not ended. Restricted Shares granted as deferred STI will be forfeited if the employee ceases employment to work for a competitor or if they are terminated for misconduct. PARs granted under the LTI Plan will be pro-rated based on the number of days elapsed in the vesting period with the remaining PARs being retained for testing at the end of the original performance period. The Board retains the discretion to classify an employee as a Good Leaver and to determine the treatment of their award including forfeiture in full in accordance with plan rules.

The Board retains discretion to determine the treatment of an STI award in the case of a Change of Control including the early payment for the whole or part of a performance period. This covers both the cash STI award and the removal of the restrictions on deferred STI. With respect to the LTI the Board's policy is that a pro-rata number of PARs will vest depending on the proportion of the vesting period elapsed and the likelihood (at the Board's discretion) that the performance conditions would have been satisfied.

5.9 MINIMUM SHAREHOLDING REQUIREMENTS

NEDs are currently required to hold shares equal in value to one times their base fee within three years of their appointment to the Board or within 12 months of the adoption of the policy (whichever is the latter).

There is currently no holding policy in place for executives as they receive equity under the deferred STI and LTI plans.

5.10 EXECUTIVE CONTRACTS

The remuneration and terms of Group Executives are formalised in their ESA. Each of these agreements provide for the payment of fixed and performance-based variable remuneration, superannuation and other benefits such as statutory leave entitlements. During FY19 the Board updated the BOQ ESA to bring it in line with the BEAR legislation. As part of this the notice period for executives other than the MD & CEO are being increased to 6 months. This change is being implemented for all current Group Executives and will be used for all future contracts. Employment terms being implemented are governed by employment contracts as set out in the table below

TABLE 7 – EXECUTIVE CONTRACT TERMS

Name	Position Title	Notice Period by Executive	Employer Notice Period	Termination Payments (includes Notice Periods)
George Frazis	Managing Director & Chief Executive Officer	6 months	9 months	9 months fixed remuneration in lieu of notice
Donna-Maree Vinci	Chief Digital & Information Officer	3 months	3 months	6 months fixed remuneration
Lyn McGrath	Group Executive Retail Banking	3 months	3 months	3 months fixed remuneration in lieu of notice
Debra Eckersley	Group Executive People & Culture	6 months	6 months	6 months fixed remuneration in lieu of notice
Adam McAnalen	Chief Risk Officer	6 months	6 months	6 months fixed remuneration in lieu of notice
Peter Sarantzouklis	Group Executive BOQ Business	6 months	6 months	6 months fixed remuneration in lieu of notice
Doug Snell	Interim Group Executive BOQ Business	3 months	3 months	3 months fixed remuneration
Anthony Rose	Interim Chief Executive Officer	3 months	3 months	6 months fixed remuneration
Matthew Baxby	Chief Financial Officer	3 months	3 months	6 months fixed remuneration
Jon Sutton	Managing Director & Chief Executive Officer	9 months	9 months	No benefit in addition to notice
Brendan White	Group Executive BOQ Business	3 months	3 months	6 months fixed remuneration
Peter Deans	Chief Risk Officer	3 months	3 months	3 months fixed remuneration

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SECTION 6. NON-EXECUTIVE DIRECTOR REMUNERATION

6.1 FEE POOL

NED fees are determined within an aggregate fee pool limit. The pool currently stands at $2,800,000 (inclusive of superannuation) and was approved by shareholders on 30 November 2016. The fee pool allows the Board flexibility in dealing with changes to its size and composition. The Board will not be seeking any increase to the fee pool at the 2019 AGM.

6.2 REMUNERATION FRAMEWORK

Non-Executive Director fees are set to attract and retain individuals of appropriate calibre to the BOQ Board and Committees. Fees are reviewed annually by the HRRC having regard to external benchmarking information provided by independent remuneration consultants, principally to ensure market comparability.

The Chairman's fees are determined independently to the fees of other Directors and are also based upon information provided periodically by independent remuneration consultants. The Chairman is not present at any discussions relating to the determination of their own remuneration.

In order to maintain independence and impartiality, NEDs do not receive any performance-related remuneration including share options or rights subject to a performance condition in addition to their prescribed fees. NEDs are not provided with retirement benefits apart from statutory superannuation.

6.3 NED FEES

In FY19 the Board implemented a new NEDs Fee Sacrifice Rights Plan, the details of which are provided in the table below:

Purpose	The plan's purpose is to provide an opportunity for NEDs to increase their shareholding in a tax effective manner. The Plan meets regulatory and tax requirements.
Value	Directors can nominate at the beginning of the participation period, a percentage of their pre-tax fees (up to 100%) to receive in rights to shares in BOQ.
Vesting Period	Rights vest and convert to shares following the completion of the participation period. For FY19 the participation period was the six months from 1 March to 31 August 2019. The rights do not have any performance conditions in order to preserve the directors' independence.
Disposal Restrictions	Shares received on exercise will be subject to a disposal restriction of at least three years or longer as nominated by the director (up to a maximum of 15 years).
Cessation of Employment	If a participant ceases to be a NED prior to the rights vesting, they will retain a number of their rights based on the period they were a NED. If employment ceases during the restriction period, any disposal restrictions on the shares will be lifted subject to a minimum trading restriction of 12 months.

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For the year ended 31 August 2019

6.3 NED FEES (CONTINUED)

The table below sets out the current Board and Committee membership fee structure (exclusive of superannuation). There are no planned changes to fees for FY20.

TABLE 8 – DIRECTORS' ANNUAL FEES (1)

Directors' Annual Fees	01/09/18 – 31/08/19 Chairman/Committee Chair $	01/09/18 – 31/08/19 Directors/Committee Members $
Fixed component of remuneration for Directors (2)	–	150,000
Chairman (3)	400,000	–
Additional remuneration is paid to Non-Executive Directors for Committee work:		
St Andrews' Board of Directors (4) (5)	–	45,000
Audit Committee	45,000	22,500
Risk Committee	45,000	22,500
Nomination & Governance Committee	15,000	10,000
Human Resources & Remuneration Committee	35,000	17,500
Investment Committee (6)	2,250	1,500
Due Diligence Committee (6)	2,250	1,500
Information Technology Committee	35,000	17,500

(1) Fees remain unchanged since FY14.
(2) Directors receive one fee for serving on Bank and subsidiary Committees. A separate fee is received for serving on St Andrew's Board.
(3) The Chairman receives no additional remuneration for involvement with Committees.
(4) David Willis is also a member of the St Andrew's Board of Directors.
(5) This fee is payable to St Andrews' directors who are also BOQ directors. Different fees are payable to other St Andrews' NEDs.
(6) Per meeting.

SECTION 7. STATUTORY TABLES

7.1 STATUTORY DISCLOSURES

The following tables include details of the nature and amount, as required by the *Corporations Act 2001*, of each major element of the remuneration of each Director and Group Executive of the Group, calculated in accordance with accounting standards.

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7.1 STATUTORY DISCLOSURES (CONTINUED)

TABLE 9 – DIRECTOR'S REMUNERATION

Details of the nature and amount of each major element of the remuneration of each Director of the Consolidated Entity are as outlined in the table below:

		Short-Term					Long-Term		Share Based Payments				
		Salary and fees $	STI at risk[1] $	Non-monetary benefits[2] $	Other short term benefits $	Total short term benefits $	Post employment[3] $	Other long term[4] $	Termination Benefits	Rights[5] $	Shares and units[6] $	Total $	Proportion of remuneration performance related %	Value of rights as proportion of remuneration %
Non-Executive Directors – Current[7]														
Roger Davis[8]	2019	400,000	–	17,633	–	417,633	20,649	–	–	–	–	438,282	–	–
	2018	400,000	–	–	–	400,000	20,169	–	–	–	–	420,169	–	–
Patrick Allaway[9]	2019	55,833	–	–	–	55,833	5,304	–	–	–	–	61,137	–	–
Kathleen Bailey- Lord[10]	2019	55,833	–	–	–	55,833	5,304	–	–	–	–	61,137	–	–
Bruce Carter	2019	124,000	–	–	–	124,000	4,234	–	–	–	133,046	261,280	–	–
	2018	243,208	–	–	–	243,208	19,308	–	–	–	–	262,516	–	–
Richard Haire	2019	218,750	–	–	–	218,750	19,443	–	–	–	–	238,193	–	–
	2018	249,958	–	–	–	249,958	19,308	–	–	–	–	269,266	–	–
John Lorimer	2019	190,000	–	–	–	190,000	18,050	–	–	–	–	208,050	–	–
	2018	190,000	–	–	–	190,000	17,733	–	–	–	–	207,733	–	–
Warwick Negus	2019	193,000	–	–	–	193,000	17,800	–	–	–	–	210,800	–	–
	2018	165,333	–	–	–	165,333	15,849	–	–	–	–	181,182	–	–
Karen Penrose	2019	225,250	–	–	–	225,250	20,359	–	–	–	–	245,609	–	–
	2018	200,500	–	–	–	200,500	18,233	–	–	–	–	218,733	–	–
Michelle Tredenick	2019	235,000	–	–	–	235,000	20,748	–	–	–	–	255,748	–	–
	2018	235,000	–	–	–	235,000	19,616	–	–	–	–	254,616	–	–
David Willis	2019	262,500	–	–	–	262,500	21,865	–	–	–	–	284,365	–	–
	2018	263,651	–	–	–	263,651	19,616	–	–	–	–	283,267	–	–
Executive Directors – Former[7]														
Jon Sutton[11] – Managing Director & Chief Executive Officer	2019	341,053	–	27,421	13,218	381,692	5,133	–	975,000	(484,316)	396,875	1,274,384	(7%)	(38%)
	2018	1,352,041	475,000	20,669	49,808	1,897,518	20,169	26,056	–	757,289	511,458	3,212,490	54%	24%

(1) STI at risk reflects 50 per cent of the amounts paid or accrued in respect of FY19.
(2) Non-monetary benefits relate to company-funded benefits (and associated FBT) such as car parking, accommodation or relocation and travel relating to Executives and NEDs. In addition, this includes gifts received on leaving BOQ for former Executives.
(3) Post-employment includes superannuation benefits.
(4) Comprises long service leave accrued or utilised during the financial year.
(5) The fair value of the rights is calculated at the date of grant using an industry accepted option pricing model and allocated to each reporting period evenly over the period from grant date to vesting date.
(6) Represents restricted shares awarded through deferred STI payments or Non-Executive Director Fee Sacrifice Rights Plan.
(7) The Bank has also paid insurance premiums in respect of Director's and Officers' Liability Insurance which is not reflected in the above table as there is no appropriate basis for allocation.
(8) Reportable fringe benefits amounts related to private travel adjacent to a company funded business trip.
(9) Patrick Allaway was appointed to the BOQ Board on 1 May 2019.
(10) Kathleen Bailey-Lord was appointed to the BOQ Board on 1 May 2019.
(11) Jon Sutton resigned effective 5 December 2018. Mr Sutton received a termination payment (which is his notice period in accordance with his contract) and retained rights received under BOQ's award rights plans. The rights remain subject to the relevant performance hurdles and restriction periods. The full value of retained equity has been included in Mr Sutton's 2019 remuneration in accordance with AASB 2 *Share-based Payments*. On separation, a number of award rights lapsed and the associated expense has been reversed.

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7.1 STATUTORY DISCLOSURES (CONTINUED)

TABLE 10 – GROUP EXECUTIVE REMUNERATION

Details of the nature and amount of each major element of the remuneration of each Group Executive of the Consolidated Entity are as outlined in the table below:

		Short-Term					Long-Term							
									Share Based Payments					
		Salary and fees[1] $	STI at risk[2] $	Non-monetary benefits[3] $	Other short term benefits $	Total short term benefits $	Post employment[4] $	Other long term[5] $	Termination Benefits	Rights[6] $	Shares and units[7] $	Total $	Proportion of remuneration performance related %	Value of rights as proportion of remuneration %
Executives – Current														
Matthew Baxby	2019	659,021	–	–	–	659,021	20,649	18,219	–	329,463	112,917	1,140,269	39%	29%
	2018	631,755	190,000	–	–	821,755	20,169	13,046	–	355,322	214,584	1,424,876	53%	25%
Debra Eckersley[8]	2019	528,235	–	–	–	528,235	24,138	1,485	–	47,132	–	600,990	8%	8%
Adam McAnalen[9]	2019	140,674	–	1,276	177	142,127	8,204	69,968	–	22,375	–	242,674	–	9%
Lyn McGrath	2019	537,821	–	37,196	–	575,017	20,902	2,062	–	57,007	724,202	1,379,190	57%	4%
	2018	55,211	–	1,722	–	56,933	4,880	149	–	–	–	61,962	–	–
Anthony Rose	2019	926,320	–	–	–	926,320	20,649	47,780	–	357,832	96,042	1,448,623	31%	25%
	2018	704,229	165,000	–	–	869,229	20,169	13,983	–	393,220	178,542	1,475,143	50%	27%
Peter Sarantzouklis[10]	2019	38,925	–	450	–	39,375	3,409	103	–	–	–	42,887	–	–
Doug Snell[11]	2019	301,851	–	3,282	–	305,133	13,238	9,500	–	74,681	–	402,552	–	19%
Donna-Maree Vinci	2019	537,308	–	56,800	–	594,108	20,649	7,281	–	317,450	86,667	1,026,155	38%	31%
	2018	553,101	150,000	47,803	–	750,904	20,169	5,242	–	491,008	160,625	1,427,948	63%	34%
Executives – Former														
Peter Deans[12]	2019	416,384	–	–	37,548	453,932	15,399	–	–	(331,344)	138,125	276,112	(70%)	(120%)
	2018	651,301	165,000	–	49,808	866,109	15,157	13,626	–	398,745	180,625	1,474,262	50%	27%
Brendan White[13]	2019	364,658	–	10,668	–	375,326	10,266	–	–	(321,076)	(37,500)	27,016	(1327%)	(1188%)
	2018	660,696	220,000	20,669	–	901,365	20,169	13,916	–	385,735	234,583	1,555,768	54%	25%

(1) Salary and fees include fixed remuneration, including annual leave accrued during the year.
(2) STI at risk reflects 50 per cent of the amounts paid or accrued in respect of FY19.
(3) Non-monetary benefits relate to company-funded benefits (and associated FBT) such as car parking, accommodation or relocation, travel and gifts received on leaving BOQ for former Executives disclosed above.
(4) Post-employment includes superannuation benefits.
(5) Comprises long service leave accrued or utilised during the financial year.
(6) The fair value of the rights is calculated at the date of grant using an industry accepted option pricing model and allocated to each reporting period evenly over the period from grant date to vesting date.
(7) Represents restricted shares awarded through deferred STI payments or in lieu of forgone incentives.
(8) Debra Eckersley was appointed as an executive on 3 September 2018.
(9) Adam McAnalen was appointed as an executive on 1 June 2019. The amounts shown relate from the period he was appointed and became KMP.
(10) Peter Sarantzouklis was appointed as an executive on 12 August 2019.
(11) Doug Snell was Interim Group Executive, BOQ Business for the period 21 December 2018 to 12 August 2019. The amounts shown relate to the period Mr Snell was KMP.
(12) Peter Deans retired on 31 May 2019. Mr Deans retained rights received under BOQ's award rights plans. The rights remain subject to the relevant performance hurdles and restriction periods. The full value of retained equity has been included in Mr Dean's 2019 remuneration in accordance with AASB 2 Share-based Payments. On separation, a number of award rights lapsed and the associated expense has been reversed.
(13) Brendan White ceased employment on 6 March 2019. Mr White retained rights received under BOQ's award rights plans. The rights remain subject to the relevant performance hurdles and restriction periods. The full value of retained equity has been included in Mr White's 2019 remuneration in accordance with AASB 2 *Share-based Payments*. On separation, a number of award rights lapsed and the associated expense has been reversed.

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7.2 EQUITY HELD BY GROUP EXECUTIVES

The movement during FY19 in the number of rights over ordinary shares held by each Group Executive as part of their remuneration, are as follows:

TABLE 11 – MOVEMENT IN RIGHTS HELD BY GROUP EXECUTIVES DURING THE FINANCIAL YEAR 2019

					Movements during the 2019 Financial Year					
Group [1] Executive	Type	Grant Date	Share Price at Grant Date $	Balance at 1 Sep 2018	Other [2]	Granted [3]	Exercised	Lapsed	Balance at 31 Aug 2019 [3] [4]	Vested during the Year [5] (%)
Current										
Matthew Baxby	2015 PARs	15/12/2015	13.02	44,194	–	–	6,931	37,263	–	16%
	2016 PARs	23/12/2016	11.95	54,399	–	–	–	–	54,399	0%
	Restricted Shares	23/12/2016	11.95	10,653	–	–	10,653	–	–	50%
	2017 PARs	13/12/2017	12.71	50,002	–	–	–	–	50,002	0%
	Restricted Shares	13/12/2017	12.71	19,085	–	–	9,542	–	9,543	50%
	2018 PARs	11/12/2018	9.74	–	–	61,695	–	–	61,695	0%
	Restricted Shares	11/12/2018	9.74	–	–	17,897	–	–	17,897	0%
Debra Eckersley	2018 PARs	11/12/2018	9.74	–	–	49,450	–	–	49,450	0%
Adam McAnalen	2016 PARs	23/12/2016	11.95	–	9,067	–	–	–	9,067	0%
	2016 DARs	23/12/2016	11.95	–	1,814	–	–	–	1,814	0%
	2017 PARs	13/12/2017	12.71	–	7,634	–	–	–	7,634	0%
	2017 DARs	13/12/2017	12.71	–	3,054	–	–	–	3,054	0%
	2018 PARs	11/12/2018	9.74	–	10,361	–	–	–	10,361	0%
	2018 DARs	11/12/2018	9.74	–	3,768	–	–	–	3,768	0%
Lyn McGrath	Restricted Shares	17/10/2018	10.56	–	–	56,068	51,460	–	4,608	92%
	2018 PARs	11/12/2018	9.74	–	–	59,811	–	–	59,811	0%
	Restricted Shares	11/12/2018	9.74	–	–	14,129	–	–	14,129	0%
Anthony Rose	2015 PARs	15/12/2015	13.02	50,843	–	–	7,974	42,869	–	16%
	2016 PARs	23/12/2016	11.95	58,932	–	–	–	–	58,932	0%
	Restricted Shares	23/12/2016	11.95	8,500	–	–	8,500	–	–	50%
	2017 PARs	13/12/2017	12.71	54,200	–	–	–	–	54,200	0%
	Restricted Shares	13/12/2017	12.71	15,649	–	–	7,824	–	7,825	50%
	2018 PARs	11/12/2018	9.74	–	–	66,876	–	–	66,876	0%
	Restricted Shares	11/12/2018	9.74	–	–	15,542	–	–	15,542	0%
Donna-Maree Vinci	2015 PARs	15/12/2015	13.02	44,585	–	–	6,993	37,592	–	16%
	2016 PARs	29/02/2016	10.55	52,076	–	–	8,168	43,908	–	16%
	2016 PARs	23/12/2016	11.95	51,679	–	–	–	–	51,679	0%
	Restricted Shares	23/12/2016	11.95	7,707	–	–	7,707	–	–	50%
	2017 PARs	13/12/2017	12.71	44,276	–	–	–	–	44,276	0%
	Restricted Shares	13/12/2017	12.71	13,932	–	–	6,966	–	6,966	50%
	2018 PARs	11/12/2018	9.74	–	–	57,362	–	–	57,362	0%
	Restricted Shares	11/12/2018	9.74	–	–	14,129	–	–	14,129	0%

(1) Group Executives with nil shareholding movements while KMP have been excluded from the table above.
(2) Other is the balance at the date an executive became KMP. Adam McAnalen was appointed as an executive on 1 June 2019.
(3) This represents the maximum number of award rights that may vest to each Executive.
(4) Balance amounts as at 31 August 2019 are unvested and not yet exercisable.
(5) Percentage of initial rights granted.

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7.2 EQUITY HELD BY GROUP EXECUTIVES (CONTINUED)

TABLE 11 – MOVEMENT IN RIGHTS HELD BY GROUP EXECUTIVES DURING THE FINANCIAL YEAR 2019 (CONTINUED)

					Movements during the 2019 Financial Year					
Group Executive [1]	Type	Grant Date	Share Price at Grant Date $	Balance at 1 Sep 2018	Opening Balance [2]	Granted [3]	Exercised	Lapsed	Balance at 31 Aug 2019 [3] [4]	Vested during the Year [5] (%)
Former										
Jon Sutton	2015 PARs	15/12/2015	13.02	97,774	–	–	15,335	82,439	–	16%
	2016 PARs	23/12/2016	11.95	117,865	–	–	–	117,865	–	0%
	Restricted shares	23/12/2016	11.95	22,667	–	–	22,667	–	–	50%
	2017 PARs	13/12/2017	12.71	99,239	–	–	–	77,547	21,692	0%
	Restricted shares	13/12/2017	12.71	45,803	–	–	22,901	–	22,902	50%
	Restricted shares	05/12/2018	9.74	–	–	44,741	–	–	44,741	0%
Peter Deans	2015 PARs	15/12/2015	13.02	52,798	–	–	8,281	44,517	–	16%
	2016 PARs	23/12/2016	11.95	61,199	–	–	–	61,199	–	0%
	Restricted shares	23/12/2016	11.95	8,500	–	–	8,500	–	–	50%
	2017 PARs	13/12/2017	12.71	51,528	–	–	–	51,528	–	0%
	Restricted shares	13/12/2017	12.71	16,031	–	–	8,015	–	8,016	50%
	2018 PARs	11/12/2018	9.74	–	–	60,400	–	60,400	–	0%
	Restricted shares	11/12/2018	9.74	–	–	15,542	–	–	15,542	0%
Brendan White	2015 PARs	15/12/2015	13.02	50,061	–	–	7,852	42,209	–	16%
	2016 PARs	23/12/2016	11.95	58,026	–	–	–	58,026	–	0%
	Restricted shares	23/12/2016	11.95	10,767	–	–	10,767	–	–	50%
	2017 PARs	13/12/2017	12.71	52,673	–	–	–	52,673	–	0%
	Restricted shares	13/12/2017	12.71	20,611	–	–	10,305	–	10,306	50%

(1) Group Executives with nil shareholding movements while KMP have been excluded from the table above.
(2) Opening balance is the balance at the date an executive became KMP. Adam McAnalen was appointed as an executive on 1 June 2019.
(3) This represents the maximum number of award rights that may vest to each Executive.
(4) Balance amounts as at 31 August 2019 are unvested and not yet exercisable.
(5) Percentage of initial rights granted.

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7.2 EQUITY HELD BY GROUP EXECUTIVES (CONTINUED)

The table below shows the total value of any rights that were granted, exercised or lapsed to Group Executives.

TABLE 12 – VALUE OF RIGHTS HELD BY GROUP EXECUTIVES DURING THE FINANCIAL YEAR 2019

Group Executive	Grant	Grant Date	Fair Value per Right at Grant Date $	Value at Grant Date (1) $	Exercise Date	Share Price at Exercise Date (2) $	Value at Exercise Date (3) $	Expiry / Lapsing Date
Current								
Matthew Baxby	2013 PARs	16/12/2013	7.63	344,433	24/10/2016	11.20	326,603	16/12/2018
	2013 DARs	16/12/2013	10.38	52,720	30/12/2014	12.20	12,383	16/12/2018
					31/12/2015	13.94	21,231	16/12/2018
					27/01/2017	12.21	31,026	16/12/2018
	2014 PARs	16/12/2014	6.13	267,041	29/10/2017	13.47	322,741	16/12/2019
	Restricted Shares	16/12/2014	11.70	266,982	16/12/2015	13.31	151,854	16/12/2024
					16/12/2016	11.50	131,215	16/12/2024
	2015 PARs	15/12/2015	7.67	338,968	16/04/2019	8.99	62,310	16/12/2020
	Restricted Shares	15/12/2015	13.02	239,334	15/12/2016	11.50	105,697	16/12/2025
					15/12/2017	12.61	115,899	16/12/2025
	2016 PARs	23/12/2016	6.80	369,913	–	–	–	16/12/2021
	Restricted Shares	23/12/2016	11.95	254,607	15/12/2017	12.61	134,334	16/12/2026
					30/04/2019	8.89	94,705	16/12/2026
	2017 PARs	13/12/2017	7.14	357,014	–	–	–	13/12/2022
	Restricted Shares	13/12/2017	13.10	250,014	30/04/2019	8.89	84,828	16/12/2027
	2018 PARs	11/12/2018	4.91	302,922	–	–	–	11/12/2025
	Restricted Shares	11/12/2018	10.62	190,066	–	–	–	11/12/2028
Debra Eckersley	2018 PARs	11/12/2018	4.91	242,800	–	–	–	11/12/2025
Adam McAnalen	2015 PARs	15/12/2015	7.67	53,997	16/01/2019	10.34	11,426	16/12/2020
	2015 DARs	15/12/2015	11.71	27,483	22/12/2016	12.00	5,640	16/12/2020
					19/12/2017	12.66	8,913	16/12/2020
					13/12/2018	9.56	11,214	16/12/2020
	2016 PARs	23/12/2016	6.80	61,656	–	–	–	16/12/2021
	2016 DARs	23/12/2016	11.45	41,529	19/12/2017	12.66	9,179	23/12/2021
					13/12/2018	9.56	10,401	23/12/2021
	2017 PARs	13/12/2017	7.14	54,507	–	–	–	13/12/2022
	2017 DARs	13/12/2017	11.05	42,178	13/12/2018	9.56	7,294	13/12/2022
	2018 PARs	11/12/2018	4.91	50,873	–	–	–	11/12/2025
	2018 DARs	11/12/2018	8.21	30,935	–	–	–	11/12/2025
Lyn McGrath	Restricted Shares	17/10/2018	10.91	611,702	30/04/2019	8.89	348,746	17/10/2028
					15/08/2019	8.85	108,244	17/10/2028
	2018 PARs	11/12/2018	4.91	293,672	–	–	–	11/12/2025
	Restricted Shares	11/12/2018	10.62	150,050	–	–	–	11/12/2028
Anthony Rose	2013 PARs	16/12/2013	7.63	410,036	21/10/2016	11.14	386,736	16/12/2018
	2013 DARs	16/12/2013	10.38	62,757	8/01/2015	11.94	14,435	16/12/2018
					26/02/2016	10.55	19,127	16/12/2018
					9/01/2017	12.40	37,498	16/12/2018

(1) Represents rights held at 1 September 2018 or granted during FY19.
(2) Closing share price on exercise date of rights that have a nil exercise price.
(3) Closing share price on exercise date multiplied by the number of rights exercised during the year.

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7.2 EQUITY HELD BY GROUP EXECUTIVES (CONTINUED)

TABLE 12 – VALUE OF RIGHTS HELD BY GROUP EXECUTIVES DURING THE FINANCIAL YEAR 2019 (CONTINUED)

Group Executive	Grant	Grant Date	Fair Value per Right at Grant Date $	Value at Grant Date (1) $	Exercise Date	Share Price at Exercise Date (2) $	Value at Exercise Date (3) $	Expiry / Lapsing Date
Current								
Anthony Rose (continued)	2014 PARs	16/12/2014	6.13	317,902	27/10/2017	13.31	379,641	16/12/2019
	Restricted Shares	16/12/2014	11.70	249,982	16/12/2015	13.31	142,191	16/12/2024
					16/12/2016	11.50	122,855	16/12/2024
	2015 PARs	15/12/2015	7.67	389,966	30/04/2019	8.89	70,889	16/12/2020
	Restricted Shares	15/12/2015	13.02	239,334	15/12/2016	11.50	105,697	16/12/2025
					15/12/2017	12.61	115,899	16/12/2025
	2016 PARs	23/12/2016	6.80	400,738	–	–	–	16/12/2021
	Restricted Shares	23/12/2016	11.95	203,150	15/12/2017	12.61	107,185	16/12/2026
					30/04/2019	8.89	75,565	16/12/2026
	2017 PARs	13/12/2017	7.14	386,988	–	–	–	13/12/2022
	Restricted Shares	13/12/2017	13.10	205,002	30/04/2019	8.89	69,555	16/12/2027
	2018 PARs	11/12/2018	4.91	328,361	–	–	–	11/12/2025
	Restricted Shares	11/12/2018	10.62	165,056	–	–	–	11/12/2028
Doug Snell	2015 PARs	15/12/2015	7.67	65,993	24/04/2019	9.42	12,708	16/12/2020
	2015 DARs	15/12/2015	11.71	54,955	22/12/2016	12.00	11,280	16/12/2020
					21/12/2017	12.67	17,827	16/12/2020
					20/12/2018	9.42	22,099	16/12/2020
	2016 PARs	23/12/2016	6.80	67,816	–	–	–	16/12/2021
	2016 DARs	23/12/2016	11.45	62,288	21/12/2017	12.67	13,785	23/12/2021
					20/12/2018	9.42	15,373	23/12/2021
	2017 PARs	13/12/2017	7.14	65,410	–	–	–	13/12/2022
	2017 DARs	13/12/2017	11.05	59,051	20/12/2018	9.42	10,070	13/12/2022
	2018 PARs	11/12/2018	4.91	50,873	–	–	–	11/12/2025
	2018 DARs	11/12/2018	8.21	54,137	–	–	–	11/12/2025
Donna-Maree Vinci	2015 PARs	15/12/2015	7.67	341,967	1/05/2019	8.88	62,098	16/12/2020
	Restricted Shares	15/12/2015	13.02	163,961	6/12/2016	11.33	71,345	16/12/2025
					27/07/2017	12.20	76,811	16/12/2025
	2016 PARs	29/02/2016	7.67	399,423	1/05/2019	8.88	72,532	16/12/2020
	2016 PARs	23/12/2016	6.80	351,417	–	–	–	16/12/2021
	Restricted Shares	23/12/2016	11.95	184,185	15/12/2017	12.61	97,173	16/12/2026
					30/04/2019	8.89	68,515	16/12/2026
	2017 PARs	13/12/2017	7.14	316,131	–	–	–	13/12/2022
	Restricted Shares	13/12/2017	13.10	182,509	30/04/2019	8.89	61,928	16/12/2027
	2018 PARs	11/12/2018	4.91	281,647	–	–	–	11/12/2025
	Restricted Shares	11/12/2018	10.62	150,050	–	–	–	11/12/2028

(1) Represents rights held at 1 September 2018 or granted during FY19.
(2) Closing share price on exercise date of rights that have a nil exercise price.
(3) Closing share price on exercise date multiplied by the number of rights exercised during the year.

REMUNERATION REPORT

For the year ended 31 August 2019

7.2 EQUITY HELD BY GROUP EXECUTIVES (CONTINUED)

TABLE 12 – VALUE OF RIGHTS HELD BY GROUP EXECUTIVES DURING THE FINANCIAL YEAR 2019 (CONTINUED)

Group Executive	Grant	Grant Date	Fair Value per Right at Grant Date $	Value at Grant Date (1) $	Exercise Date	Share Price at Exercise Date (2) $	Value at Exercise Date (3) $	Expiry / Lapsing Date
Former								
Jon Sutton	2013 PARs	16/12/2013	7.63	459,242	24/10/2016	11.20	435,478	16/12/2018
	2013 DARs	16/12/2013	10.38	93,711	02/01/2015	12.20	22,021	16/12/2018
					18/12/2015	13.55	36,693	16/12/2018
					22/12/2016	12.00	54,180	16/12/2018
	2014 PARs	16/12/2014	6.13	635,810	27/10/2017	13.31	759,282	16/12/2019
	Restricted Shares	16/12/2014	11.70	388,335	16/12/2015	13.31	220,879	16/12/2024
					16/12/2016	11.50	190,854	16/12/2024
	2015 PARs	15/12/2015	7.67	749,927	31/01/2019	10.17	155,957	16/12/2020
	Restricted Shares	15/12/2015	13.02	611,055	15/12/2016	11.50	269,859	16/12/2025
					15/12/2017	12.61	295,906	16/12/2025
	2016 PARs	23/12/2016	6.80	801,482	–	–	–	16/12/2021
	Restricted Shares	23/12/2016	11.95	541,729	15/12/2017	12.61	285,818	16/12/2026
					31/01/2019	10.17	230,523	16/12/2026
	2017 PARs	13/12/2017	7.14	708,566	–	–	–	13/12/2022
	Restricted Shares	13/12/2017	13.10	600,019	31/01/2019	10.17	232,903	16/12/2027
	Restricted Shares	05/12/2018	10.62	475,149	–	–	–	05/12/2028
Peter Deans	2013 PARs	16/12/2013	7.63	393,639	24/10/2016	11.20	373,262	16/12/2018
	2013 DARs	16/12/2013	10.38	60,246	28/01/2015	12.37	14,349	16/12/2018
					18/12/2015	13.55	23,591	16/12/2018
					27/12/2016	11.95	34,691	16/12/2018
	2014 PARs	16/12/2014	6.13	330,622	28/10/2017	13.31	394,828	16/12/2019
	Restricted Shares	16/12/2014	11.70	242,705	16/12/2015	13.31	138,051	16/12/2024
					16/12/2016	11.50	119,278	16/12/2024
	2015 PARs	15/12/2015	7.67	404,961	14/01/2019	10.27	85,046	16/12/2020
	Restricted Shares	15/12/2015	13.02	239,334	15/12/2016	11.50	105,697	16/12/2025
					15/12/2017	12.61	115,899	16/12/2025
	2016 PARs	23/12/2016	6.80	416,153	–	–	–	16/12/2021
	Restricted Shares	23/12/2016	11.95	203,150	15/12/2017	12.61	107,185	16/12/2026
					10/12/2018	9.56	81,260	16/12/2026
	2017 PARs	13/12/2017	7.14	367,910	–	–	–	13/12/2022
	Restricted Shares	13/12/2017	13.10	210,006	10/12/2018	9.56	76,623	16/12/2027
	2018 PARs	11/12/2018	4.91	296,564	–	–	–	11/12/2025
	Restricted Shares	11/12/2018	10.62	165,056	–	–	–	11/12/2028

(1) Represents rights held at 1 September 2018 or granted during FY19.
(2) Closing share price on exercise date of rights that have a nil exercise price.
(3) Closing share price on exercise date multiplied by the number of rights exercised during the year.

REMUNERATION REPORT

For the year ended 31 August 2019

7.2 EQUITY HELD BY GROUP EXECUTIVES (CONTINUED)

TABLE 12 – VALUE OF RIGHTS HELD BY GROUP EXECUTIVES DURING THE FINANCIAL YEAR 2019 (CONTINUED)

Group Executive	Grant	Grant Date	Fair Value per Right at Grant Date $	Value at Grant Date (1) $	Exercise Date	Share Price at Exercise Date (2) $	Value at Exercise Date (3) $	Expiry / Lapsing Date
Former								
Brendan White	2013 PARs	16/12/2013	7.63	393,639	24/10/2016	11.20	373,262	16/12/2018
	2013 DARs	16/12/2013	10.38	60,246	23/12/2014	12.08	14,013	16/12/2018
					18/12/2015	13.55	23,591	16/12/2018
					05/04/2017	12.12	35,184	16/12/2018
	2014 PARs	16/12/2014	6.13	305,188	02/11/2017	12.49	341,864	16/12/2019
	Restricted Shares	16/12/2014	11.70	330,080	16/12/2015	13.31	187,751	16/12/2024
					16/12/2016	11.50	162,219	16/12/2024
	2015 PARs	15/12/2015	7.67	383,968	08/01/2019	9.97	78,284	16/12/2020
	Restricted Shares	15/12/2015	13.02	310,618	15/12/2016	11.50	137,184	16/12/2025
					15/12/2017	12.61	150,412	16/12/2025
	2016 PARs	23/12/2016	6.80	394,577	–	–	–	16/12/2021
	Restricted Shares	23/12/2016	11.95	257,319	15/12/2017	12.61	135,759	16/12/2026
					30/04/2019	8.89	95,719	16/12/2026
	2017 PARs	13/12/2017	7.14	376,085	–	–	–	13/12/2022
	Restricted Shares	13/12/2017	13.10	270,004	30/04/2019	8.89	91,611	16/12/2027

(1) Represents rights held at 1 September 2018 or granted during FY19.
(2) Closing share price on exercise date of rights that have a nil exercise price.
(3) Closing share price on exercise date multiplied by the number of rights exercised during the year.

REMUNERATION REPORT

For the year ended 31 August 2019

7.3 EQUITY INSTRUMENTS - HOLDINGS AND MOVEMENTS

Movement in shares

The number of shares held directly, indirectly or beneficially by each Director, Group Executive or related party is as follows:

Ordinary shares [1]	Held at 1 September 2018	Purchases / (Sales)	Received on Exercise of Award Rights / Restricted Shares	**Held at 31 August 2019**
Directors – Current				
Roger Davis	18,043	–	–	**18,043**
Patrick Allaway	–	30,000	–	**30,000**
Kathleen Bailey-Lord	–	3,132	–	**3,132**
Bruce Carter	17,503	14,909 [2]	–	**32,412**
Richard Haire	16,603	–	–	**16,603**
John Lorimer	17,000	–	–	**17,000**
Warwick Negus	15,000	–	–	**15,000**
Karen Penrose	13,591	–	–	**13,591**
Michelle Tredenick	15,635	–	–	**15,635**
David Willis	11,932	88	–	**12,020**
Executive Director – Former				
Jon Sutton	177,616	–	–	**n/a**
Executives – Current				
Matthew Baxby	105,310	(72,582)	27,126	**59,854**
Adam McAnalen [3]	39,901	–	–	**39,901**
Lyn McGrath	–	–	51,460	**51,460**
Anthony Rose	–	–	24,298	**24,298**
Donna-Maree Vinci	20,299	–	29,834	**50,133**
Executives – Former				
Peter Deans	34,026	(30,281)	24,796	**n/a**
Brendan White	3,330	–	7,852	**n/a**

(1) Directors and Group executives with nil shareholding balances as at 31 August 2019 have been excluded from the table above.
(2) Rights granted under Non-Executive Director Fee Sacrifice Rights Plan and vest on 2 September 2019.
(3) Opening balance as at 1 June 2019.

REMUNERATION REPORT

For the year ended 31 August 2019

7.4 TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL (DIRECTORS AND GROUP EXECUTIVES)

Loan transactions

Loans to KMP and their related parties (including close family members of the KMP and entities over which the KMP and/or their close family members have control, joint control or significant influence) are provided in the ordinary course of business. Normal commercial terms and conditions are applied to all loans. Any discounts provided to KMP are the same as those available to all employees of the Consolidated Entity. There have been no write downs or amounts recorded as provisions during FY19.

Details of loans held by KMP and their related parties during the financial year, where the individual's aggregate loan balance exceeded $100,000 at any time in this period, are as follows:

	Balance at 1 September 2018 $	Interest charged during the year $	**Balance at 31 August 2019 $**	Highest balance during the year $
Executives				
Matthew Baxby	1,106,608	45,720	**1,179,029**	1,833,252
Debra Eckersley (1)	–	4,869	**350,000**	351,304
Doug Snell (2)	–	6,683	**n/a**	283,717
Executive – Former				
Brendan White	789,747	19,230	**n/a**	793,295
Other Related Parties				
Richard Haire related parties	191,000	8,428	**186,543**	191,728
Other Related Parties – Former				
Jon Sutton related parties	1,269,422	12,534	**n/a**	1,269,992

(1) Debra Eckersley's account was opened during the financial year on 11 April 2019.
(2) Doug Snell was appointed Interim Group Executive, BOQ Business on 21 December 2018.

Details regarding the aggregate of loans made, guaranteed or secured by any entity in the economic entity to all Group Executives and their related parties, and the number of individuals in each group are as follows:

	Balance at 1 September 2018 $	Interest charged during the year $	**Balance at 31 August 2019 $**	Number in group at 31 August 2019 #
Executives	1,139,156	59,594	**1,536,789**	3
Executives – Former	789,747	19,230	**n/a**	–
Other Related Parties	191,000	8,428	**186,543**	1
Other Related Parties – Former	1,269,422	12,534	**n/a**	–

Other transactions

Transactions with KMP and their related parties (other than loans and shares) during the financial year were related to personal banking, investment, finance leasing, insurance policy and deposit transactions. These transactions are on normal commercial terms and conditions, in the ordinary course of business and are considered trivial or domestic in nature.

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

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

Details of those notes issued to BOQ Directors are set out below:

		Balance at 31 August 2019 $	Interest earned for the year $
Roger Davis	Wholesale Capital Notes	**200,000**	8,785
David Willis	Wholesale Capital Notes	**70,000**	3,075
Roger Davis	Capital Notes	**50,000**	1,537
Roger Davis related parties	Capital Notes	**50,000**	1,537
Total		**370,000**	14,934

(1) Capital notes are classified as non-current.

DIRECTORS' REPORT

For the year ended 31 August 2019

Indemnification of officers

The Bank's Constitution supported by a Deed of Indemnity, Insurance and Access provides an indemnity in favour of all directors and officers of the Bank against liabilities incurred by them in the capacity as officer to the maximum extent permitted by law.

Insurance of officers

Since the end of the previous financial year the Bank has paid insurance premiums in respect of a Directors' and Officers' liability insurance contract. The contract insures each person who is or has been a Director or officer (as defined in the *Corporations Act 2001* (Cth)) of the Bank against certain liabilities arising in the course of their duties to the Bank and its controlled entities. The Directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the insurance contract as such disclosure is prohibited under the terms of the contract.

Directors' interests

Directors' interests as at the date of this report were as follows:

	Ordinary shares	Capital Notes	Wholesale Capital Notes
Roger Davis	18,043	1,000	20
Patrick Allaway	30,000	–	–
Kathleen Bailey-Lord	3,132	–	–
Bruce Carter	32,412	–	–
Richard Haire	16,603	–	–
John Lorimer	17,000	–	–
Warwick Negus	15,000	–	–
Karen Penrose	13,591	–	–
Michelle Tredenick	15,635	–	–
David Willis	12,020	–	7

Audit and non-audit services

During the year, KPMG, the Bank's auditor, has performed certain other services in addition to their statutory duties. The Board has considered the non-audit services provided during the year by the auditor are compatible with, and did not compromise, the auditor's independence requirements of the *Corporations Act 2001* (Cth) for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Bank and have been reviewed by the Audit Committee to ensure they do not impact the integrity and objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor's independence as set out in APES 110 *Code of Ethics for Professional Accountants*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Bank or acting as an advocate for the Bank or jointly sharing risks and rewards.

Details of the amounts paid to the auditor of the Bank, KPMG and its related practices for audit and non-audit services provided during the year are set out below and in the Note 6.7 Auditor Remuneration:

	Consolidated		Bank	
KPMG AUSTRALIA	2019 $000	2018 $000	2019 $000	2018 $000
Audit services				
– Statutory audits and reviews of the financial reports	1,773	1,737	1,324	1,279
– Regulatory audits and reviews as required by regulatory authorities	462	346	325	244
Total audit services	2,235	2,083	1,649	1,523
Audit related services				
– Other assurance services	534	532	397	399
– Regulatory assurance services	94	235	–	235
Total audit related services	628	767	397	634
Non-audit services				
– Taxation services	169	171	169	171
– Other	333	103	263	103
Total non-audit services	502	274	432	274

DIRECTORS' REPORT

For the year ended 31 August 2019

Lead Auditor's Independence Declaration

The lead auditor's independence declaration is set out on page 87 and forms part of the Directors' report for the year ended 31 August 2019.

Director and management changes

Director changes during the year:

- On 5 December 2018, Jon Sutton resigned from his role as Managing Director & CEO.
- Non-Executive Directors, Patrick Allaway and Kathleen Bailey-Lord, were appointed to the BOQ board on 1 May 2019.
- On 29 May 2019, Roger Davis announced his retirement as Chairman on 17 October 2019 and from the Board on 31 October 2019. Mr Allaway will move into the Chairman role from 18 October 2019.
- On 8 August 2019, David Willis announced his retirement as a Director and Chair of the Human Resources & Remuneration Committee, with effect from the 2019 AGM on 10 December 2019. He will retain his role as a Director of St Andrew's Australia Services Pty Ltd, St Andrew's Insurance (Australia) Pty Ltd and St Andrew's Life Insurance Pty Ltd.

Management changes during the year:

- On 6 December 2018, Brendan White resigned from his role as Group Executive, BOQ Business with his notice period ending 6 March 2019.
- Doug Snell moved from General Manager BOQ Business to Interim Group Executive, BOQ Business from 21 December 2018 to 12 August 2019.
- Anthony Rose moved from Chief Operating Officer to Interim CEO from 6 December 2018 to 4 September 2019. Mr Rose was not a Director in the period that he was Interim CEO and the role of Chief Operating Officer was held vacant while Mr Rose was Interim CEO. He will remain with BOQ until the end of December 2019.
- On 8 March 2019, Peter Deans announced his retirement from his role as Chief Risk Officer on 31 May 2019.
- Adam McAnalen was appointed to the role of Chief Risk Officer from 1 June 2019. Mr McAnalen was previously CEO of BOQ Finance.
- On 20 June 2019, Matt Baxby announced his resignation as Chief Financial Officer. He will remain with BOQ until the end of October 2019.
- Peter Sarantzouklis was appointed Group Executive, BOQ Business from 12 August 2019.
- On 5 September 2019, George Frazis was appointed Managing Director & CEO.
- On 10 October 2019 it was announced that Ewen Stafford will be appointed to the role of Chief Financial Officer and Chief Operating Officer. Ewen will commence with BOQ later in FY20.

Management attestation

The Board has been provided with a written statement from the Group's Managing Director & CEO, former Interim CEO and Chief Financial Officer, confirming the accompanying financial statements and notes are in accordance with the *Corporations Act 2001* (Cth) and they present a true and fair view in all material respects of the Consolidated Entity's financial position and performance as at and for the year ended 31 August 2019.

The Directors' Declaration can be found on page 170 of the financial statements.

Environmental regulation

The Consolidated Entity's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation. The Board confirms that the Group is not aware of any breach of environmental requirements.

Subsequent events

Dividends have been determined after 31 August 2019. The financial effect of the dividends has not been brought to account in the financial statements for the year ended 31 August 2019. Further details with respect to the dividend amounts per share, payment date and dividend reinvestment plan can be obtained from Note 2.4 Dividends of the consolidated financial statements.

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

On 11 October 2019, the Bank entered into a Subscription Agreement in relation to a debt for equity swap for the purchase of 8,128 fully paid ordinary shares issued by its subsidiary, St Andrew's Australia Services Pty Ltd, for the value of $30,000,000.

Rounding of amounts

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

Signed in accordance with a resolution of the Directors:

Roger Davis
Chairman
16 October 2019

George Frazis
Managing Director & CEO
16 October 2019

LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

To the Directors of Bank of Queensland Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Bank of Queensland Limited for the financial year ended 31 August 2019 there have been:

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

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

KPMG

Robert Warren
Partner
Sydney
16 October 2019

2019 FINANCIAL STATEMENTS

INCOME STATEMENTS

For the year ended 31 August 2019

		Consolidated		Bank	
	Note	2019 (1) $m	2018 $m	2019 (1) $m	2018 $m
Interest income:					
Effective interest income	2.1	1,913	1,927	1,884	1,760
Other	2.1	145	142	165	289
Interest expense	2.1	(1,097)	(1,104)	(1,319)	(1,311)
Net interest income	2.1	961	965	730	738
Other operating income	2.1	126	137	227	228
Net banking operating income		1,087	1,102	957	966
Net insurance operating income	2.1	9	19	-	-
Total operating income before impairment and operating expenses	2.1	1,096	1,121	957	966
Expenses	2.2	(587)	(587)	(566)	(545)
Impairment on loans and advances		(74)	(41)	(37)	(23)
Profit before income tax		435	493	354	398
Income tax expense	2.3	(137)	(157)	(109)	(121)
Profit for the year		298	336	245	277
Profit attributable to:					
Equity holders of the parent		298	336	245	277
Earnings per share (**EPS**)					
Basic EPS - Ordinary shares (cents)	2.6	74.2	85.5		
Diluted EPS - Ordinary shares (cents)	2.6	69.2	81.2		

(1) The August 2019 financial results reflect the adoption of AASB 9 *Financial Instruments* (**AASB 9**) and AASB 15 *Revenue from contracts with customers* (**AASB 15**) on 1 September 2018. As permitted by AASB 9 and AASB 15, the Consolidated Entity and the Bank have not restated previously reported financial periods. Refer to Note 1.5 for the impact from the initial adoption of AASB 9 and AASB 15.

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

STATEMENTS OF COMPREHENSIVE INCOME

For the year ended 31 August 2019

	Consolidated		Bank	
	2019 (1) $m	2018 $m	2019 (1) $m	2018 $m
Profit for the year	298	336	245	277
Other comprehensive income, net of income tax				
Items that may be reclassified subsequently to profit or loss				
Cash flow hedges:				
Net movement taken to equity	(79)	(11)	(74)	(12)
Net movement transferred to profit or loss	20	22	20	22
Debt instruments at fair value through other comprehensive income (**FVOCI**):				
Net change in fair value	(3)	-	(3)	-
Net movement transferred to profit or loss	(13)	-	(13)	-
Financial assets available-for-sale:				
Net change in fair value	-	6	-	6
Net movement transferred to profit or loss	-	(14)	-	(14)
Items that will not be reclassified subsequently to profit or loss				
Equity instruments at FVOCI:				
Net change in fair value	(1)	-	(1)	-
Other comprehensive income, net of income tax	(76)	3	(71)	2
Total comprehensive income for the year	222	339	174	279
Total comprehensive income attributable to:				
Equity holders of the parent	222	339	174	279

(1) The August 2019 financial results reflect the adoption of AASB 9 and AASB 15 on 1 September 2018. As permitted by AASB 9 and AASB 15, the Consolidated Entity and the Bank have not restated previously reported financial periods. Refer to Note 1.5 for the impact from the initial adoption of AASB 9 and AASB 15.

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

BALANCE SHEETS

As at 31 August 2019

		Consolidated		Bank	
	Note	2019 (1) $m	2018 $m	2019 (1) $m	2018 $m
ASSETS					
Cash and cash equivalents	3.1	1,274	1,212	685	840
Due from other financial institutions		708	6	668	6
Derivative financial assets	3.8	229	135	145	80
Financial assets at fair value through profit or loss (**FVTPL**)	3.2	2,586	-	2,586	-
Financial assets held for trading	3.2	-	1,385	-	1,385
Debt instruments at FVOCI	3.2	3,569	-	3,569	-
Equity instruments at FVOCI	3.2	6	-	6	-
Financial assets available-for-sale	3.2	-	3,946	-	3,975
Debt instruments at amortised cost (3)	3.2	-	-	5,468	4,867
Loans and advances	3.3	45,983	45,078	40,836	40,571
Other assets		158	169	1,541	940
Current tax assets		7	-	8	-
Property, plant and equipment		52	57	46	51
Assets held for sale (2)	6.5	-	57	-	-
Shares in controlled entities	6.5	-	-	522	522
Deferred tax assets	2.3	85	45	79	46
Intangible assets	4.1	924	875	848	798
Investments in joint arrangements and associates	6.6	16	15	3	-
Total assets		55,597	52,980	57,010	54,081
LIABILITIES					
Due to other financial institutions - accounts payable at call		285	315	285	315
Deposits	3.4	38,337	38,017	38,528	38,266
Derivative financial liabilities	3.8	687	294	687	293
Accounts payable and other liabilities		394	360	302	304
Current tax liabilities		-	5	-	5
Liabilities held for sale (2)	6.5	-	22	-	-
Provisions	4.2	40	34	26	30
Amounts due to controlled entities (3)		-	-	6,086	4,595
Insurance policy liabilities	5.1	9	-	-	-
Borrowings	3.5	11,986	10,077	7,372	6,503
Total liabilities		51,738	49,124	53,286	50,311
Net assets		3,859	3,856	3,724	3,770
EQUITY					
Issued capital		3,497	3,418	3,503	3,425
Reserves		213	38	222	42
Retained profits		149	400	(1)	303
Total equity		3,859	3,856	3,724	3,770

(1) The August 2019 financial position reflects the adoption of AASB 9 and AASB 15 on 1 September 2018. As permitted by AASB 9 and AASB 15, the Consolidated Entity and the Bank have not restated previously reported financial periods. Refer to Note 1.5 for the impact from the initial adoption of AASB 9 and AASB 15.
(2) The St Andrew's Group was classified as held for sale as at 31 August 2018 but has ceased to be held for sale as at 31 August 2019. Refer to Note 6.5(d) for presentation of the comparatives.
(3) The Bank's 2018 balances have been reclassified for comparison purposes. Refer to Note 3.2 for further details.

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

STATEMENTS OF CHANGES IN EQUITY

For the year ended 31 August 2019

Consolidated	Ordinary shares $m	Employee benefits reserve $m	Equity reserve for credit losses $m	Cash flow hedge reserve $m	FVOCI reserve [1] $m	Profit reserve [2] $m	Retained profits $m	Total equity $m
YEAR ENDED 31 AUGUST 2019								
Balance at beginning of the year	3,418	26	59	(106)	59	–	400	3,856
Change on adoption of new accounting standards [3]	–	–	–	–	3	–	(13)	(10)
Restated balance at beginning of the year	3,418	26	59	(106)	62	–	387	3,846
Total comprehensive income for the year								
Profit for the year	–	–	–	–	–	–	298	298
Transfers to profit reserve	–	–	–	–	–	245	(245)	–
Other comprehensive income, net of income tax:								
Cash flow hedges:								
Net movement to equity	–	–	–	(79)	–	–	–	(79)
Net movement transferred to profit or loss	–	–	–	20	–	–	–	20
Debt instruments at FVOCI:								
Net change in fair value	–	–	–	–	(3)	–	–	(3)
Net movement transferred to profit or loss	–	–	–	–	(13)	–	–	(13)
Equity instruments at FVOCI								
Net change in fair value	–	–	–	–	(1)	–	–	(1)
Transfer to equity reserve for credit losses	–	–	3	–	–	–	(3)	–
Total other comprehensive income / (expense)	–	–	3	(59)	(17)	–	(3)	(76)
Total comprehensive income / (expense) for the year	–	–	3	(59)	(17)	245	50	222
Transactions with owners, recorded directly in equity / contributions by and distributions to owners						–		
Treasury shares [4]	1	–	–	–	–	–	–	1
Dividend reinvestment plan	78	–	–	–	–	–	–	78
Dividends to shareholders	–	–	–	–	–	–	(288)	(288)
Total contributions by and distributions to owners	79	–	–	–	–	–	(288)	(209)
Balance at the end of the year	3,497	26	62	(165)	45	245	149	3,859

(1) On initial application of AASB 9 from 1 September 2018, the available-for-sale assets including the corresponding reserve have been reclassified to debt and equity securities measured at FVOCI with a corresponding FVOCI reserve. Refer to Note 1.5 for the impact from the initial adoption of AASB 9.
(2) Profit reserve was established during the current financial year.
(3) The August 2019 financial results reflect the adoption of AASB 9 and AASB 15 on 1 September 2018. The carrying amounts of assets and liabilities impacted by the adoption were adjusted through opening retained profits and reserves on 1 September 2018 as if the Consolidated Entity and the Bank had always applied the new requirements. As permitted by AASB 9 and AASB 15, the Consolidated Entity and the Bank have not restated previously reported financial periods. Refer to Note 1.5 for the impact from the initial adoption of AASB 9 and AASB 15.
(4) Treasury shares represent the value of shares held by a subsidiary that the Bank is required to include in the Consolidated Entity's financial statements. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Bank's own equity instruments.

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

STATEMENTS OF CHANGES IN EQUITY

For the year ended 31 August 2019

Consolidated	Ordinary shares $m	Employee benefits reserve $m	Equity reserve for credit losses $m	Cash flow hedge reserve $m	Available-for-sale reserve $m	Retained profits $m	Total equity $m
YEAR ENDED 31 AUGUST 2018							
Balance at beginning of the year	3,360	26	81	(117)	67	371	3,788
Total comprehensive income for the year							
Profit for the year	-	-	-	-	-	336	336
Other comprehensive income, net of income tax:							
Cash flow hedges:							
Net movement to equity	-	-	-	(11)	-	-	(11)
Net movement transferred to profit or loss	-	-	-	22	-	-	22
Financial assets available-for-sale:							
Net change in fair value	-	-	-	-	6	-	6
Net movement transferred to profit or loss	-	-	-	-	(14)	-	(14)
Transfer from equity reserve for credit losses	-	-	(22)	-	-	22	-
Total other comprehensive income / (expense)	-	-	(22)	11	(8)	22	3
Total comprehensive income / (expense) for the year	-	-	(22)	11	(8)	358	339
Transactions with owners, recorded directly in equity / contributions by and distributions to owners							
Issues of ordinary shares (1)	11	-	-	-	-	-	11
Dividend reinvestment plan	47	-	-	-	-	-	47
Dividends to shareholders	-	-	-	-	-	(329)	(329)
Total contributions by and distributions to owners	58	-	-	-	-	(329)	(271)
Balance at the end of the year	3,418	26	59	(106)	59	400	3,856

(1) On 26 October 2017, 850,000 ordinary shares were issued at $13.28 and on 17 May 2018, 2,809 ordinary shares were issued at $10.02 to the trustee of the Bank of Queensland Limited Employee Share Plans Trust to satisfy the exercise of award rights and issue of shares under the Award Rights Plan and issue of shares under the BOQ Restricted Share Plan and BOQ Employee Share Plan.

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

STATEMENTS OF CHANGES IN EQUITY

For the year ended 31 August 2019

Bank	Ordinary shares $m	Employee benefits reserve $m	Equity reserve for credit losses $m	Cash flow hedge reserve $m	FVOCI reserve [1] $m	Profit reserve [2] $m	Retained profits $m	Total equity $m
YEAR ENDED 31 AUGUST 2019								
Balance at beginning of the year	3,425	26	60	(103)	59	–	303	3,770
Change on adoption of new accounting standards [3]	–	–	–	–	3	–	(13)	(10)
Restated balance at beginning of the year	3,425	26	60	(103)	62	–	290	3,760
Total comprehensive income for the year								
Profit for the year	–	–	–	–	–	–	245	245
Transfers to profit reserve	–	–	–	–	–	245	(245)	–
Other comprehensive income net of income tax:								
Cash flow hedges:								
Net movement to equity	–	–	–	(74)	–	–	–	(74)
Net movement transferred to profit or loss	–	–	–	20	–	–	–	20
Debt instruments at FVOCI:								
Net change in fair value	–	–	–	–	(3)	–	–	(3)
Net movement transferred to profit or loss	–	–	–	–	(13)	–	–	(13)
Equity instruments at FVOCI								
Net change in fair value	–	–	–	–	(1)	–	–	(1)
Transfer to equity reserve for credit losses	–	–	3	–	–	–	(3)	–
Total other comprehensive income / (expense)	–	–	3	(54)	(17)	–	(3)	(71)
Total comprehensive income / (expense) for the year	–	–	3	(54)	(17)	245	(3)	174
Transactions with owners, recorded directly in equity / contributions by and distributions to owners								
Dividend reinvestment plan	78	–	–	–	–	–	–	78
Dividends to shareholders	–	–	–	–	–	–	(288)	(288)
Total contributions by and distributions to owners	78	–	–	–	–	–	(288)	(210)
Balance at the end of the year	3,503	26	63	(157)	45	245	(1)	3,724

(1) On initial application of AASB 9 from 1 September 2018, the available-for-sale assets including the corresponding reserve have been reclassified to debt and equity securities measured at FVOCI with a corresponding FVOCI reserve. Refer to Note 1.5 for the impact from the initial adoption of AASB 9
(2) Profit reserve was established during the current financial year.
(3) The August 2019 financial results reflect the adoption of AASB 9 and AASB 15 on 1 September 2018. The carrying amounts of assets and liabilities impacted by the adoption were adjusted through opening retained profits and reserves on 1 September 2018 as if the Consolidated Entity and the Bank had always applied the new requirements. As permitted by AASB 9 and AASB 15, the Consolidated Entity and the Bank have not restated previously reported financial periods. Refer to Note 1.5 for the impact from the initial adoption of AASB 9 and AASB 15.

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

STATEMENTS OF CHANGES IN EQUITY

For the year ended 31 August 2019

Bank	Ordinary shares $m	Employee benefits reserve $m	Equity reserve for credit losses $m	Cash flow hedge reserve $m	Available-for-sale reserve $m	Retained profits $m	Total equity $m
YEAR ENDED 31 AUGUST 2018							
Balance at beginning of the year	3,367	26	68	(113)	67	347	3,762
Total comprehensive income for the year							
Profit for the year	–	–	–	–	–	277	277
Other comprehensive income, net of income tax:							
Cash flow hedges:							
Net movement to equity	–	–	–	(12)	–	–	(12)
Net movement transferred to profit or loss	–	–	–	22	–	–	22
Financial assets available-for-sale:							
Net change in fair value	–	–	–	–	6	–	6
Net movement transferred to profit or loss	–	–	–	–	(14)	–	(14)
Transfer from equity reserve for credit losses	–	–	(8)	–	–	8	–
Total other comprehensive income / (expense)	–	–	(8)	10	(8)	8	2
Total comprehensive income / (expense) for the year	–	–	(8)	10	(8)	285	279
Transactions with owners, recorded directly in equity / contributions by and distributions to owners							
Issues of ordinary shares [(1)]	11	–	–	–	–	–	11
Dividend reinvestment plan	47	–	–	–	–	–	47
Dividends to shareholders	–	–	–	–	–	(329)	(329)
Total contributions by and distributions to owners	58	–	–	–	–	(329)	(271)
Balance at the end of the year	3,425	26	60	(103)	59	303	3,770

(1) On 26 October 2017, 850,000 ordinary shares were issued at $13.28 and on 17 May 2018, 2,809 ordinary shares were issued at $10.02 to the trustee of the Bank of Queensland Limited Employee Share Plans Trust to satisfy the exercise of award rights and issue of shares under the Award Rights Plan and issue of shares under the BOQ Restricted Share Plan and BOQ Employee Share Plan.

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

STATEMENTS OF CASH FLOWS

For the year ended 31 August 2019

	Note	Consolidated 2019 $m	Consolidated 2018 $m	Bank 2019 $m	Bank 2018 $m
CASH FLOWS FROM OPERATING ACTIVITIES					
Interest received		2,064	2,085	1,948	1,958
Fees and other income received		131	160	193	192
Interest paid		(1,083)	(1,102)	(1,309)	(1,311)
Cash paid to suppliers and employees		(473)	(500)	(469)	(453)
Income tax paid		(153)	(147)	(150)	(143)
		486	496	213	243
Increase in operating assets:					
Loans and advances		(996)	(1,529)	(261)	(1,235)
Other financial assets		(1,263)	449	(1,274)	499
Increase / (decrease) in operating liabilities:					
Deposits		294	901	236	808
Net cash inflow / (outflow) from operating activities	3.1	(1,479)	317	(1,086)	315
CASH FLOWS FROM INVESTING ACTIVITIES					
Payments for property, plant and equipment		(13)	(14)	(6)	(10)
Proceeds from sale of property, plant and equipment		4	8	–	1
Payments for intangible assets		(98)	(73)	(96)	(71)
Proceeds / (payments) for investments in joint arrangements and associates		(3)	–	(4)	–
Dividends received from controlled entities		–	–	12	22
Net cash inflow / (outflow) from investing activities		(110)	(79)	(94)	(58)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from borrowings	3.5	4,021	3,308	1,757	2,022
Repayments of borrowings	3.5	(2,159)	(2,959)	(937)	(1,824)
Proceeds for foreign exchange instruments		–	(1)	–	(1)
Net movement in other financing activities		–	–	422	131
Proceeds from issue of ordinary shares		–	11	–	11
Payments for treasury shares		(7)	(11)	(7)	(11)
Dividends paid		(210)	(282)	(210)	(282)
Net cash inflow / (outflow) from financing activities		1,645	66	1,025	46
Net increase / (decrease) in cash and cash equivalents		56	304	(155)	303
Cash and cash equivalents at beginning of year (1)		1,218	914	840	537
Cash and cash equivalents at end of year	3.1	1,274	1,218	685	840
Cash and cash equivalents included in assets held for sale (1)		–	(6)	–	–
Cash and cash equivalents as presented in the Balance Sheets		1,274	1,212	685	840

(1) The St Andrew's Group was classified as held for sale as at 31 August 2018 but has ceased to be held for sale as at 31 August 2019. Refer to Note 6.5(d) for presentation of the comparatives.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2019

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2019

NOTE 1. BASIS OF PREPARATION

1.1 REPORTING ENTITY

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

The consolidated financial statements of the Bank for the financial year ended 31 August 2019 comprise the Consolidated Entity and the Consolidated Entity's interest in equity accounted investments. The principal activity of the Bank is the provision of financial services to the community.

1.2 BASIS OF PREPARATION

(a) Statement of compliance

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and interpretations issued by the Australian Accounting Standards Board (**AASB**) and the *Corporations Act 2001* (Cth). The consolidated financial statements and notes thereto also comply with International Financial Reporting Standards (**IFRS**) as issued by the International Accounting Standards Board (**IASB**). The consolidated financial statements were authorised for issue by the Directors on 16 October 2019.

(b) Basis of measurement

The consolidated financial statements are prepared on a historical cost basis, with the exception of the following assets and liabilities which are stated at their fair value:

- Derivative financial instruments;
- Financial assets at fair value through other comprehensive income; and
- Financial assets at fair value through profit or loss.

(c) Functional and presentation currency

The consolidated financial statements are presented in Australian dollars, which is the Bank's functional currency.

(d) Rounding

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

1.3 USE OF ESTIMATES AND JUDGEMENTS

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. These accounting policies have been consistently applied throughout the Consolidated Entity.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised if the revision only affects that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described below:

- Loans and advances - Expected credit losses – Note 3.3(a);
- Financial instruments – Notes 3.2 and 3.7;
- Carrying value of goodwill and other intangible assets – Note 4.1.

1.4 NEW AUSTRALIAN ACCOUNTING STANDARDS

(a) New accounting standards applicable this financial year

The Consolidated Entity has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 September 2018.

- AASB 2016-5 *Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions*;
- AASB 2016-6 *Amendments to Australian Accounting Standards – Applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts*;
- AASB 2017-1 *Amendments to Australian Accounting Standards – Transfers of Investment Property, Annual Improvements 2014–2016 Cycle and Other Amendments;*
- AASB 2017-3 *Amendments to Australia Accounting Standards – Clarifications to AASB 4;*
- AASB Interpretation 22 *Foreign Currency Transactions and Advance Consideration;*
- AASB 9 *Financial Instruments* - The impact of implementing this new standard is disclosed in Note 1.5; and
- AASB 15 *Revenue from Contracts with Customers* - The impact of implementing this new standard is disclosed in Note 1.5.

The Consolidated Entity has reviewed the impact of the aforementioned standards and, apart from AASB 9 and AASB 15, determined there to be no material impact.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2019

1.4 NEW AUSTRALIAN ACCOUNTING STANDARDS (CONTINUED)

(b) New accounting standards applicable in future financial years

The following standards and amendments have been identified as those which may impact the Consolidated Entity in future financial years:

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

AASB 16 introduces a single on-Balance Sheet accounting model for lessees for recognising and measuring lease arrangements and will replace AASB 117 *Leases* (**AASB 117**). The standard will become mandatory for the Group for the financial year commencing 1 September 2019. Lessor accounting under AASB 16 remains largely unchanged from AASB 117.

On transition, the standard requires identification of leases that provide the right to control the use of an identified asset for a period of time. For these leases, the Group is required to recognise on Balance Sheet a right-of-use (**ROU**) asset, representing the right to use the underlying asset, and a lease liability, representing the future lease payment obligations. Exemptions exist for leases of less than 12 months or of low value. Operating lease obligations which were previously recognised as a straight line operating expense will be replaced by interest expense on the lease liability and depreciation expense on the ROU asset. This will result in higher interest expenses weighted to the earlier periods of each lease term.

The Group has performed an assessment of the impact of AASB 16 which has included a review of the Group's contracts to identify all leases which are applicable under AASB 16 and calculation of the ROU asset and lease liability for each lease. The most significant impacts identified relate to property, vehicle and equipment leases held by the Group.

The Group has elected to apply the modified retrospective approach on transition. The calculation has been made using the Group's incremental borrowing rate and by making judgements as to whether extension and termination options will be taken up.

The Group expects to recognise a lease liability of approximately $190 million and ROU assets of approximately $130 million in the Group's 2020 Annual Report. After adjusting for lease liabilities currently recorded on balance sheet and recognising finance lease receivables for subleases, this results in a retained earnings reduction of approximately $10 million following relevant tax adjustments.

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

This standard will replace AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*. It will become mandatory for the Consolidated Entity in the financial year commencing 1 September 2022. This standard introduces new measurement approaches to be used in valuing insurance contract liabilities. Under the new model, insurance contract liabilities will represent the present value of future cash flows including a provision for risk. The potential effects of this standard are yet to be determined.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2019

1.5 IMPLEMENTATION OF NEW AUSTRALIAN ACCOUNTING STANDARDS

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

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

Classification and measurement

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

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

- Amortised cost - From 1 September 2018, the Consolidated Entity only classifies amounts due from other financial institutions and loans and advances when both of the following conditions are met:
  - The financial asset is held within a business model where the objective is to hold them in order to collect contractual cash flows; and
  - The contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest (**SPPI**).
- Fair value through other comprehensive income (**FVOCI**) – a financial asset is classified at FVOCI when both of the following conditions are met:
  - The financial asset is held within a business model where the objective is achieved by holding them in order to collect contractual cash flows and selling the financial assets; and
  - The contractual terms of the financial asset give rise to cash flows that meet the SPPI test. These instruments largely comprise assets that had previously been classified as financial assets available-for-sale under AASB 139.

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

  AASB 9 requires equity financial assets to be classified and measured at FVTPL, but there is an option to make an irrevocable election to designate non-traded equity investments as FVOCI.

  This election is made on an instrument by instrument basis and the Consolidated Entity has made this election for its equity instruments. Gains or losses cannot be reclassified to profit or loss in the Income Statement, but can be reclassified to retained profits.
- Fair value through profit or loss (**FVTPL**) - Financial assets in this category are those that are held for trading and have been designated by management upon initial recognition or are mandatorily required to be measured at fair value under AASB 9. These instruments largely comprise assets that had previously been classified as financial assets held for trading under AASB 139.

Financial liabilities

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

Hedging

The new accounting standard requirements allow for broader application of hedge accounting and to align it more closely with risk management. While the new model does not fundamentally change the types of hedging relationships, it simplifies the effectiveness testing by removing the 80 – 125 per cent thresholds. Adoption of the hedge accounting requirements under AASB 9 is currently optional. The Consolidated Entity has elected to continue applying the hedge accounting requirements under AASB 139.

Impairment

The adoption of AASB 9 has resulted in a change in the Consolidated Entity's impairment methodology by replacing AASB 139's incurred loss approach with a forward-looking ECL approach. The impairment requirements have been adopted from 1 September 2018 and an allowance for ECL has been recorded for all loans, advances and debt financial assets not held at FVTPL.

Equity instruments are not subject to impairment under AASB 9.

Refer to Note 3.3 for further information on the ECL methodology and the reconciliation of ECL on transition to AASB 9 on 1 September 2018.

Transition

As permitted by AASB 9, the Consolidated Entity has not restated its comparative financial statements and has recorded a transition adjustment to its opening Balance Sheet, retained profits and OCI at 1 September 2018 for the impact of the adoption of AASB 9's classification and measurement and impairment accounting requirements.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2019

1.5 IMPLEMENTATION OF NEW AUSTRALIAN ACCOUNTING STANDARDS (CONTINUED)

			Consolidated	
			As at 31 August 2018	As at 1 September 2018
	AASB 139 measurement category	AASB 9 measurement category	Carrying amount under AASB 139	Carrying amount under AASB 9 (1) (2)
			$m	$m
Cash and cash equivalents	Loans and receivables	Amortised cost	1,212	1,212
Due from other financial institutions	Loans and receivables	Amortised cost	6	256
Derivative financial assets (trading derivatives)	FVTPL	FVTPL	25	25
Derivative financial assets (hedging derivatives)	Hedging derivatives	Hedging derivatives	110	110
Financial assets held for trading	FVTPL	FVTPL	1,385	1,385
Financial assets available-for-sale (debt instruments)	Available-for-sale	FVOCI (3)	3,943	3,693
Financial assets available-for-sale (equity instruments)	Available-for-sale	FVOCI option (4)	3	7
Loans and advances (5)	Loans and receivables	Amortised cost	45,078	45,068
Other assets	Loans and receivables	Amortised cost	169	169

(1) The carrying amount does not reflect AASB 15 changes.
(2) The impact on the Bank is not materially different from the impact on the Consolidated Entity, except for the REDS EHP Securitisation notes held by the Bank. $30 million of opening balance financial assets available-for-sale relating to the REDS EHP Securitisation notes were reclassified to debt instruments at amortised cost on transition to AASB 9. There was no re-measurement impact associated with this reclassification.
(3) As of 1 September 2018, the Consolidated Entity has assessed its liquidity portfolio which had previously been classified as financial assets available-for-sale (debt instruments). The Consolidated Entity concluded that these instruments are managed within a business model of collecting contractual cash flows and selling the financial assets. Accordingly, the Consolidated Entity has classified these investments as debt instruments measured at FVOCI.
(4) The Consolidated Entity has elected the option to irrevocably designate some of its previous financial assets available-for-sale (equity instruments) as equity instruments at FVOCI with no subsequent recycling of realised gains or losses permitted.
(5) As part of transition to AASB 9, all products offered by the Group were reviewed to determine if they are loans within the scope of AASB 9 or finance leases within the scope of AASB 117. The current year finance lease receivables disclosure in Note 3.3 has been updated to reflect finance lease receivables within the scope of AASB 117.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2019

1.5 IMPLEMENTATION OF NEW AUSTRALIAN ACCOUNTING STANDARDS (CONTINUED)

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

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

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

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

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

Transition

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2019

1.5 IMPLEMENTATION OF NEW AUSTRALIAN ACCOUNTING STANDARDS (CONTINUED)

Transition impacts of adopting AASB 9 and AASB 15

The following table summarises the adjustments arising on adoption of AASB 9 and AASB 15. The adjustments have been recognised against the Consolidated Entity's opening retained profits and reserves as at 1 September 2018. The overall impact of the changes was a decrease of $13 million to the Consolidated Entity's retained profits. The adjustments below do not differ materially for the Bank, except for the REDS EHP Securitisation notes held by the Bank. $30 million of opening balance financial assets available-for-sale relating to the REDS EHP Securitisation notes were reclassified to debt instruments at amortised cost on transition to AASB 9. There was no re-measurement impact associated with this reclassification.

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2019

NOTE 2. FINANCIAL PERFORMANCE

2.1 OPERATING INCOME

	Consolidated		Bank	
	2019 $m	2018 $m	2019 $m	2018 $m
INTEREST INCOME				
Effective interest income	1,913	1,927	1,884	1,760
Other: Securities at fair value	145	142	165	289
Total interest income	2,058	2,069	2,049	2,049
INTEREST EXPENSE				
Retail deposits	(576)	(578)	(575)	(580)
Wholesale deposits and borrowings	(521)	(526)	(744)	(731)
Total interest expense	(1,097)	(1,104)	(1,319)	(1,311)
Net interest income	961	965	730	738
INCOME FROM OPERATING ACTIVITIES				
Customer fees and charges (1)	72	85	73	110
Share of fee revenue paid to Owner Managed branches	(7)	(7)	(7)	(7)
Commissions	36	34	13	14
Foreign exchange income – customer based	12	12	12	12
Net profit / (loss) on sale of property, plant and equipment	5	7	(1)	–
Net income / (loss) from financial instruments and derivatives at fair value	2	(4)	1	(4)
Securitisation income	–	–	95	56
Dividend income	–	–	12	22
Management fee – controlled entities	–	–	26	23
Other income	6	10	3	2
Total income from operating activities	126	137	227	228
INCOME FROM INSURANCE ACTIVITIES				
Premiums from insurance contracts	55	66	–	–
Investment revenue	2	2	–	–
Claims and policyholder liability expense from insurance contracts	(48)	(49)	–	–
Net insurance operating income	9	19	–	–
Total operating income	1,096	1,121	957	966

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

Interest income and expense

Interest income and expense for all interest bearing financial instruments are recognised in the profit or loss using the effective interest rates of the financial assets or financial liabilities to which they relate.

Interest income on finance lease receivables is recognised progressively over the life of the lease, reflecting a constant periodic rate of return on the net investment.

Other operating income

Other operating income and expenses that are considered an integral part of the effective interest rate on a financial instrument are included in the measurement of the effective interest rate.

Non-yield related application and activation lending fee revenue is recognised over the contract period in line with the performance obligation delivered to the customers. Customer service fees that represent the recoupment of the costs of providing the service are recognised on an accrual basis when the service is provided. Commissions are recognised as income when performance obligations in respect of those commissions have been satisfied.

Dividends are recognised when control of a right to receive consideration is established.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2019

2.2 EXPENSES

		Consolidated		Bank	
	Note	2019 $m	2018 $m	2019 $m	2018 $m
OPERATING EXPENSES					
Advertising		26	22	15	14
Commissions to Owner Managed Branches		5	5	5	5
Communications and postage		19	17	18	17
Printing and stationery		3	3	3	3
Processing costs		15	15	15	15
Other		36	24	60 (1)	26
		104	86	116	80
ADMINISTRATIVE EXPENSES					
Professional fees		23	30	20	27
Directors fees		2	2	2	2
Other		7	5	12	9
		32	37	34	38
IT EXPENSES					
Data processing		85	77	80	72
Amortisation – computer software	4.1	41	60	38	57
Depreciation – IT equipment		1	1	1	1
		127	138	119	130
OCCUPANCY EXPENSES					
Lease rentals		30	32	27	31
Depreciation – plant, furniture, equipment and leasehold improvements		10	9	10	9
Other		4	4	3	3
		44	45	40	43
EMPLOYEE EXPENSES					
Salaries, wages and superannuation contributions		244	240	224	219
Payroll tax		13	13	12	12
Equity settled transactions		8	10	7	8
Other		10	10	9	9
		275	273	252	248
OTHER					
Amortisation – acquired intangibles	4.1	5	8	5	6
Total expenses		587	587	566	545

(1) Other operating expenses include impairment of the intercompany loan from the Bank to St Andrew's Australia Services Pty Ltd of $24 million.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2019

2.3 INCOME TAX EXPENSE AND DEFERRED TAX

Income tax expense

The major components of income tax expense along with a reconciliation between pre-tax profit and tax expense are detailed below:

	Consolidated		Bank	
	2019 $m	2018 $m	2019 $m	2018 $m
CURRENT TAX EXPENSE				
Current year	139	147	106	113
Adjustments for prior years	1	(1)	1	(1)
	140	146	107	112
DEFERRED TAX EXPENSE				
Origination and reversal of temporary differences	(3)	11	2	9
Total income tax expense	137	157	109	121
DEFERRED TAX RECOGNISED IN EQUITY				
Cash flow hedge reserve	(25)	1	(23)	1
Retained profits (1)	(6)	-	(6)	-
Other	(6)	(3)	(6)	(3)
	(37)	(2)	(35)	(2)
NUMERICAL RECONCILIATIONS BETWEEN TAX EXPENSE AND PRE-TAX PROFIT				
Profit before tax	435	493	354	398
Income tax using the domestic corporate tax rate of 30% (2018: 30%)	131	148	106	119
Increase in income tax expense due to:				
Non-deductible expenses	7	9	7	9
Decrease in income tax expense due to:				
Non-assessable income	-	-	-	-
Other (2)	(1)	-	(4)	(7)
Income tax expense on pre-tax net profit	137	157	109	121

(1) The August 2019 financial results reflect the adoption of AASB 9 and AASB 15 on 1 September 2018. The carrying amounts of assets and liabilities impacted by the adoption were adjusted through opening retained profits and reserves on 1 September 2018 as if the Consolidated Entity and the Bank had always applied the new requirements. As permitted by AASB 9 and AASB 15, the Consolidated Entity and the Bank have not restated previously reported financial periods. Refer to Note 1.5 for the impact from the initial adoption of AASB 9 and AASB 15.

(2) In the Bank, this includes the impact of dividends received from subsidiary members in the tax consolidated group which are eliminated at a group level, and the dilutionary impact to prima-facie tax expense relating to franking credits on external dividends received on investments.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2019

2.3 INCOME TAX EXPENSE AND DEFERRED TAX (CONTINUED)

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
CONSOLIDATED	2019 $m	2018 $m	2019 $m	2018 $m	2019 $m	2018 $m
Accruals	3	3	-	-	3	3
Capitalised expenditure	-	-	(6)	(8)	(6)	(8)
Provisions for impairment	70	60	-	-	70	60
Other provisions	15	16	-	-	15	16
Equity reserves	37	6	-	-	37	6
Leasing	-	-	(36)	(34)	(36)	(34)
Other	7	7	(5)	(5)	2	2
Total tax assets / (liabilities) (1)	132	92	(47)	(47)	85	45
BANK						
Accruals	2	1	-	-	2	1
Capitalised expenditure	-	-	(2)	(5)	(2)	(5)
Provisions for impairment	49	46	-	-	49	46
Other provisions	13	16	-	-	13	16
Equity reserves	33	4	-	-	33	4
Leasing	-	-	(19)	(21)	(19)	(21)
Other	7	7	(4)	(2)	3	5
Total tax assets / (liabilities)	104	74	(25)	(28)	79	46

(1) The St Andrew's Group was classified as held for sale as at 31 August 2018 but has ceased to be held for sale as at 31 August 2019. Net deferred tax assets of $1 million were classified as held for sale and excluded in the above table as at 31 August 2018. Refer to Note 6.5(d) for presentation of the comparatives.

Unrecognised deferred tax assets

Deferred tax assets have not been brought to account for the following items as realisation of the benefit is not regarded as probable:

	2019 $m	2018 $m
Gross income tax losses (1)	25	26
Gross capital gains tax losses	51	51

(1) Income tax losses are subject to utilisation over an expected 10-15 year period.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2019

2.3 INCOME TAX EXPENSE AND DEFERRED TAX (CONTINUED)

Accounting for income tax

Income tax expense comprises current and deferred tax. Income tax is recognised in profit or loss in the Income Statement except to the extent that it relates to items recognised directly in equity, or other comprehensive income.

Current tax is the expected tax payable / receivable on the taxable income / loss for the year and any adjustment to the tax payable / receivable in respect of previous years. It is measured using tax rates enacted or substantially enacted at the reporting date.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax assets are recognised for unused tax losses and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantially enacted at the reporting date. The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Consolidated Entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Tax consolidation

The Bank is the head entity in the tax-consolidated group comprising all the Australian wholly-owned subsidiaries. The implementation date for the tax-consolidated group was 1 September 2003.

Current tax expense (income), deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using a 'group allocation' approach by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries are assumed by the head entity in the tax-consolidated group and are recognised as amounts payable (receivable) to (from) other entities in the tax-consolidated group in conjunction with any Tax Funding Agreement (**TFA**) amounts. Any difference between these amounts is recognised by the Bank as an equity contribution, or distribution from the subsidiary.

Any subsequent period amendments to deferred tax assets arising from unused tax losses as a result of a revised assessment of the probability of recoverability is recognised by the head entity only.

Nature of tax funding and tax sharing arrangements

The Bank, in conjunction with other members of the tax-consolidated group, has entered into a TFA which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. The TFA requires payments to (from) the head entity equal to the current tax liability (asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity, resulting in the Bank recognising an inter-entity payable (receivable) equal in amount to the tax liability (asset) assumed.

Contributions to fund the current tax liabilities are payable as per the TFA and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

The Bank, in conjunction with other members of the tax-consolidated group, has also entered into a Tax Sharing Agreement (**TSA**). The TSA provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the TSA is considered remote.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2019

2.4 DIVIDENDS

	Bank			
	2019		2018	
	Cents per share	$m	Cents per share	$m
ORDINARY SHARES				
Special 2017 dividend paid 23 November 2017	-	-	8	31
Final 2018 dividend paid 14 November 2018 (2017: 23 November 2017)	38	151	38	149
Interim 2019 dividend paid 22 May 2019 (2018: 17 May 2018)	34	137	38	149
		288		329
CONVERTIBLE PREFERENCE SHARES (CPS)				
Second half 2017 CPS dividend paid on 16 October 2017	-	-	245	7
Pro-rata CPS dividend paid on 28 December 2017	-	-	98	2
Final 2018 CPS dividend paid on 16 April 2018 (1)	-	-	244	3
		-		12

(1) In accordance with the ASX announcement dated 5 March 2018, BOQ confirmed the redemption of all outstanding CPS on the optional conversion/redemption date of 16 April 2018 with the redemption price of $102.44 per CPS, comprising the face value of $100 per CPS and a final dividend of $2.44 per CPS for the period from (and including) 16 October 2017 to (but excluding) the redemption date of 16 April 2018. The ASX announcement on 16 April 2018 confirmed the removal of CPS from official quotation at close of trading on 16 April 2018.

All dividends paid on ordinary and preference shares have been fully franked. Since the end of the financial year, the Directors have determined the following dividends:

	Cents per share	$m
Final ordinary share dividend	31	126

The final dividend payment will be fully franked and paid on 27 November 2019 to owners of ordinary shares at the close of business on 7 November 2019 (record date). Shares will be quoted ex-dividend on 6 November 2019.

	Bank	
	2019 $m	2018 $m
30% franking credits available to shareholders of the Bank for subsequent financial years	177	172

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends. The profits accumulated in the profit reserve are available for dividend payments in future years. All franked dividends paid or declared by the Bank since the end of the previous financial year were franked at the tax rate of 30 per cent.

The balance of the Bank's dividend franking account at the date of this report, after adjusting for franking credits and debits that will arise on payment of income tax and proposed dividends relating to the year ended 31 August 2019, is $120 million calculated at the 30 per cent tax rate (2018: $105 million). It is anticipated, based on these franking account balances that the Bank will continue to pay fully franked dividends in the foreseeable future.

Dividend reinvestment plan

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

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

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

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

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

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

The last date for election to participate in the DRP for the 2019 final dividend is 8 November 2019.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2019

2.5 OPERATING SEGMENTS

Segment information

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

An operating segment is a component of the Consolidated Entity that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Consolidated Entity's other components. All operating segments' operating results are regularly reviewed by the Consolidated Entity's Managing Director & CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Managing Director & CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

The Consolidated Entity's operating segments comprise the following:

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

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

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

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects is measured differently from operating profit or loss in the consolidated financial statements. Income taxes are managed within the individual operating segments and thus disclosed this way.

Transfer prices between operating segments are on an arm's length basis, reflecting the Bank's external cost of funds, in a manner similar to transactions with third parties.

Major customers

No revenue from transactions with a single external customer or counter party amounted to 10 per cent or more of the Consolidated Entity's total revenue in 2019 or 2018.

Geographic information

While the Consolidated Entity does have some operations in New Zealand, the business segments operate principally in Australia.

Goodwill

For goodwill allocation between segments, refer to Note 4.1.

Presentation

The following table presents income, profit and certain asset and liability information regarding the Consolidated Entity's operating segments.

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

All inter-segment profits are eliminated on consolidation.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2019

2.5 OPERATING SEGMENTS (CONTINUED)

	Retail Banking		BOQ Business		Other		Segment Total	
	2019 $m	2018 $m	2019 $m	2018 $m	2019 $m	2018 $m	2019 $m	2018 $m
INCOME								
Net interest income [1]	432	458	527	514	2	(7)	961	965
Non interest income	63	67	50	59	15	19	128	145
Total income	495	525	577	573	17	12	1,089	1,110
Operating expenses	(287)	(281)	(242)	(228)	(21)	(18)	(550)	(527)
Underlying profit / (loss)	208	244	335	345	(4)	(6)	539	583
Loan impairment expense	(14)	(15)	(60)	(26)	-	-	(74)	(41)
Cash profit / (loss) before tax	194	229	275	319	(4)	(6)	465	542
Income tax expense	(61)	(72)	(86)	(100)	2	2	(145)	(170)
Segment cash profit / (loss) after tax [2]	133	157	189	219	(2)	(4)	320	372
Statutory basis adjustments:								
Amortisation of acquisition of fair value adjustments	-	-	-	-	(6)	(7)	(6)	(7)
Hedge ineffectiveness	-	-	-	-	(8)	(3)	(8)	(3)
Integration / transaction costs	-	-	-	-	(1)	(1)	(1)	(1)
Regulatory / compliance	-	-	-	-	(6)	(9)	(6)	(9)
Software changes [3]	-	(7)	-	(4)	-	-	-	(11)
Legacy items	-	-	-	-	(1)	(5)	(1)	(5)
Statutory net profit / (loss) after tax	133	150	189	215	(24)	(29)	298	336
INCLUDED IN THE RESULTS:								
Depreciation and amortisation	(34)	(49)	(17)	(26)	(1)	(2)	(52)	(77)
Loan impairment expense	(14)	(15)	(60)	(26)	-	-	(74)	(41)
Segment assets	25,820	25,826	22,329	20,588	7,448	6,566	55,597	52,980
Segment liabilities	15,779	15,226	8,410	8,105	27,549	25,793	51,738	49,124

(1) Interest income and interest expenses are disclosed in this note on a net interest income basis. This is in line with the information provided internally to the Managing Director & CEO.
(2) This excludes a number of items that introduce volatility and / or one-off distortions of the Group's performance.
(3) Software changes include a non-recurring adjustment due to a prior year reassessment of the useful lives of existing assets relative to the Bank's investment roadmap and a change to the capitalisation policy.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2019

2.6 EARNINGS PER SHARE

Basic earnings per share (**EPS**) is calculated by dividing the relevant earnings attributable to ordinary shareholders by the average weighted number of shares on issue. Diluted EPS takes into account the dilutive effect of all outstanding share rights vesting as ordinary shares.

	Consolidated	
	2019 $m	2018 $m
EARNINGS RECONCILIATION		
Profit for the year	298	336
Basic earnings	298	336
Effect of CPS	–	7
Effect of wholesale capital notes	7	7
Effect of capital notes	14	9
Diluted earnings	319	359

Weighted average number of shares used as the denominator	2019 Number	2018 Number
Number for basic earnings per share		
Ordinary shares	401,554,707	393,417,739
Number for diluted earnings per share		
Ordinary shares	401,554,707	393,417,739
Effect of award rights	1,454,170	1,523,277
Effect of CPS	–	12,129,338
Effect of wholesale capital notes	17,020,105	13,750,181
Effect of capital notes	39,350,887	21,408,589
	459,379,869	442,229,124
EARNINGS PER SHARE		
Basic earnings per share – Ordinary shares (cents)	74.2	85.5
Diluted earnings per share – Ordinary shares (cents)	69.2	81.2

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2019

NOTE 3. CAPITAL AND BALANCE SHEET MANAGEMENT

3.1 CASH AND CASH EQUIVALENTS

Components of cash and cash equivalents

Cash and cash equivalents comprise cash at branches, cash on deposit and balances with the Reserve Bank of Australia. Cash flows from the following activities are presented on a net basis in the Statements of Cash Flows:

- Sales and purchases of trading securities;
- Customer deposits and withdrawals from deposit accounts; and
- Loan drawdowns and repayments.

	Consolidated		Bank	
	2019 $m	2018 $m	2019 $m	2018 $m
Notes, coins and cash at bank	1,051	815	463	443
Remittances in transit	223	297	222	297
Reverse repurchase agreements maturing in less than three months	-	100	-	100
Cash and cash equivalents as presented in the Balance Sheets	1,274	1,212	685	840
Cash and cash equivalents included in assets held for sale (1)	-	6	-	-
Total	1,274	1,218	685	840

Notes to the Statements of Cash Flows

Reconciliation of profit for the year to net cash provided by operating activities:

	Consolidated 2019 $m	Consolidated 2018 $m	Bank 2019 $m	Bank 2018 $m
Profit from ordinary activities after income tax	298	336	245	277
Add / (less) non-cash items or items classified as investing / financing:				
Depreciation	11	11	11	11
Amortisation	5	6	5	5
Software amortisation and impairment	45	62	42	59
(Profit) / loss on sale of property, plant and equipment	1	(1)	1	-
Impairment of intercompany loan (2)	-	-	24	-
Equity settled transactions	8	10	7	8
Dividends received from controlled entities	-	-	(12)	(22)
Add / (less) changes in operating assets and liabilities:				
(Increase) / decrease in due from other financial institutions	(656)	6	(662)	2
(Increase) / decrease in financial assets	(608)	443	(608)	506
(Increase) in loans and advances	(943)	(1,461)	(223)	(1,195)
Increase / (decrease) in provision for impairment	22	(26)	-	(28)
Decrease in derivatives	19	35	18	26
Decrease in deferred tax asset	-	9	6	9
Decrease in amounts due to / from controlled entities	-	-	455	322
(Increase) / decrease in other assets	16	41	(601)	(426)
(Increase) in current tax assets	(7)	-	(8)	-
Increase / (decrease) in due to other financial institutions	(30)	54	(30)	54
Increase in deposits	314	824	252	740
Increase / (decrease) in accounts payable and other liabilities	39	(29)	5	(27)
(Decrease) in current tax liabilities	(5)	(1)	(5)	(1)
Increase / (decrease) in provisions	(5)	3	(4)	(2)
Increase / (decrease) in deferred tax liabilities	(2)	1	(4)	(3)
(Decrease) in insurance policy liabilities	(1)	(6)	-	-
Net cash (inflow) / outflow from operating activities	(1,479)	317	(1,086)	315

(1) The St Andrew's Group was classified as held for sale as at 31 August 2018 but has ceased to be held for sale as at 31 August 2019. Refer to Note 6.5(d) for presentation of the comparatives.

(2) This includes the impairment of the intercompany loan from the Bank to St Andrew's Australia Services Pty Ltd of $24 million.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2019

3.2 FINANCIAL ASSETS AND LIABILITIES

Financial instruments measured at amortised cost

Financial assets that are held to collect the contractual cash flows and that contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest, are measured at amortised cost. In addition, most financial liabilities are measured at amortised cost. Financial assets or financial liabilities are initially recognised at fair value, inclusive of any directly attributable costs. They are subsequently measured at each reporting date at amortised cost using the effective interest method. Included in this category is loans and advances at amortised cost included in Loans and advances – refer to Note 3.3 for further information.

The Bank invests in debt securities at amortised cost that are issued by 100 per cent owned securitisation vehicles within the Consolidated Group. During the year, the Bank reviewed the treatment of the securitisation notes issued under the REDS Securitisation and Impala Securitisation programs and purchased by the Bank. The programs' underlying pool of financial instruments are recorded within the Bank's Loans and advances. In prior years, the balances relating to these internally held securitisation notes were netted off within the financial statements. The balances are now disclosed separately within financial assets and the associated liability on the Bank's Balance Sheet. For comparison purposes, the prior year balances have been reclassified throughout the Bank's 2019 financial statements. There is no effect on net assets or total comprehensive income at 31 August 2018. There is no change to the Consolidated Entity Balance Sheet.

Also included in this category are loans and advances at amortised cost (refer to Note 3.3 Loans and advances) and receivables due from other financial institutions recognised and measured at amortised cost.

For financial liabilities at amortised cost: refer to Note 3.4 for further information on Deposits and Note 3.5 for further information on Borrowings.

Financial assets measured at fair value through other comprehensive income (FVOCI)

Financial assets held in a business model that is achieved by both collecting and selling contractual cash flows that contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest are measured at FVOCI. Gains or losses arising from changes in the fair value of these financial instruments are recognised in other comprehensive income. Interest income and foreign exchange gains and losses are recognised in profit or loss in the Income Statement, as are cumulative gains or losses previously recognised in other comprehensive income upon derecognition of the financial instruments.

Equity instruments that are not held for trading are measured at FVOCI, where an irrevocable election has been made by management. Amounts presented in other comprehensive income are not subsequently transferred to profit or loss, but can be reclassified to retained profits. Dividends on such investments are recognised in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment.

Financial instruments at fair value through profit or loss (FVTPL)

Financial assets that do not meet the criteria to be measured at amortised cost or FVOCI are measured at FVTPL, with all changes in fair value recognised in the Income Statement. Financial assets in this category are those that are held for trading and have been designated by management upon initial recognition or are mandatorily required to be measured at fair value under AASB 9.

Where a financial liability is designated at fair value through profit or loss, the movement in fair value are recognised in profit or loss in the Income Statement.

Modification of financial instruments

A financial instrument is modified when its original contractual cash flows are modified. A financial instrument that is modified is derecognised if the existing agreement is cancelled and a new agreement is made on substantially different terms or if the existing terms of the financial instrument are substantially modified. Where the modification results in derecognition of the original financial instrument, a new financial instrument is recorded initially at fair value and the difference is recorded in profit or loss in the Income Statement.

When the modification does not result in derecognition, the difference between the financial instrument's original contractual cash flows and the modified cash flows, discounted at the original effective interest rate, are recognised as a gain or loss in the Income Statement.

Reclassification of financial instruments

The Consolidated Entity reclassifies financial assets when, and only when, it changes its business model for managing those assets. Reclassified financial assets are subsequently measured based on the new measurement category.

The Consolidated Entity does not reclassify financial liabilities.

Derecognition of financial instruments

Financial assets are derecognised when, and only when, the contractual rights to receive cash flows from the assets have expired, or where the Consolidated Entity has transferred its contractual rights to receive the cash flows of the financial assets or substantially all the risks and rewards of ownership.

Financial liabilities are derecognised when they are extinguished, i.e. when the obligation is discharged, cancelled or expired.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2019

3.2 FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

Financial assets recognised and measured at fair value are listed below. For other financial assets and liabilities refer to Note 3.1 for Cash and cash equivalents, Note 3.3 for Loans and advances, Note 3.4 for Deposits, Note 3.5 for Borrowings and Note 3.8 for Derivative financial instruments and hedge accounting.

	Consolidated		Bank	
	2019 $m	2018 $m	2019 $m	2018 $m
Derivative financial assets				
Current	47	48	47	49
Non-current	182	87	98	31
Total derivative financial assets	229	135	145	80
Financial assets at FVTPL				
Floating rate notes and bonds	954	-	954	-
Negotiable certificates of deposit	619	-	619	-
Reverse repurchase agreements	1,013	-	1,013	-
Total financial assets at FVTPL	2,586	-	2,586	-
Current	2,586	-	2,586	-
Financial assets held for trading				
Floating rate notes and bonds	-	430	-	430
Negotiable certificates of deposit	-	955	-	955
Total held for trading	-	1,385	-	1,385
Current	-	1,385	-	1,385
Financial assets at FVOCI				
Debt instruments	3,569	-	3,569	-
Equity instruments	6	-	6	-
Total financial assets at FVOCI	3,575	-	3,575	-
Current	192	-	192	-
Non-current	3,383	-	3,383	-
Financial assets available-for-sale				
Debt instruments	-	3,943	-	3,972
Unlisted equity instruments	-	3	-	3
Total available-for-sale	-	3,946	-	3,975
Current	-	817	-	846
Non-current	-	3,129	-	3,129
Debt instruments at amortised cost [(1)]				
Current	-	-	216	187
Non-current	-	-	5,252	4,680
	-	-	5,468	4,867

(1) During the year, the Bank reviewed the treatment of the securitisation notes issued under the REDS Securitisation and Impala Securitisation programs and purchased by the Bank. The balances were previously netted off within the Bank's Balance Sheet, and thus disclosed as nil in the Bank's 2018 Balance Sheet. The balances are now disclosed separately within financial assets and the associated liability (Amounts due to controlled entities) on the Bank's Balance Sheet. For comparison purposes, the prior year balances have been reclassified throughout the Bank's 2019 financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2019

3.3 LOANS AND ADVANCES

Loans and advances at amortised cost

Loans and advances are originated by the Consolidated Entity and are recognised upon cash being advanced to the borrower. Loans and advances are initially recognised at fair value, plus incremental directly attributable transaction costs. They are subsequently measured at each reporting date at amortised cost using the effective interest method.

Finance lease receivables

Loans and advances include finance lease receivables. Finance lease receivables, accounted for under AASB 117, are also originated by the Consolidated Entity and are recognised upon cash being advanced to the borrower. Finance leases are those products where substantially all the risks and rewards of the leased asset have been transferred to the lessee.

Finance lease receivables are initially recognised at amounts equal to the lower of fair value of the leased asset or the present value of the minimum lease repayments. Subsequently, lease repayments are apportioned between the finance charge and the reduction of the finance lease liability.

	Consolidated		Bank	
	2019 $m	2018 $m	2019 $m	2018 $m
Residential property loans – secured by mortgages	30,647	30,506	30,647	30,506
Personal loans	223	222	223	222
Overdrafts	228	223	228	223
Commercial loans	9,816	9,626	9,626	9,466
Credit cards	76	75	76	75
Asset finance and leasing	5,332	5,020	222	263
Gross loans and advances	46,322	45,672	41,022	40,755
Less:				
Unearned finance lease income	(106)	(393)	(22)	(28)
Specific provision for impairment	(85)	(86)	(65)	(74)
Collective provision for impairment	(148)	(115)	(99)	(82)
Total loans and advances	45,983	45,078	40,836	40,571

(a) Loans and advances - Expected credit losses (ECL)

The adoption of AASB 9 from 1 September 2018 has resulted in a change in the Consolidated Entity's impairment methodology by replacing AASB 139's incurred loss approach with a forward-looking ECL approach. The ECL allowance is based on the credit losses expected to arise over the next 12 months of the financial asset, unless there has been a significant increase in credit risk (**SICR**) since origination. In this case, the allowance is based on the ECL for the life of the financial asset. The 12 months ECL is the portion of lifetime ECLs that represent the ECLs that result from default events on a financial asset that are possible within the 12 months after the reporting date.

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

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

- Stage 1 – For financial assets where there has not been a SICR since initial recognition and that are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default (**PD**) occurring within the next 12 months is recognised as the 12 month ECL, adjusted for forward-looking information. Stage 1 includes facilities where the credit risk has improved and the loan has been reclassified from Stage 2 or Stage 3.
- Stage 2 – When there has been a SICR, the lifetime ECL is determined with reference to the financial asset's lifetime PD and the lifetime losses associated with that PD, adjusted for forward-looking information. The Consolidated Entity assesses whether there has been a SICR since initial recognition based on qualitative, quantitative, and reasonable and supportable forward-looking information that includes significant management judgement. Use of alternative criteria could result in significant changes to the timing and amount of ECL to be recognised. Lifetime ECL is generally determined based on the behavioural maturity of the financial asset , which is generally less than or equal to the contractual maturity. Stage 2 also includes facilities where the credit risk has improved and the loan has been reclassified from Stage 3.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2019

3.3 LOANS AND ADVANCES (CONTINUED)

(a) Loans and advances – Expected credit losses (ECL) (continued)

- Stage 3 – This includes financial assets that are deemed to be credit impaired, which generally correspond to the APRA definition of default, and include exposures that are at least 90 days past due. The provision is also equivalent to the lifetime ECL. Financial assets in Stage 3 will have a collective provision determined by the ECL model, although some loans are individually covered by a specific provision. A specific provision is calculated based on estimated future cash flows discounted to their present value, net of any collateral held against that financial asset.

Transition impact

On transition to AASB 9 on 1 September 2018 the Consolidated Entity's total credit impairment allowances increased by $10 million as a result of the following principle differences between AASB 139's incurred credit loss requirements and AASB 9's ECL impairment requirements:

- Forward looking information (**FLI**): AASB 9 requires the calculation of the ECL to include FLI, which incorporates macro-economic information. Previously AASB 139 required the consideration of historical information that was updated to reflect current conditions at the reporting date.
- A 12-month minimum ECL requirement (stage 1): AASB 9 requires a 12-month ECL impairment allowance to be held on all exposures, unless the contractual period is shorter.
- SICR (stage 2): AASB 9 requires the Consolidated Entity to determine whether there has been a SICR since initial recognition, and in such instances, to classify the exposure as stage 2 and recognise a lifetime expected credit loss.
- Off balance sheet exposures: AASB 9's scope includes certain off balance sheet exposures such as undrawn credit commitments, financial guarantee contracts and letters of credit for which an ECL is required to be recognised. No impairment allowance was specifically required to be recognised under AASB 139.

Write-offs

Financial assets are written off, either partially or in full, against the related provision when the Consolidated Entity concludes that there is no reasonable expectation of recovery and all possible collateral has been realised. Recoveries of financial assets previously written off are recognised in profit or loss based on the cash received.

Significant increase in credit risk

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

Calculation of ECL

Both 12 months ECLs and lifetime ECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial assets. When calculating the ECL, portfolios of financial assets are grouped as follows:

- Retail lending: Home loans model, Personal loans model and BOQ Specialist model,
- Commercial lending: Commercial risk rated model and Equipment Finance model.

Where ECL is modelled collectively for portfolios of exposures, it is modelled primarily as the product of the PD, the loss given default (**LGD**) and the exposure at default (**EAD**).

These parameters are generally derived from internally developed statistical models combined with historical, current and forward-looking information, including macro-economic data:

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2019

3.3 LOANS AND ADVANCES (CONTINUED)

Incorporation of forward-looking information

The credit risk factors described above are at a point in time estimates based on the probability weighted forward-looking economic scenarios. The inclusion of a forward-looking component in the model anticipates changes in the economic outlook, which will likely increase the volatility of the provision. The Consolidated Entity considers four forward-looking macro-economic scenarios (boom, recovery, slow down and recession) over time horizons ranging from one year to over four years to ensure a sufficient unbiased representative sample is included in estimating the forward-looking ECL. Sensitivity analysis is also performed on each of the macro-economic scenarios and if conditions warrant, this could result in a management overlay for economic uncertainty which is included in the ECL.

The scenarios, including its underlying indicators, are developed using a combination of publicly available data, internal forecasts and third party information to form the initial baseline. The scenarios are refined through consultation with internal specialists and benchmarking to external data from reputable sources, which includes forecasts published from a range of market economists and official data sources, including major central banks.

Economic outlook factors that are taken into consideration include, but are not limited to, unemployment, interest rates, gross domestic product, inflation, commercial and residential property price indexes, and require an evaluation of both the current and forecast direction of the macro-economic cycle.

Incorporating forward looking information, including macro-economic forecasts, increases the degree of judgement required to assess how changes in these data points will affect ECLs. The methodologies and assumptions, including any forecasts of future economic conditions, are reviewed regularly.

Governance

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2019

3.3 LOANS AND ADVANCES (CONTINUED)

The following table discloses the reconciliation of the ECL model of the Consolidated Entity for the year ended 31 August 2019.

	Collective Provision						
Consolidated	Stage 1 – 12 month ECL $m	Stage 2 – Lifetime ECL $m	Stage 3 – Lifetime ECL $m	Stage 3 – Specific provision $m	Specific provision $m	Collective provision $m	Total $m
Balance as at 31 August 2018	-	-	-	-	86	115	201
Change on adoption of AASB 9	69	38	18	86	(86)	(115)	10
Balance as at 1 September 2018	69	38	18	86	-	-	211
Transfers during the year to:							
Stage 1	8	(7)	(1)	-	-	-	-
Stage 2	(4)	4	-	-	-	-	-
Stage 3	(1)	(5)	3	3	-	-	-
New/increased provisions	41	29	13	44	-	-	127
Write-back of provisions no longer required	(32)	(15)	(10)	(1)	-	-	(58)
Amounts written off, previously provided for	-	-	-	(44)	-	-	(44)
Unwind discount	-	-	-	(3)	-	-	(3)
Balance as at 31 August 2019	81	44	23	85	-	-	233

The table below discloses the effect of movements in the gross carrying value of loans and advances in the different stages of the ECL model of the Consolidated Entity during the year ended 31 August 2019.

Consolidated	Stage 1 – 12 month ECL $m	Stage 2 – Lifetime ECL $m	Stage 3 – Lifetime ECL $m	Stage 3 – Specific provision $m	Total (1) $m
Gross carrying amount as at 1 September 2018	42,337	2,500	274	168	45,279
Transfers during the year to:					
Stage 1	636	(625)	(6)	(5)	-
Stage 2	(1,220)	1,236	(14)	(2)	-
Stage 3	(169)	(128)	193	104	-
New loans and advances originated or purchased	11,055	72	6	6	11,139
Loans and advances derecognised during the year including write-offs	(9,406)	(630)	(102)	(64)	(10,202)
Balance as at 31 August 2019	43,233	2,425	351	207	46,216
Provision for impairment	(81)	(44)	(23)	(85)	(233)
Net carrying amount as at 31 August 2019	43,152	2,381	328	122	45,983

(1) The amounts presented above are inclusive of unearned finance lease income.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2019

3.3 LOANS AND ADVANCES (CONTINUED)

The following table discloses the reconciliation of the new ECL model of the Bank for the year ended 31 August 2019.

	Collective Provision						
Bank	Stage 1 – 12 month ECL $m	Stage 2 – Lifetime ECL $m	Stage 3 – Lifetime ECL $m	Stage 3 – Specific provision $m	Specific provision $m	Collective provision $m	Total $m
Balance as at 31 August 2018	–	–	–	–	74	82	156
Change on adoption of AASB 9	44	31	17	74	(74)	(82)	10
Balance as at 1 September 2018	44	31	17	74	–	–	166
Transfers during the year to:							
Stage 1	6	(5)	–	(1)	–	–	–
Stage 2	(1)	2	(1)	–	–	–	–
Stage 3	–	(5)	3	2	–	–	–
New/increased provisions	14	21	9	28	–	–	72
Write-back of provisions no longer required	(16)	(11)	(9)	(7)	–	–	(43)
Amounts written off, previously provided for	–	–	–	(28)	–	–	(28)
Unwind discount	–	–	–	(3)	–	–	(3)
Balance as at 31 August 2019	47	33	19	65	–	–	164

The table below discloses the effect of movements in the gross carrying value of loans and advances in the different stages of the ECL model of the Bank during the year ended 31 August 2019.

Bank	Stage 1 – 12 month ECL $m	Stage 2 – Lifetime ECL $m	Stage 3 – Lifetime ECL $m	Stage 3 – Specific provision $m	Total (1) $m
Gross carrying amount as at 1 September 2018	37,983	2,313	271	160	40,727
Transfers during the year to:					
Stage 1	593	(582)	(6)	(5)	–
Stage 2	(1,052)	1,068	(14)	(2)	–
Stage 3	(147)	(123)	186	84	–
New loans and advances originated or purchased	8,509	63	4	1	8,577
Loans and advances derecognised during the year including write-offs	(7,620)	(527)	(100)	(57)	(8,304)
Balance as at 31 August 2019	38,266	2,212	341	181	41,000
Provision for impairment	(47)	(33)	(19)	(65)	(164)
Net carrying amount as at 31 August 2019	38,219	2,179	322	116	40,836

(1) The amounts presented above are inclusive of unearned finance lease income.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2019

3.3 LOANS AND ADVANCES (CONTINUED)

As stated in Note 1.5, comparatives have not been restated and are shown below.

	Consolidated	Bank
	2018 $m	2018 $m
Specific provision:		
Balance at the beginning of the year	106	90
Add: Expensed during the year	44	31
Less: Bad debts written off	(61)	(44)
Unwind of discount	(3)	(3)
Balance at the end of the year	86	74
Collective provision:		
Balance at the beginning of the year	121	92
Add: Released during the year	(6)	(10)
Balance at the end of the year	115	82
Total provisions for impairment	201	156

(b) Lease receivables

Asset finance and leasing include the following finance lease receivables for leases where the Consolidated Entity is the lessor.

	Consolidated		Bank	
	2019 [(1)] $m	2018 $m	2019 $m	2018 $m
Gross investment in finance lease receivables:				
Less than one year	373	1,909	24	23
Between one and five years	725	3,015	161	192
More than five years	61	96	37	48
	1,159	5,020	222	263
Unearned finance lease income	(106)	(393)	(22)	(28)
Net investment in finance leases	1,053	4,627	200	235
The net investment in finance leases:				
Less than one year	333	1,740	24	22
Between one and five years	667	2,805	145	173
More than five years	53	82	31	40
	1,053	4,627	200	235

(1) As part of transition to AASB 9, all products offered by the Group were reviewed to determine if they are loans within the scope of AASB 9 or finance leases within the scope of AASB 117. The current year finance lease receivables disclosure has been updated to reflect finance lease receivables within the scope of AASB 117.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2019

3.3 LOANS AND ADVANCES (CONTINUED)

(c) Transfer of financial assets

Securitisation program

Through its REDS Securitisation (**RMBS Trusts**), REDS EHP Securitisation (**REDS EHP Trusts**) and Impala Securitisation programs, the Consolidated Entity packages loans and advances through a series of securitisation vehicles from which debt securities are issued to investors. The Consolidated Entity is entitled to any residual income from the vehicles after all payments to investors and costs of the programs have been met. The securitised loans and advances are included in Loans and advances and the securitisation liabilities are included in Borrowings on the Bank's Balance Sheet. The note holders have recourse only to the loan pool of assets. Refer to Note 6.9 (a) (ii) for further information.

Covered bond program

The Bank issues covered bonds for funding and liquidity purposes. The bonds are issued to external investors and are secured against a pool of the Bank's housing loans. Housing loans are assigned to a bankruptcy remote structured entity to provide security for all obligations payable on the covered bonds issued by the Bank. The covered bond holders have dual recourse to the Bank and the cover pool of assets. The Bank is required to maintain the cover pool at a level sufficient to cover the obligations of the bonds. The Bank is entitled to any residual income of the covered bond structured entity after all payments due to the covered bond holders and any costs related to the program have been met. The housing loans are included in Loans and advances and the covered bonds issued are included in Borrowings on the Bank's Balance Sheet.

The following table sets out the transferred financial assets and associated liabilities of the securitisation and covered bond programs that did not qualify for derecognition under AASB 9 and typically result in the transferred assets continuing to be recognised in full.

	Consolidated		Bank	
	2019 $m	2018 $m	2019 $m	2018 $m
TRANSFERRED FINANCIAL ASSETS				
Securitisation – Loans and advances [1]	4,532	3,400	8,906	8,158
Covered Bonds – Loans and advances	2,776	1,382	2,776	1,382
	7,308	4,782	11,682	9,540
ASSOCIATED FINANCIAL LIABILITIES				
Securitisation Liabilities – External investors	4,623	3,580	–	–
Covered Bonds – External investors	1,652	806	1,652	806
Amounts due to controlled entities [1]	–	–	8,900	8,326
	6,275	4,386	10,552	9,132
FOR THOSE LIABILITIES THAT HAVE RECOURSE ONLY TO TRANSFERRED ASSETS [2]				
Fair value of transferred assets	7,341	4,785	11,716	9,543
Fair value of associated liabilities	(6,275)	(4,386)	(10,552)	(9,132)
Net position	1,066	399	1,164	411

(1) During the year, the Bank reviewed the treatment of the securitisation notes issued under the REDS Securitisation and Impala Securitisation programs and purchased by the Bank. The balances were previously netted off within the Bank's Balance Sheet. The balances are now disclosed separately within financial assets and the associated liability on the Bank's Balance Sheet. For comparison purposes, the prior year balances have been reclassified throughout the Bank's 2019 financial statements.

(2) The fair values of transferred assets and liabilities that reprice within 6 months are assumed to equate to the amortised cost. All other fair values are calculated using a discounted cash flow model.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2019

3.4 DEPOSITS

Deposits are initially recognised at fair value, net of any directly attributable transaction costs. Subsequent to initial measurement, they are measured at amortised cost using the effective interest method.

	Consolidated		Bank	
	2019 $m	2018 $m	2019 $m	2018 $m
Deposits at call	16,343	14,786	16,488	14,991
Term deposits	18,061	18,747	18,107	18,791
Certificates of deposit	3,933	4,484	3,933	4,484
Total deposits	38,337	38,017	38,528	38,266
CONCENTRATION OF DEPOSITS				
Customer deposits	32,428	31,325	32,573	31,530
Wholesale deposits	5,909	6,692	5,955	6,736
	38,337	38,017	38,528	38,266

3.5 BORROWINGS

Borrowings are initially recognised at fair value, net of any directly attributable transaction costs. Subsequent to initial measurement, they are measured at amortised cost using the effective interest method.

The Consolidated Entity recorded the following movements on borrowings:

	Securitisation liabilities [1] $m	Covered bonds liabilities [2] $m	EMTN program $m	ECP program $m	Subordinated notes $m	Senior unsecured notes $m	Capital Notes [3] $m	Total $m
YEAR ENDED 31 AUGUST 2019								
Balance at beginning of year	3,576	804	276	93	349	4,486	493	10,077
Proceeds from issues	2,264	811	20	–	–	926	–	4,021
Repayments	(1,222)	–	(46)	(90)	–	(801)	–	(2,159)
Deferred establishment costs	(3)	(2)	–	–	–	–	–	(5)
Amortisation of deferred costs [4]	2	1	–	–	–	2	2	7
Foreign exchange translation [4]	–	35	13	(3)	–	–	–	45
Balance at end of the year	4,617	1,649	263	–	349	4,613	495	11,986

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2019

3.5 BORROWINGS (CONTINUED)

	Securitisation liabilities (1) $m	Covered bonds liabilities (2) $m	EMTN program $m	ECP program $m	Subordinated notes $m	Senior unsecured notes $m	CPS and Capital Notes (3) $m	Total $m
YEAR ENDED 31 AUGUST 2018								
Balance at beginning of year	3,424	749	172	321	200	4,338	447	9,651
Proceeds from issues	1,288	–	93	88	200	1,459	191	3,319
Repayments	(1,135)	–	–	(322)	(50)	(1,311)	(141)	(2,959)
Deferred establishment costs	(2)	–	–	–	(1)	(1)	(7)	(11)
Amortisation of deferred costs (4)	1	1	–	–	–	1	3	6
Foreign exchange translation (4)	–	54	11	6	–	–	–	71
Balance at end of the year	3,576	804	276	93	349	4,486	493	10,077

(1) Securitisation liabilities are secured by a floating charge over securitised assets for amounts owing to note holders and any other secured creditors of the securitisation vehicles.
(2) Covered bonds liabilities are secured by a charge over a pool of loans and advances and guaranteed by the covered bond guarantor.
(3) *Wholesale Capital Notes*
On 26 May 2015, the Bank issued 15,000 Wholesale Capital Notes (**WCN**) at a price of $10,000 per note. WCN are non-cumulative, fully paid and are issued by the Bank on a perpetual and subordinated basis. They are not guaranteed or secured. As at 31 August 2019, 15,000 WCN were outstanding with accrued distributions of $2 million. WCN must convert to ordinary shares on a mandatory conversion date of 26 May 2022 if certain mandatory conversion conditions are satisfied. Upon conversion, WCN holders will receive a number of ordinary shares based on the value weighted average price during a specified period. The WCN must also convert to ordinary shares of the Bank with the occurrence of a non-viability event, a capital trigger event or an acquisition event. BOQ may elect to redeem or resell the WCN on 26 May 2020 or following a regulatory or tax event. These options are subject to APRA's prior written approval and certain conditions being satisfied. In a winding up of the Bank, if the WCN have not been converted or written off on account of a non-viability trigger event or capital trigger event, the WCN will rank for payment of capital ahead of ordinary shareholders, equally with other securities or instruments ranking equally with WCN, but behind all other securities or instruments ranking ahead of WCN, and behind all senior creditors.
Capital Notes
On 28 December 2017, the Bank issued 3,500,000 Capital Notes at a price of $100 per note. Capital Notes are perpetual and convertible notes issued by BOQ, with preferred, discretionary, non-cumulative distributions. They are not guaranteed or secured. As at 31 August 2019, 3,500,000 Capital Notes were outstanding with accrued distributions of $1 million. Capital Notes must convert into ordinary shares on 15 August 2026 if certain mandatory conversion conditions are satisfied, unless they are converted or redeemed earlier. Where the mandatory conversion conditions are satisfied, a holder will receive a number of ordinary shares per Capital Note based on the value weighted average price of ordinary shares during a specified period. The Capital Notes must also convert to ordinary shares of the Bank with the occurrence of a loss absorption event or an acquisition event. BOQ may elect to convert, redeem or resell Capital Notes on 15 August 2024 or following a regulatory or tax event. BOQ may also elect to convert all Capital Notes following a potential acquisition event. These options are subject to APRA's prior written approval and certain conditions being satisfied. In a winding up of the Bank, Capital Notes will rank for payment of capital ahead of ordinary shares, equally with CPS, WCN and other equal ranking instruments, but behind the claims of all senior ranking creditors, including depositors and unsubordinated and subordinated creditors.
CPS
On 24 December 2012, the Bank issued 3,000,000 CPS. CPS were fully paid, perpetual and convertible preference shares with preferred, discretionary, non-cumulative dividends. They were not guaranteed or secured. In accordance with the ASX announcement dated 5 March 2018, BOQ confirmed the redemption of all outstanding CPS on the optional conversion/redemption date of 16 April 2018 with the redemption price of $102.44 per CPS, comprising the face value of $100 per CPS and a final dividend of $2.44 per CPS for the period from (and including) 16 October 2017 to (but excluding) the redemption date of 16 April 2018. The ASX announcement on 16 April 2018 confirmed the removal of CPS from official quotation at close of trading on 16 April 2018.
(4) Amortisation of deferred costs and foreign exchange translation are non-cash movements. Foreign exchange translation movements are 100 per cent hedged.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2019

3.5 BORROWINGS (CONTINUED)

The Bank recorded the following movements on borrowings:

	Covered bonds liabilities(1) $m	EMTN program $m	ECP program $m	Subordinated notes $m	Senior unsecured notes $m	Capital Notes (2) $m	Total $m
YEAR ENDED 31 AUGUST 2019							
Balance at beginning of year	806	276	93	349	4,486	493	6,503
Proceeds from issues	811	20	–	–	926	–	1,757
Repayments	–	(46)	(90)	–	(801)	–	(937)
Deferred establishment costs	–	–	–	–	–	–	–
Amortisation of deferred costs (3)	–	–	–	–	2	2	4
Foreign exchange translation (3)	35	13	(3)	–	–	–	45
Balance at end of the year	1,652	263	–	349	4,613	495	7,372

	Covered bonds liabilities(1) $m	EMTN program $m	ECP program $m	Subordinated notes $m	Senior unsecured notes $m	CPS and Capital Notes (2) $m	Total $m
YEAR ENDED 31 AUGUST 2018							
Balance at beginning of year	752	172	321	200	4,338	447	6,230
Proceeds from issues	–	93	88	200	1,459	191	2,031
Repayments	–	–	(322)	(50)	(1,311)	(141)	(1,824)
Deferred establishment costs	–	–	–	(1)	(1)	(7)	(9)
Amortisation of deferred costs (3)	–	–	–	–	1	3	4
Foreign exchange translation (3)	54	11	6	–	–	–	71
Balance at end of the year	806	276	93	349	4,486	493	6,503

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

(2) *Wholesale Capital Notes*
On 26 May 2015, the Bank issued 15,000 WCN at a price of $10,000 per note. WCN are non-cumulative, fully paid and are issued by the Bank on a perpetual and subordinated basis. They are not guaranteed or secured. As at 31 August 2019, 15,000 WCN were outstanding with accrued distributions of $2 million. WCN must convert to ordinary shares on a mandatory conversion date of 26 May 2022 if certain mandatory conversion conditions are satisfied. Upon conversion, WCN holders will receive a number of ordinary shares based on the value weighted average price during a specified period. The WCN must also convert to ordinary shares of the Bank with the occurrence of a non-viability event, a capital trigger event or an acquisition event. BOQ may elect to redeem or resell the WCN on 26 May 2020 or following a regulatory or tax event. These options are subject to APRA's prior written approval and certain conditions being satisfied. In a winding up of the Bank, if the WCN have not been converted or written off on account of a non-viability trigger event or capital trigger event, the WCN will rank for payment of capital ahead of ordinary shareholders, equally with other securities or instruments ranking equally with WCN, but behind all other securities or instruments ranking ahead of WCN, and behind all senior creditors.
Capital Notes
On 28 December 2017, the Bank issued 3,500,000 Capital Notes at a price of $100 per note. Capital Notes are perpetual and convertible notes issued by BOQ, with preferred, discretionary, non-cumulative distributions. They are not guaranteed or secured. As at 31 August 2019, 3,500,000 Capital Notes were outstanding with accrued distributions of $1 million. Capital Notes must convert into ordinary shares on 15 August 2026 if certain mandatory conversion conditions are satisfied, unless they are converted or redeemed earlier. Where the mandatory conversion conditions are satisfied, a holder will receive a number of ordinary shares per Capital Note based on the value weighted average price of ordinary shares during a specified period. The Capital Notes must also convert to ordinary shares of the Bank with the occurrence of a loss absorption event or an acquisition event. BOQ may elect to convert, redeem or resell Capital Notes on 15 August 2024 or following a regulatory or tax event. BOQ may also elect to convert all Capital Notes following a potential acquisition event. These options are subject to APRA's prior written approval and certain conditions being satisfied. In a winding up of the Bank, Capital Notes will rank for payment of capital ahead of ordinary shares, equally with CPS, WCN and other equal ranking instruments, but behind the claims of all senior ranking creditors, including depositors and unsubordinated and subordinated creditors.
CPS
On 24 December 2012, the Bank issued 3,000,000 CPS. CPS were fully paid, perpetual and convertible preference shares with preferred, discretionary, non-cumulative dividends. They were not guaranteed or secured. In accordance with the ASX announcement dated 5 March 2018, BOQ confirmed the redemption of all outstanding CPS on the optional conversion/redemption date of 16 April 2018 with the redemption price of $102.44 per CPS, comprising the face value of $100 per CPS and a final dividend of $2.44 per CPS for the period from (and including) 16 October 2017 to (but excluding) the redemption date of 16 April 2018. The ASX announcement on 16 April 2018 confirmed the removal of CPS from official quotation at close of trading on 16 April 2018.

(3) Amortisation of deferred costs and foreign exchange translation are non-cash movements. Foreign exchange translation movements are 100 per cent hedged.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2019

3.6 RISK MANAGEMENT

The Consolidated Entity adopts a "managed risk" approach to its banking and insurance activities in which the articulation of a risk aware culture is prevalent throughout the Consolidated Entity's credit, market, liquidity, insurance, operational risk and compliance policies and procedures. The Board has adopted policies in relation to the assessment, management and monitoring of these risks and ownership of the frameworks within which these risks are managed reside with the Chief Risk Officer.

The Chief Risk Officer contributes towards the achievement of the Consolidated Entity's corporate objectives through the operationalisation and progressive development of the Consolidated Entity's risk management function. The continued improvement of the Consolidated Entity's risk management function focuses on a number of key areas, with particular emphasis on:

1. the efficiency and effectiveness of the Consolidated Entity's credit, market, liquidity, operational risk and compliance management process controls and policies to support the Bank's customer proposition in line with its risk appetite;
2. providing management and the Board with risk reporting that contributes to the further development of sound corporate governance standards;
3. maintaining regulatory compliance in line with regulators' expectations;
4. providing a sound basis from which the Bank can progress to the required compliance level under the Basel II accord; and
5. contributing to the Consolidated Entity achieving risk based performance management.

Group Risk is an independent function and is responsible for providing the framework, policies and procedures needed for managing credit, liquidity, market, operational risk and compliance throughout the Group. Policies are set in line with the governing strategy and risk guidelines set by the Board.

Monitoring

The Consolidated Entity's enterprise risk management framework incorporates active management and monitoring of a range of risks including (but not limited to):

1. Market;
2. Credit;
3. Liquidity; and
4. Insurance.

(a) Market risk

Market risk is the risk that movements in market rates and prices will result in profits or losses to the Consolidated Entity. The objective of market risk management is to manage and control market risk and to minimise its impact on the Consolidated Entity.

(i) Interest rate risk management

The operations of the Consolidated Entity are subject to the risk of interest rate fluctuations as a result of mismatches in the timing of the repricing of interest rates on the Consolidated Entity's assets and liabilities.

The figures in the table below indicate the potential increase / (decrease) in net interest income for an ensuing 12 month period of a 1 per cent parallel shock increase to the yield curve.

Consolidated	2019 $m	2018 $m
Exposure at the end of the year	(12)	15
Average monthly exposure during the year	(1)	2
High month exposure during the year	5	15
Low month exposure during the year	(12)	(8)

(ii) Foreign exchange risk

It is the Bank's policy not to carry material foreign exchange rate exposures, net of associated hedging instruments. At balance date, there are no net material foreign exchange rate exposures.

The Bank uses cross currency swaps and foreign exchange forwards to hedge its exchange rate exposures arising from borrowing off-shore in foreign currencies. The Bank uses forward foreign exchange contracts to hedge potential exchange rate exposures created by customer-originated foreign currency transactions.

The Bank's investment in its New Zealand subsidiary is hedged by forward foreign exchange contracts which mitigate the currency risk arising from the subsidiary's net assets.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2019

3.6 RISK MANAGEMENT (CONTINUED)

(a) Market risk (continued)

(iii) Traded market risk

Market risks attributable to trading activities are primarily measured using a parametric Value-at-Risk (**VaR**) model based on historical data. VaR is a statistical technique used to quantify the potential loss in earnings from adverse market movements and is calculated over a 1-day time horizon to a 99 per cent confidence level using 2 years of historical data. As an additional overlay to VaR, the individual market risks of interest rate, foreign exchange, credit and equity are managed using a framework that includes stress testing, scenario analysis, sensitivity analysis and stop losses. Risks are monitored and measured against limits delegated by the Asset-Liability Committee (**ALCO**) and approved by the Board's Risk Committee.

The portfolio (interest rate, foreign exchange, credit and equity) VaR for the Bank's trading portfolio for the year was as follows:

Trading VaR	2019 $m	2018 $m
Average	0.19	0.21
Maximum	0.31	0.82
Minimum	0.12	0.10

(b) Credit risk

Credit risk arises in the business from lending activities, the provision of guarantees including letters of credit and commitments to lend, investment in bonds and notes, financial market transactions and other associated activities. Credit risk is the potential loss arising from the possibility that customers or counter parties fail to meet contractual payment obligations to the Consolidated Entity as they fall due.

The Board have implemented a structured framework of systems and controls to monitor and manage credit risk comprising:

- documented credit risk management principles which are disseminated to all staff involved with the lending process;
- documented policies;
- a process for approving risk, based on tiered delegated approval authorities, whereby the largest exposures are assessed by the Executive Credit Committee consisting of Group Executives and senior risk managers, chaired by the Chief Risk Officer;
- risk grading the Bank's commercial exposures for facilities greater than $100,000 based on items inclusive of financial performance and stability, organisational structure, industry segment and security support. Exposures within this segment of the portfolio are generally subject to annual review which may include reassessment of the assigned risk grade;
- an automated scorecard approval model for the Bank's retail portfolio inclusive of home loans, home equity lines of credit and personal loans. This model is supported by experienced risk assessment managers; and
- a series of management reports detailing industry concentrations, counter party concentrations, loan grades and security strength ratings.

The Consolidated Entity uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operating, financing and investing activities. In accordance with its treasury risk policies, the Consolidated Entity can hold derivative financial instruments for trading purposes. Credit risk on derivative contracts used for these purposes is minimised as counter parties are recognised financial intermediaries with acceptable credit ratings determined by a recognised rating agency.

(i) Maximum exposure to credit risk

The amounts disclosed are the maximum exposure to credit risk, before taking account of any collateral held or other credit enhancements. For financial assets recognised on the Balance Sheet, the exposure to credit risk equals their carrying amount. For customer commitments, the maximum exposure to credit risk is the full amount of the committed facilities as at reporting date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2019

3.6 RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

(i) Maximum exposure to credit risk (continued)

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2019				2018 [1]
Consolidated Entity	Stage 1 $m	Stage 2 $m	Stage 3 $m	Total $m	Total $m
Cash and cash equivalents	1,274	–	–	1,274	1,212
Due from other financial institutions	708	–	–	708	6
Other financial assets (including accrued interest)	6,220	–	–	6,220	5,395
Derivative financial instruments	229	–	–	229	135
Financial assets other than loans and advances	8,431	–	–	8,431	6,748
Gross loans and advances	43,339	2,425	558	46,322	45,672
Total financial assets	51,770	2,425	558	54,753	52,420
Customer commitments [2]	1,799	–	–	1,799	1,753
Total potential exposure to credit risk	53,569	2,425	558	56,552	54,173

(1) As permitted by AASB 9, previously reported financial periods have not been restated. Refer to Note 1.5 for the impact from the initial adoption of AASB 9.
(2) Refer to Note 6.2 for details of customer commitments.

	2019				2018 [1]
Bank	Stage 1 $m	Stage 2 $m	Stage 3 $m	Total $m	Total $m
Cash and cash equivalents	685	–	–	685	840
Due from other financial institutions	668	–	–	668	6
Other financial assets (including accrued interest)	11,683	–	–	11,683	10,287
Derivative financial instruments	145	–	–	145	80
Financial assets other than loans and advances	13,181	–	–	13,181	11,213
Gross loans and advances	38,288	2,212	522	41,022	40,755
Total financial assets	51,469	2,212	522	54,203	51,968
Customer commitments [2]	952	–	–	952	995
Total potential exposure to credit risk	52,421	2,212	522	55,155	52,963

(1) As permitted by AASB 9, previously reported financial periods have not been restated. Refer to Note 1.5 for the impact from the initial adoption of AASB 9.
(2) Refer to Note 6.2 for details of customer commitments.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2019

3.6 RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

(i) Maximum exposure to credit risk (continued)

The distribution of financial assets by credit quality at the reporting date was:

		Consolidated 2019 $m	Consolidated 2018 (1) $m	Bank 2019 $m	Bank 2018 (1) $m
Neither past due or impaired					
Gross loans and advances		45,061	44,653	39,934	39,851
	Stage 1	43,142	-	38,175	-
	Stage 2	1,828	-	1,670	-
	Stage 3	91	-	89	-
Financial assets other than loans and advances		8,431	6,748	13,181	11,213
	Stage 1	8,431	-	13,181	-
	Stage 2	-	-	-	-
	Stage 3	-	-	-	-
Past due but not impaired					
Gross loans and advances		1,064	855	917	756
	Stage 1	197	-	113	-
	Stage 2	597	-	542	-
	Stage 3	270	-	262	-
Impaired					
Gross loans and advances		197	164	171	148
	Stage 1	-	-	-	-
	Stage 2	-	-	-	-
	Stage 3	197	-	171	-
Total financial assets		54,753	52,420	54,203	51,968

(1) As permitted by AASB 9, previously reported financial periods have not been restated. Refer to Note 1.5 for the impact from the initial adoption of AASB 9.

There is no individual exposure included in impaired assets which exceeds 5% of shareholders' equity (2018: nil).

The Bank holds collateral against loans and advances to customers in the form of mortgage interest over property, other registered securities over assets and guarantees and mortgage insurance. To mitigate credit risk, the Bank can take possession of the collateral held against the loans and advances as a result of customer default. To ensure reduced exposure to losses, the collateral held by the Bank as mortgagee in possession is realised promptly.

Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except where it is a requirement of a scheduled review or when a loan is individually assessed as impaired. An estimate of the collateral held against past due but not impaired and impaired loans and advances at amortised cost is outlined below.

		Consolidated 2019 $m	Consolidated 2018 (1) $m	Bank 2019 $m	Bank 2018 (1) $m
Held against past due but not impaired assets		1,921	1,397	1,775	1,335
	Stage 1	192	-	113	-
	Stage 2	1,073	-	1,015	-
	Stage 3	656	-	647	-
Held against impaired assets		146	105	133	98
	Stage 1	-	-	-	-
	Stage 2	-	-	-	-
	Stage 3	146	-	133	-

(1) As permitted by AASB 9, previously reported financial years have not been restated. Refer to Note 1.5 for the impact from the initial adoption of AASB 9.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2019

3.6 RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

(ii) Credit quality

The credit quality categories of financial assets have been determined based on Standard & Poor's credit ratings, APRA risk weightings and the Bank's standard risk grading. The categories are classified as below:

- High grade – generally corresponds to Standard & Poor's credit ratings AAA+ to BBB–.
- Satisfactory – generally corresponds to Standard & Poor's credit rating BB+ to B.
- Weak – generally corresponds to Standard & Poor's credit ratings up to B.
- Unrated – Loans and advances which have been classified as unrated are not secured, however these are not deemed to be weak.

The table below presents an analysis of the credit quality of financial assets:

	Consolidated							
	2019 $m				2018 [(1)] $m			
	Gross loans & advances				Gross loans & advances			
	Retail	Commercial	Gross loans & advances	Other financial assets	Retail	Commercial	Gross loans & advances	Other financial assets
High Grade	25,610	4,571	30,181	8,425	25,294	4,388	29,682	6,745
Stage 1	24,538	4,083	28,621	8,425	–	–	–	–
Stage 2	981	438	1,419	–	–	–	–	–
Stage 3	91	50	141	–	–	–	–	–
Satisfactory	4,970	9,688	14,658	–	5,114	8,967	14,081	–
Stage 1	4,800	8,872	13,672	–	–	–	–	–
Stage 2	139	620	759	–	–	–	–	–
Stage 3	31	196	227	–	–	–	–	–
Weak	313	902	1,215	6	330	1,327	1,657	3
Stage 1	160	629	789	6	–	–	–	–
Stage 2	43	200	243	–	–	–	–	–
Stage 3	110	73	183	–	–	–	–	–
Unrated	53	215	268	–	65	187	252	–
Stage 1	53	203	256	–	–	–	–	–
Stage 2	–	5	5	–	–	–	–	–
Stage 3	–	7	7	–	–	–	–	–
	30,946	15,376	46,322	8,431	30,803	14,869	45,672	6,748

(1) As permitted by AASB 9, previously reported financial years have not been restated. Refer to Note 1.5 for the impact from the initial adoption of AASB 9.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2019

3.6 RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

	Bank							
	2019 $m				2018 [1] $m			
	Gross loans & advances				Gross loans & advances			
	Retail	Commercial	Gross loans & advances	Other financial assets	Retail	Commercial	Gross loans & advances	Other financial assets
High Grade	25,610	3,865	29,475	12,149	25,294	3,640	28,934	11,180
Stage 1	24,538	3,377	27,915	12,149	-	-	-	-
Stage 2	981	438	1,419	-	-	-	-	-
Stage 3	91	50	141	-	-	-	-	-
Satisfactory	4,970	5,853	10,823	66	5,114	5,637	10,751	19
Stage 1	4,800	5,088	9,888	66	-	-	-	-
Stage 2	139	571	710	-	-	-	-	-
Stage 3	31	194	225	-	-	-	-	-
Weak	313	143	456	6	330	488	818	14
Stage 1	160	58	218	6	-	-	-	-
Stage 2	43	40	83	-	-	-	-	-
Stage 3	110	45	155	-	-	-	-	-
Unrated	53	215	268	960	65	187	252	-
Stage 1	53	214	267	960	-	-	-	-
Stage 2	-	-	-	-	-	-	-	-
Stage 3	-	1	1	-	-	-	-	-
	30,946	10,076	41,022	13,181	30,803	9,952	40,755	11,213

(1) As permitted by AASB 9, previously reported financial years have not been restated. Refer to Note 1.5 for the impact from the initial adoption of AASB 9.

(iii) Loans and advances which were past due but not impaired

Loans which are 90 or more days past due are not classified as impaired assets where the estimated net realisable value of the security is sufficient to cover the repayment of all principal and interest amounts due.

		Consolidated		Bank	
Consolidated		2019 $m	2018 $m	2019 $m	2018 $m
Less than 30 days	- Retail	303	224	303	224
	- Commercial	262	162	150	85
30 to 89 days	- Retail	132	161	132	161
	- Commercial	56	48	29	30
90 days or more	- Retail	213	150	213	150
	- Commercial	98	110	90	106
		1,064	855	917	756

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2019

3.6 RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

(iv) Concentration of exposure for gross loans and advances

Concentration of credit risk exists when a number of counter parties are engaged in similar activities, operate in the same geographical areas or industry sectors and have similar economic characteristics, so that their ability to meet contractual obligations is similarly affected by changes in economic, political or other conditions. The Consolidated Entity monitors concentrations of credit risk by geographical location for loans and advances. An analysis of these concentrations of credit risk at the reporting date is shown below:

	Consolidated		Bank	
Geographical concentration of credit risk for loans and advances (before provisions and unearned income):	2019 $m	2018 $m	2019 $m	2018 $m
Queensland	19,963	20,221	18,170	18,526
New South Wales	13,105	12,026	11,729	10,687
Victoria	6,900	7,044	5,728	6,012
Northern Territory	272	287	256	277
Australian Capital Territory	341	323	310	300
Western Australia	4,333	4,463	3,981	4,143
South Australia	802	771	645	611
Tasmania	229	230	203	199
International (New Zealand)	377	307	-	-
	46,322	45,672	41,022	40,755

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2019

3.6 RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk

Liquidity risk arises from the possibility that the Consolidated Entity is unable to meet its financial obligations as they fall due. Liquidity risk is managed through a series of detailed policies. This includes the management of cash flow mismatches, the maintenance of a stable, core retail deposits base, the diversification of the funding base and the retention of adequate levels of high quality liquid assets.

The Consolidated Entity manages liquidity risk by maintaining sufficient cash balances and liquid assets, continuously monitoring forecast and actual cash flows, matching maturity profiles of financial assets and liabilities and monitoring liquidity scenario analysis.

Consolidated 2019	Carrying amount $m	At Call $m	3 months or less $m	3 to 12 months $m	1 to 5 years $m	Over 5 years $m	Policy holder $m	Total contractual cash flows $m
FINANCIAL LIABILITIES								
Due to other financial institutions	285	285	-	-	-	-	-	285
Deposits	38,337	16,343	13,614	7,702	969	1	-	38,629
Derivative financial instruments (1)	49	-	11	11	20	2	-	44
Accounts payable and other liabilities	394	-	394	-	-	-	-	394
Securitisation liabilities (2)	4,617	-	465	973	2,397	1,143	-	4,978
Borrowings	7,369	-	640	969	6,132	-	-	7,741
Insurance policy liabilities	9	-	-	-	-	-	9	9
Total financial liabilities	51,060	16,628	15,124	9,655	9,518	1,146	9	52,080
DERIVATIVE FINANCIAL INSTRUMENTS (HEDGING RELATIONSHIP)								
Contractual amounts payable		-	837	401	2,596	152	-	3,986
Contractual amounts receivable		-	(817)	(302)	(2,245)	(63)	-	(3,427)
	461	-	20	99	351	89	-	559
OFF BALANCE SHEET POSITIONS								
Guarantees, indemnities and letters of credit		301	-	-	-	-	-	301
Customer funding commitments		1,498	-	-	-	-	-	1,498
		1,799	-	-	-	-	-	1,799

(1) Derivative financial instruments other than those designated in hedge relationships.
(2) Repayment of securitisation bonds is forecast based on the expected repayment profile of the underlying assets of the Trusts.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2019

3.6 RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (continued)

Consolidated 2018	Carrying amount $m	At Call $m	3 months or less $m	3 to 12 months $m	1 to 5 years $m	Over 5 years $m	Policy holder $m	Total contractual cash flows $m
FINANCIAL LIABILITIES								
Due to other financial institutions	315	315	–	–	–	–	–	315
Deposits	38,017	14,786	13,340	9,389	893	–	–	38,408
Derivative financial instruments (1)	8	–	2	2	6	1	–	11
Accounts payable and other liabilities	360	–	360	–	–	–	–	360
Securitisation liabilities (2)	3,576	–	260	611	2,117	659	–	3,647
Borrowings	6,501	–	66	1,055	5,901	–	–	7,022
Liabilities held for sale (3)	22	–	–	–	–	–	22	22
Total financial liabilities	48,799	15,101	14,028	11,057	8,917	660	22	49,785
DERIVATIVE FINANCIAL INSTRUMENTS (HEDGING RELATIONSHIP)								
Contractual amounts payable		–	853	452	1,664	211	–	3,180
Contractual amounts receivable		–	(846)	(404)	(1,457)	(118)	–	(2,825)
	176	–	7	48	207	93	–	355
OFF BALANCE SHEET POSITIONS								
Guarantees, indemnities and letters of credit		304	–	–	–	–	–	304
Customer funding commitments		1,449	–	–	–	–	–	1,449
		1,753	–	–	–	–	–	1,753

(1) Derivative financial instruments other than those designated in hedge relationships.
(2) Repayment of securitisation bonds is forecast based on the expected repayment profile of the underlying assets of the Trusts.
(3) The St Andrew's Group was classified as held for sale as at 31 August 2018 but has ceased to be held for sale as at 31 August 2019. Refer to Note 6.5(d) for presentation of the comparatives.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2019

3.6 RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (continued)

Bank 2019	Carrying amount $m	At Call $m	3 months or less $m	3 to 12 months $m	1 to 5 years $m	Over 5 years $m	Total contractual cash flows $m
FINANCIAL LIABILITIES							
Due to other financial institutions	285	285	-	-	-	-	285
Deposits	38,528	16,488	13,660	7,702	969	1	38,820
Derivative financial instruments (1)	49	-	11	11	20	2	44
Accounts payable and other liabilities	302	-	302	-	-	-	302
Borrowings	7,372	-	640	969	6,132	-	7,741
Amounts due to controlled entities	6,086	6,086	-	-	-	-	6,086
Total financial liabilities	52,622	22,859	14,613	8,682	7,121	3	53,278
DERIVATIVE FINANCIAL INSTRUMENTS (HEDGING RELATIONSHIP)							
Contractual amounts payable		-	834	397	934	152	2,317
Contractual amounts receivable		-	(827)	(326)	(616)	(63)	(1,832)
	546	-	7	71	318	89	485
OFF BALANCE SHEET POSITIONS							
Guarantees, indemnities and letters of credit		301	-	-	-	-	301
Customer funding commitments		651	-	-	-	-	651
		952	-	-	-	-	952

(1) Derivative financial instruments other than those designated in hedge relationships.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2019

3.6 RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (continued)

Bank 2018	Carrying amount $m	At Call $m	3 months or less $m	3 to 12 months $m	1 to 5 years $m	Over 5 years $m	Total contractual cash flows $m
FINANCIAL LIABILITIES							
Due to other financial institutions	315	315	–	–	–	–	315
Deposits	38,266	14,991	13,384	9,389	893	–	38,657
Derivative financial instruments (1)	8	–	2	2	6	1	11
Accounts payable and other liabilities	304	–	304	–	–	–	304
Borrowings	6,503	–	66	1,055	5,901	–	7,022
Total financial liabilities	45,396	15,306	13,756	10,446	6,800	1	46,309
DERIVATIVE FINANCIAL INSTRUMENTS (HEDGING RELATIONSHIP)							
Contractual amounts payable		–	849	433	852	211	2,345
Contractual amounts receivable		–	(848)	(399)	(640)	(118)	(2,005)
	230	–	1	34	212	93	340
OFF BALANCE SHEET POSITIONS							
Guarantees, indemnities and letters of credit		304	–	–	–	–	304
Customer funding commitments		691	–	–	–	–	691
		995	–	–	–	–	995

(1) Derivative financial instruments other than those designated in hedge relationships.

(d) Insurance risk

(i) Risk management objectives and policies for risk mitigation

Insurance risks are controlled through the use of underwriting procedures, adequate premium rates and policy charges and sufficient reinsurance arrangements, all of which are approved through a Board approved governance structure. Controls are also maintained over claims management practices to assure the correct and timely payment of insurance claims.

(ii) Strategy for managing insurance risk

Portfolio of risks

During the financial year, the Bank's insurance subsidiaries issued a range of consumer credit insurance, life and general insurance products. The performance of the Bank's insurance subsidiaries and its continuing ability to write business depends on its ability to pre-empt and control risks. The Bank's insurance subsidiaries have a risk management strategy which has been approved by their respective Boards. It summarises the approach to risk and risk management.

Risk strategy

In compliance with contractual and regulatory requirements, a strategy is in place to ensure that the risks underwritten satisfy objectives whilst not adversely affecting the Consolidated Entity's ability to pay benefits and claims when due. The strategy involves the identification of risks by type, impact and likelihood, the implementation of processes and controls to mitigate the risks, and continuous monitoring and improvement of the procedures in place to minimise the chance of an adverse compliance or operational risk event occurring. Included in this strategy is the process for underwriting and product pricing to ensure products are appropriately priced. Capital management is also a key aspect of the Consolidated Entity's risk management strategy. Capital requirements take account of all of the various regulatory requirements to which the Consolidated Entity is subject.

Prudential capital requirements

Prudential capital requirements established by APRA are in place to safeguard policyholders' interests, which are primarily the ability to meet future claim payments to policyholders. These require the Consolidated Entity's capital base to exceed the Prudential Capital Requirement throughout the year, not just at year end. The level of capital requirements also take into account specific risks faced by the Bank's insurance subsidiaries.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2019

3.6 RISK MANAGEMENT (CONTINUED)

(d) Insurance risk (continued)

(iii) Methods to limit or transfer insurance risk exposures

Reinsurance
The insurance subsidiaries use reinsurance arrangements to pass on or cede to reinsurers risks that are outside of the subsidiaries' risk appetite.

Underwriting procedures
Strategic underwriting decisions are put into effect using the underwriting procedures detailed in the Bank's insurance subsidiaries' Underwriting Policy. Such procedures include limits to delegated authorities and signing powers.

Claims management
Strict claims management procedures ensure timely and correct payment of claims in accordance with policy conditions.

Asset and liability management techniques
Assets are allocated to different classes of business using a risk based approach. The Bank's insurance subsidiaries have a mix of short and long term business and invest accordingly. Market risk is managed through investing in cash, deposits and bank issued commercial bills. No more than 35 per cent of shareholder funds and funds backing insurance policy liabilities can be invested with any one counterparty, subject to counterparty credit ratings.

(e) Concentration of insurance risk

(i) Insurance risks associated with human life events

The Consolidated Entity aims to maintain a diversified profile of ages, genders, health statuses and geographic locations within its portfolio of policyholders. This policy maintains a balance between the current and future profitability of the life business, and exposure to any significant external events. The distribution channels and subsequent demographic mix of the population of policyholders is sufficiently spread so that the risk concentration in relation to any particular group is small. Specific processes for monitoring identified key concentrations include monitoring sales by product type, cover type and corporate partner type.

3.7 FAIR VALUE OF FINANCIAL INSTRUMENTS

(a) Fair value of financial instruments

The financial assets and liabilities listed below are recognised and measured at fair value and therefore their carrying value equates to their fair value:

- Derivatives;
- Financial instruments designated at FVTPL; and
- Financial instruments designated at FVOCI.

The fair value estimates for instruments carried at amortised cost are based on the following methodologies and assumptions:

Cash and cash equivalents, due from and to other financial institutions, accounts payable and other liabilities
The fair value approximates their carrying value as they are short term in nature or are receivable or payable on demand.

Loans and advances
Loans and advances are net of specific and collective provisions for impairment and unearned income. The fair values of loans and advances that reprice within six months of year end are assumed to equate to the carrying value. The fair values of all other loans and advances are calculated using discounted cash flow models based on the maturity of the loans and advances.

The discount rates applied are based on the current interest rates at the reporting date for similar types of loans and advances, if the loans and advances were performing at the reporting date. The differences between estimated fair values and carrying values reflect changes in interest rates and creditworthiness of borrowers since loan or advance origination.

Deposits
The fair value of non-interest bearing, at call and variable rate deposits and fixed rate deposits repricing within six months is the carrying value. The fair value of other term deposits is calculated using discounted cash flow models based on the deposit type and its related maturity.

Borrowings
The fair values are calculated based on a discounted cash flow model using a yield curve appropriate to the remaining maturity of the instruments.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2019

3.7 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(b) Comparison of fair value to carrying amounts

The tables below disclose the fair value of financial instruments where their carrying value is not a reasonable approximation of their fair value:

		Consolidated Entity			
		Carrying value		Fair value	
	Note	2019 $m	2018 $m	2019 $m	2018 $m
ASSETS CARRIED AT AMORTISED COST					
Loans and advances	3.3	45,983	45,078	46,225	45,105
		45,983	45,078	46,225	45,105
LIABILITIES CARRIED AT AMORTISED COST					
Deposits	3.4	(38,337)	(38,017)	(38,372)	(38,020)
Borrowings	3.5	(11,986)	(10,077)	(11,981)	(10,074)
		(50,323)	(48,094)	(50,353)	(48,094)

		Bank			
		Carrying value		Fair value	
	Note	2019 $m	2018 $m	2019 $m	2018 $m
ASSETS CARRIED AT AMORTISED COST					
Loans and advances	3.3	40,836	40,571	40,958	40,585
Debt instruments at amortised cost	3.2	5,468	4,867	5,469	4,868
		46,304	45,438	46,427	45,453
LIABILITIES CARRIED AT AMORTISED COST					
Deposits	3.4	(38,528)	(38,266)	(38,563)	(38,269)
Borrowings	3.5	(7,372)	(6,503)	(7,372)	(6,504)
		(45,900)	(44,769)	(45,935)	(44,773)

The estimated fair values disclosed do not include the assets and liabilities that are not financial instruments.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2019

3.7 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(c) Fair value hierarchy

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

- Level 1: This category includes assets and liabilities for which the valuation is determined from inputs based on unadjusted quoted market prices in active markets for identical instruments.
- Level 2: This category includes assets and liabilities for which the valuation is determined from inputs other than quoted prices included within level 1, which are observable either directly or indirectly. This includes the use of discounted cash flow analysis, option pricing models and other market accepted valuation models.
- Level 3: This category includes assets and liabilities for which the valuation includes inputs that are not based on observable market data. This includes equity instruments where there are no quoted market prices.

The fair value hierarchy classification of instruments in Note 3.7 (b):

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

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

	2019			
Consolidated Entity	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial instruments measured at fair value				
Derivative financial assets	–	229	–	229
Financial assets at FVTPL	1,013	1,573	–	2,586
Debt instruments at FVOCI	3,097	472	–	3,569
Equity instruments at FVOCI	–	–	6	6
	4,110	2,274	6	6,390
Derivative financial liabilities	–	(687)	–	(687)
	4,110	1,587	6	5,703

	2018			
Consolidated Entity	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Instruments carried at fair value				
Derivative financial assets	–	135	–	135
Financial assets available-for-sale (1)	2,580	1,363	3	3,946
Financial assets at fair value through profit or loss (1)	–	1,385	–	1,385
	2,580	2,883	3	5,466
Derivative financial liabilities	–	(294)	–	(294)
	2,580	2,589	3	5,172

(1) Due to the adoption of AASB 9 from 1 September 2019, there have been changes in the classifications of financial instruments. See Note 1.5 for more information on the Implementation of AASB 9.

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

- $4 million fair value increase on adoption of AASB 9. Refer to Note 1.5 for further information; and
- $1 million current period fair value loss in other comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2019

3.7 FINANCIAL INSTRUMENTS (CONTINUED)

(c) Fair value hierarchy (continued)

	2019			
Bank	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial instruments measured at fair value				
Derivative financial assets	–	145	–	145
Financial assets at FVTPL	1,013	1,573	–	2,586
Debt instruments at FVOCI	3,097	472	–	3,569
Equity instruments at FVOCI	–	–	6	6
	4,110	2,190	6	6,306
Derivative financial liabilities	–	(687)	–	(687)
	4,110	1,503	6	5,619

	2018			
Bank	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Instruments carried at fair value				
Derivative financial assets	–	80	–	80
Financial assets available-for-sale [(1)]	2,580	1,392	3	3,975
Financial assets at fair value through profit or loss [(1)]	–	1,385	–	1,385
	2,580	2,857	3	5,440
Derivative financial liabilities	–	(293)	–	(293)
	2,580	2,564	3	5,147

(1) Due to the adoption of AASB 9 from 1 September 2019, there have been changes in the classifications of financial instruments. See Note 1.5 for more information on the Implementation of AASB 9.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2019

3.8 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

(a) Fair value of derivatives

The following tables summarise the notional and fair value of the Consolidated Entity's and Bank's commitments to derivative financial instruments at reporting date. Fair value in relation to derivative financial instruments is estimated using net present value techniques. The tables below set out the fair values of the derivative financial instruments.

	Consolidated					
	2019			2018		
	Notional Amount	Fair Value		Notional Amount	Fair Value	
	$m	Asset $m	Liability $m	$m	Asset $m	Liability $m
DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS						
Interest rate swaps	11,500	50	(48)	14,729	21	(7)
Foreign exchange forwards	139	2	(1)	120	1	(1)
Futures	2,308	-	-	2,364	3	-
	13,947	52	(49)	17,213	25	(8)
DERIVATIVES HELD AS CASH FLOW HEDGES						
Interest rate swaps	26,636	41	(159)	29,731	32	(33)
Cross currency swaps	2,183	125	(8)	1,163	65	(2)
Foreign exchange forwards	687	11	(1)	730	13	(1)
	29,506	177	(168)	31,624	110	(36)
DERIVATIVES DESIGNATED AS FAIR VALUE HEDGES						
Interest rate swaps	2,637	-	(470)	2,267	-	(250)
DERIVATIVES DESIGNATED AS NET INVESTMENT HEDGES						
Foreign exchange forwards	26	-	-	23	-	-
	46,116	229	(687)	51,127	135	(294)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2019

3.8 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (CONTINUED)

(a) Fair value of derivatives (continued)

	Bank					
	2019			2018		
	Notional Amount	Fair Value		Notional Amount	Fair Value	
	$m	Asset $m	Liability $m	$m	Asset $m	Liability $m
DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS						
Interest rate swaps	11,500	50	(48)	14,729	21	(7)
Foreign exchange forwards	165	3	(1)	144	1	(1)
Futures	2,308	-	-	2,364	3	-
	13,973	53	(49)	17,237	25	(8)
DERIVATIVES HELD AS CASH FLOW HEDGES						
Interest rate swaps	27,596	59	(159)	29,864	33	(32)
Cross currency swaps	463	22	(8)	357	9	(2)
Foreign exchange forwards	687	11	(1)	730	13	(1)
	28,746	92	(168)	30,951	55	(35)
DERIVATIVES DESIGNATED AS FAIR VALUE HEDGES						
Interest rate swaps	2,637	-	(470)	2,267	-	(250)
	45,356	145	(687)	50,455	80	(293)

(b) Hedging strategy

The Consolidated Entity and Bank used derivative financial instruments for both hedging and trading purposes in the current year and prior year. Refer to Note 3.6 (a) for an explanation of the Consolidated Entity's and Bank's risk management framework. The Consolidated Entity uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operating, financing and investing activities.

The Consolidated Entity's hedging strategy is to protect Net Interest Income (**NII**) from variability in interest rates in Australian dollars. This requires the Consolidated Entity to enter into interest rate swaps allowing for the reduction in interest rate risk.

Foreign currency exposures are swapped to Australian dollars using cross-currency interest rate swaps. These cross currency swaps will be matched to the underlying interest rate exposure of fixed or floating, respectively.

The majority of exposures are managed under the above strategy. Where a risk is within agreed limits, the Consolidated Entity may decide not to apply hedge accounting to that risk. Instead, the Consolidated Entity will manage its exposure under broader risk management processes.

(c) Accounting for derivatives

In accordance with its treasury risk policies, the Consolidated Entity can hold derivative financial instruments for trading purposes. Derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are initially measured at fair value. Subsequent to initial recognition, gains or losses on derivatives are recognised in the Income Statement, unless they are entered into for hedging purposes.

The fair value of interest rate swaps is the estimated amount that the Consolidated Entity would receive or pay to terminate the swap at the reporting date, taking into account current interest rates and current creditworthiness of the swap counter parties.

The fair value of forward exchange contracts is their quoted market price at the reporting date, being the present value of the quoted forward price. The fair value of futures contracts is their quoted market price.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2019

3.8 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (CONTINUED)

(c) Accounting for derivatives (continued)

Liquidity risk arises from the possibility that the Bank is unable to meet its financial obligations as they fall due. Liquidity risk is managed through a series of detailed policies. This includes the management of cash flow mismatches, the maintenance of a stable, core retail deposits base, the diversification of the funding base and the retention of adequate levels of high quality liquid assets.

The Consolidated Entity manages liquidity risk by maintaining adequate reserves and facilities by continuously monitoring forecast and actual cash flows, matching maturity profiles of financial assets and liabilities and monitoring liquidity scenario analysis.

The following table shows the maturity profile of hedging derivatives based on their notional amounts.

	2019				2018			
Consolidated Entity	0 to 12 months $m	1 to 5 years $m	Over 5 years $m	Total $m	0 to 12 months $m	1 to 5 years $m	Over 5 years $m	Total $m
Interest rate swaps	29,908	8,999	1,866	40,773	35,620	9,090	2,017	46,727
Foreign exchange forwards	852	–	–	852	873	–	–	873
Futures	2,308	–	–	2,308	2,364	–	–	2,364
Cross currency swaps	132	2,049	2	2,183	45	1,116	2	1,163

(d) Hedging relationships

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability of the cash flows of a recognised asset or liability, or a highly probable forecasted transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in other comprehensive income and accumulated in reserves in equity. The ineffective portion of any gain or loss is recognised immediately in profit or loss in the Income Statement. If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, then the associated gains and losses previously recognised directly in other comprehensive income are reclassified to profit or loss in the Income Statement in the same period or periods in which the asset acquired or liability assumed affects the Income Statement (i.e. when interest income or expense is recognised).

When a hedging instrument expires or is sold, terminated or exercised, or the Consolidated Entity revokes designation of the hedge relationship, and the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in other comprehensive income and is recognised in profit or loss in the Income Statement when the transaction occurs. If the hedged transaction is no longer expected to take place, then the cumulative unrealised gain or loss is recognised immediately in profit or loss in the Income Statement.

Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any foreign currency gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income. To the extent the hedge is ineffective, a portion is recognised immediately in the Income Statement within other income or other expenses.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2019

3.8 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (CONTINUED)

(d) Hedging relationships (continued)

The following table shows the executed rates for the most significant hedging instruments that have been designated in cash flow hedges and net investment hedges that are in place at the balance date.

			Consolidated entity	
	Hedging Instruments	Currency	2019	2018
Cash flow hedges	Interest rate swaps	AUD	0.863% - 4.145%	1.500% - 6.093%
Cash flow hedges	Cross currency swaps	AUD/USD	0.761 - 0.793	0.761- 0.793
		AUD/JPY	83.100 - 83.178	83.100 - 83.178
		AUD/HKD	5.940 - 5.940	5.940 - 5.940
		AUD/EUR	0.617 - 0.672	0.641 - 0.672
		NZD/AUD	0.984 - 0.885	0.984 - 0.885
Net Investment hedges	Foreign exchange forwards	AUD/NZD	1.049	1.098

Fair value hedges

Fair value hedges are used by the Consolidated Entity to manage exposure to changes in the fair value of an asset. Changes in fair values arise from fluctuations in interest rates. The Consolidated Entity principally uses interest rate swaps to protect against such fluctuations.

Changes in the value of fair value hedges are recognised in the Income Statement, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

All gains and losses associated with the ineffective portion of fair value hedge relationships are recognised immediately in the Income Statement.

If the hedge relationship no longer meets the criteria for hedge accounting, it is discontinued. The fair value adjustment to the hedged item is amortised to the Income Statement from the date of discontinuation over the period to maturity of the previously designated hedge relationship using the effective interest method. If the hedged item is sold or repaid, the unamortised fair value adjustment is recognised immediately in the Income Statement.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2019

3.8 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (CONTINUED)

(d) Hedging relationships (continued)

The following table shows the carrying value of hedged items designated in fair value hedge accounting relationships and the cumulative fair value hedge accounting adjustment that has been recognised as part of that carrying value. These balances are being amortised to the Income Statement on an effective yield basis. The Consolidated Entity does not hedge its entire exposure to a class of financial instruments, nor does it apply hedge accounting in all instances, therefore the carrying amounts below will not equal the total carrying amounts disclosed in other notes to these financial statements. As noted in the Consolidated Entity's accounting policies, since the hedged item is adjusted only for the hedged risk, the hedged item's carrying value disclosed in the table will not be equivalent to its fair value as disclosed in other notes to these financial statements. The accumulated amount of fair value hedge adjustments remaining in the Balance Sheet for hedged items that have ceased to be adjusted for hedging gains and losses is a nil balance (2018: nil) for the Consolidated Entity. This amount will be amortised to the income statement as a gain on an effective interest rate basis.

	Consolidated Entity			
	2019		2018	
	Carrying value[1] $m	Fair value hedge adjustments Debit/(Credit) $m	Carrying value[1] $m	Fair value hedge adjustments Debit/(Credit) $m
ASSETS				
Debt instruments at FVOCI	3,085	(297)	2,529	(75)

(1) The carrying amounts in the table above exclude accrued interest from the carrying amount of hedged items.

Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the Income Statement and are included in other income.

(e) Hedging ineffectiveness

Hedge ineffectiveness, in the case of a fair value hedge, is the extent to which the changes in the fair value of the hedging instrument differ to that of the hedged item, and in the case of cash flow and net investment hedge relationships, the extent to which the change in the hedging instrument exceeds that of the hedged item. Sources of hedge ineffectiveness primarily arise from basis and timing differences between the hedged items and hedging instruments.

The following table contains the hedge ineffectiveness associated with cash flow hedge and fair value hedge relationships during the period, as reported in Other operating income in the Income Statement:

	Consolidated					
	2019			2018		
	Gains/(losses) on hedge instruments $m	Gains/(losses) on hedge items $m	Hedge Ineffectiveness $m	Gains/(losses) on hedge instruments $m	Gains/(losses) on hedge items $m	Hedge Ineffectiveness $m
INTEREST RATE RISK						
Fair value hedges						
Interest rate swaps	(231)	230	(1)	(23)	23	-
Cash flow hedges						
Interest rate swaps	(114)	111	(3)	(7)	11	4
INTEREST RATE AND FOREIGN EXCHANGE RISK						
Fair value and cash flow hedges						
Cross currency swaps	49	(49)	-	63	(63)	-

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2019

3.8 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (CONTINUED)

(f) Master netting or similar arrangements

The Consolidated Entity enters into derivative transactions under International Swaps and Derivatives Association (**ISDA**) master netting agreements. Amounts owed by each counter party are aggregated into a single net amount that is payable by one party to another. The Consolidated Entity receives and gives collateral in the form of cash in respect of derivatives and such collateral is subject to standard industry terms. The Consolidated Entity has not offset these amounts in the Balance Sheet as their ISDA agreements do not meet the criteria to do so. The Consolidated Entity has no current legally enforceable right to offset recognised amounts as the right to offset is only enforceable on the occurrence of future events. The Consolidated Entity normally settles on a net basis or realises the derivative assets and liabilities simultaneously.

The following tables set out the effect of netting arrangements on derivative financial assets and derivative financial liabilities if they were to be applied.

	2019			
Consolidated	Gross amounts as presented in the Balance Sheet $m	Net amounts of recognised assets and liabilities available for offset $m	Cash collateral $m	Net amounts if offsetting applied in the Balance Sheet $m
Derivative financial assets	229	(82)	–	147
Derivative financial liabilities	(687)	82	609	4

	2018			
Consolidated	Gross amounts as presented in the Balance Sheet $m	Net amounts of recognised assets and liabilities available for offset $m	Cash collateral $m	Net amounts if offsetting applied in the Balance Sheet $m
Derivative financial assets	135	(39)	(8)	88
Derivative financial liabilities	(294)	39	250	(5)

	2019			
Bank	Gross amounts as presented in the Balance Sheet $m	Net amounts of recognised assets and liabilities available for offset $m	Cash collateral $m	Net amounts if offsetting applied in the Balance Sheet $m
Derivative financial assets	145	(82)	–	63
Derivative financial liabilities	(687)	82	609	4

	2018			
Bank	Gross amounts as presented in the Balance Sheet $m	Net amounts of recognised assets and liabilities available for offset $m	Cash collateral $m	Net amounts if offsetting applied in the Balance Sheet $m
Derivative financial assets	80	(39)	(8)	33
Derivative financial liabilities	(293)	39	250	(4)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2019

3.9 CAPITAL MANAGEMENT

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

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

Qualifying capital for Level 2 entities[1]	2019 $m	2018 $m
Common Equity Tier 1 Capital		
Paid-up ordinary share capital	3,497	3,418
Reserves	171	4
Retained profits, including current year profits	132	394
Total Common Equity Tier 1 Capital	3,800	3,816
Regulatory adjustments		
Goodwill and intangibles	(923)	(875)
Deferred expenditure	(183)	(178)
Other deductions	67	(1)
Total regulatory adjustments	(1,039)	(1,054)
Net Common Equity Tier 1 Capital	2,761	2,762
Additional Tier 1 Capital	500	500
Net Tier 1 Capital	3,261	3,262
Tier 2 Capital		
Tier 2 Capital	350	350
General reserve for credit losses	175	174
Net Tier 2 Capital	525	524
Capital base	3,786	3,786
Risk Weighted Assets	30,533	29,669
Common Equity Tier 1 Capital	9.04%	9.31%
Net Tier 1 Capital ratio	10.68%	10.99%
Total Capital Adequacy Ratio	12.40%	12.76%

(1) APRA Prudential Standard APS 001 *Definitions* defines Level 2 as the ADI and all of its subsidiary entities other than non-consolidated subsidiaries. The non-consolidated subsidiaries excluded from Level 2 are:
- Bank of Queensland Limited Employee Share Plans Trust;
- Home Credit Management Pty Ltd;
- St Andrew's Australia Services Pty Ltd;
- St Andrew's Life Insurance Pty Ltd;
- St Andrew's Insurance (Australia) Pty Limited;
- Series 2012-1E REDS Trust;
- Series 2013-1 REDS Trust;
- Series 2015-1 REDS Trust;
- Series 2017-1 REDS Trust;
- Series 2018-1 REDS Trust; and
- Series 2019-1 REDS Trust.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2019

3.10 CAPITAL AND RESERVES

(a) Ordinary shares

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share rights are recognised as a deduction from equity, net of any tax effects.

Treasury shares

Ordinary shares of the Bank may be purchased from time to time by a controlled entity of the Bank, pursuant to the Awards Right, Restricted Share and Employee Share Plans. Where these shares remain unvested to employees they are treated as treasury shares and deducted from capital as required by AASB 132 *Financial Instruments: Presentation*. No profit or loss is recorded on purchase, sale, issue or cancellation of these shares.

	Consolidated		Bank	
	2019 No of shares	2018 No of shares	**2019 No of shares**	2018 No of shares
MOVEMENTS DURING THE YEAR				
Balance at the beginning of the year – fully paid	**397,311,850**	391,739,729	**397,311,850**	391,739,729
Dividend reinvestment plan	**8,472,959**	4,719,312	**8,472,959**	4,719,312
Issues of ordinary shares [(1)]	**-**	852,809	**-**	852,809
Balance at the end of the year – fully paid	405,784,809	397,311,850	405,784,809	397,311,850
Treasury shares (included in ordinary shares above):				
Balance at the beginning of the year	**587,515**	565,308	**-**	-
Net acquisitions and disposals during the year	**56,519**	22,207	**-**	-
Balance at the end of the year	644,034	587,515	-	-

(1) On 26 October 2017, 850,000 ordinary shares were issued at $13.28 and on 17 May 2018, 2,809 ordinary shares were issued at $10.02 to the trustee of the Bank of Queensland Limited Employee Share Plans Trust to satisfy the exercise of award rights and issue of shares under the Award Rights Plan and issue of shares under the BOQ Restricted Share Plan and BOQ Employee Share Plan.

Terms and conditions

Holders of ordinary shares are entitled to receive dividends as determined by the Bank and are entitled to one vote per share at shareholders' meetings. In the event of winding up of the Bank, ordinary shareholders rank after preference shareholders, wholesale capital note holders and creditors and are fully entitled to any residual proceeds of liquidation.

(b) Nature and purpose of reserves

Employee benefits reserve

The employee benefits reserve is used to record the value of share based payments provided to employees, including key management personnel, as part of their remuneration. Refer to Note 6.1 for further details of these plans.

Equity reserve for credit losses

The Bank is required by APRA to maintain a general reserve for credit losses. Consistent with the requirements of APRA Prudential Standard APS 220 *Credit Quality*, the equity reserve for credit losses represents the difference between the accounting collective provisions for impairment and the estimate of credit losses across the credit cycle. The equity reserve for credit losses and the eligible component of the collective provision for impairment are aggregated for the purpose of satisfying the APRA requirement for a general reserve for credit losses.

Profit reserve

The profit reserve represents accumulated profits available for distribution as a dividend.

Other reserves

FVOCI – Changes in the fair value of financial assets classified as debt and equity instruments at FVOCI are recognised in other comprehensive income as described in Note 3.2 and accumulated in a separate reserve within equity. For debt instruments at FVOCI, amounts are reclassified to Other operating income in the Income Statement when the associated assets are sold or impaired. For equity instruments at FVOCI, amounts are not subsequently transferred to the Income Statement when the associated assets are sold or impaired, but can be reclassified to retained profits.

Cash flow hedge reserve – The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised in other comprehensive income, as described in Note 3.8 (d). Amounts are reclassified to Other operating income in the Income Statement when the associated hedged transaction affects the Income Statement. There is $34 million (2018: $33 million) remaining in the hedging reserve from hedging relationships for which hedge accounting is no longer applied.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2019

NOTE 4. OTHER ASSETS AND LIABILITIES

4.1 INTANGIBLE ASSETS

	Consolidated					Bank				
	Goodwill $m	Customer related intangibles and brands $m	Computer software [(1)] $m	Other $m	Total $m	Goodwill $m	Customer contracts $m	Computer software $m	Other $m	Total $m
COST										
Balance as at 1 September 2017	682	130	411	22	1,245	619	89	389	17	1,114
Additions	–	–	71	3	74	–	–	68	3	71
Disposals	–	–	(1)	–	(1)	–	–	(1)	–	(1)
Reclassified to held for sale [(2)]	–	(32)	–	–	(32)	–	–	–	–	–
Balance as at 31 August 2018	682	98	481	25	1,286	619	89	456	20	1,184
Balance as at 1 September 2018	682	98	481	25	1,286	619	89	456	20	1,184
Additions	–	–	95	3	98	–	–	93	3	96
Impairment	–	–	(2)	–	(2)	–	–	(2)	–	(2)
Reclassified from held for sale [(2)]	–	32	–	–	32	–	–	–	–	–
Balance as at 31 August 2019	682	130	574	28	1,414	619	89	547	23	1,278
AMORTISATION AND IMPAIRMENT LOSSES										
Balance as at 1 September 2017	–	114	238	21	373	–	75	229	17	321
Amortisation for the year	–	6	60	2	68	–	5	57	1	63
Impairment	–	–	2	–	2	–	–	2	–	2
Reclassified to held for sale [(2)]	–	(32)	–	–	(32)	–	–	–	–	–
Balance as at 31 August 2018	–	88	300	23	411	–	80	288	18	386
Balance as at 1 September 2018	–	88	300	23	411	–	80	288	18	386
Amortisation for the year	–	1	41	4	46	–	1	38	4	43
Impairment	–	–	1	–	1	–	–	1	–	1
Reclassified from held for sale [(2)]	–	32	–	–	32	–	–	–	–	–
Balance as at 31 August 2019	–	121	342	27	490	–	81	327	22	430
CARRYING AMOUNTS										
Carrying amount as at 1 September 2017	682	16	173	1	872	619	14	160	–	793
Carrying amount as at 31 August 2018	682	10	181	2	875	619	9	168	2	798
Carrying amount as at 31 August 2019	682	9	232	1	924	619	8	220	1	848

(1) Included within the Computer software cost is $117 million of Assets under construction (2018: $69 million). Assets under construction are not amortised, amortisation only commences once the software is complete and is ready for use.

(2) The St Andrew's Group was classified as held for sale as at 31 August 2018 but has ceased to be held for sale as at 31 August 2019. Refer to Note 6.5(d) for presentation of the comparatives.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2019

4.1 INTANGIBLE ASSETS (CONTINUED)

Initial recognition and measurement

Intangible assets are stated at cost less any accumulated amortisation and any impairment losses. Expenditure on internally generated goodwill, research costs and brands is recognised in the Income Statement as an expense as incurred.

Subsequent expenditure

Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation

Except for goodwill, amortisation is charged to profit or loss in the Income Statement on a straight-line basis over the estimated useful life of the intangible asset unless the life of the intangible asset is indefinite. Where applicable, intangible assets are amortised from the date they are available for use. The amortisation period and method are reviewed on an annual basis. The amortisation rates used in the current and comparative periods are as follows:

	Years
Computer software	3-15
Customer related intangibles and brands	3-12

Impairment testing of the cash generating units containing goodwill

For the purpose of the annual impairment test, goodwill is allocated to groups of cash-generating units (**CGUs**) which represent the Controlled Entity's operating segments - Retail Banking and BOQ Business (refer Note 2.5). The carrying amount of each CGU is compared to its recoverable amount. The recoverable amount is based on the CGU's value in use.

Value in use was determined by discounting the future cash flows generated from the continued use of the CGU. The values assigned to the key assumptions represent management's assessments of future trends in retail and business banking and are based on both external and internal sources. Below are the key assumptions used in determining value in use:

- Cash flows were initially based on the Group's Board approved budget (2018: three year projections);
- Subsequent cash flows were extrapolated for a further nine years beyond the Board approved budget incorporating key growth rate assumptions;
- A terminal growth rate of 2.7 per cent (2018: 2.7 per cent) was used to extrapolate long-term growth; and
- A post-tax discount rate of 9.7 per cent (2018: 10.0 per cent) and a pre-tax discount rate of 13.6 per cent (2018: 14.3per cent) was used.

The key assumptions described above may change as economic and market conditions change. The Group estimates that reasonably possible changes in these assumptions would not cause the recoverable amount of either CGU to decline below the carrying amount.

The aggregate carrying amounts of goodwill for each CGU are:

	2019 $m	2018 $m
Retail Banking	288	288
BOQ Business	394	394
Total	682	682

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2019

4.2 PROVISIONS

A provision is recognised in the Balance Sheet when the Consolidated Entity has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability. The carrying amounts of the provisions recognised are:

	Consolidated		Bank	
	2019 $m	2018 $m	2019 $m	2018 $m
Employee benefits [1]	27	24	24	22
Leases	2	1	2	1
Provision for non-lending loss	3	7	-	6
Other	8	2	-	1
Total provisions	40	34	26	30

(1) Employee benefits provision consist of annual leave (represents present obligations resulting from employees' services provided up to the reporting date, calculated at discounted amounts based on remuneration wage and salary rates that the Consolidated Entity expects to pay as at reporting date including related on-costs) and long service leave entitlements for employees (represents the present value of the estimated future cash outflows to be made resulting from employees' services provided to reporting date). The provision is calculated using expected future increases in wage and salary rates including related on-costs, and expected settlement dates based on turnover history and is discounted using the rates attached to Australian 10 year corporate bonds at reporting date which most closely match the terms of maturity of the related liabilities. $22 million (2018: $ 20 million) of this provision balance is classified as current.

Movements in provisions

Movements in each class of provision during the year, other than employee benefits, are as follows:

	Consolidated			Bank		
2019	Leases $m	Non-lending loss $m	Other $m	Leases $m	Non-lending loss $m	Other $m
Carrying amount at beginning of year	1	7	2	1	6	1
Additional provision recognised	3	4	2	3	1	1
Amounts utilised during the year	(2)	(2)	(1)	(2)	(1)	(2)
Release of provision	-	(6)	(1)	-	(6)	-
Reclassification from liabilities held for sale	-	-	6	-	-	-
Carrying amount at end of year	2	3	8	2	-	-
Current	2	3	8	2	-	-
Non-current	-	-	-	-	-	-
	2	3	8	2	-	-

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2019

NOTE 5. INSURANCE BUSINESS

5.1 INSURANCE BUSINESS

(a) Basis of preparation

The effective date of the actuarial report on life insurance policy liabilities and regulatory capital requirements is 31 August 2019. The actuarial report was prepared by Mr Stephen Jones, Fellow of the Institute of Actuaries of Australia. This report indicates that Mr Jones is satisfied as to the accuracy of the data upon which life insurance policy liabilities have been determined.

The amount of life insurance and general insurance policy liabilities have been determined in accordance with methods and assumptions disclosed in this financial report and the requirements of applicable accounting standards. Specifically, policy liabilities for life insurance contracts and general insurance contracts are determined in accordance with AASB 1038 *Life Insurance Contracts* and AASB 1023 *General Insurance Contracts* respectively, and LPS 340 *Valuation of Policy Liabilities*. These require policy liabilities to be calculated in a way which allows for the systematic release of planned margins as services are provided to policyholders and premiums are received.

At the reporting date, the projection method was used to determine the life insurance policy liabilities of the level premium funeral cover business. Policy liabilities for all other business were determined using the accumulation method.

The accumulation method values policy liabilities as the provision for unearned premium reserve less a deferred acquisition cost component.

The projection method values life insurance policy liabilities as the net present value of projected policy cash flows (premiums, benefits, expenses and profit margins to be released in future periods), using best estimate assumptions about the future. Future cash flows are discounted at a risk-free discount rate derived from Government bond yields at the reporting date.

Outstanding claims liabilities and Incurred But Not Reported (**IBNR**) liabilities are included in provisions.

(b) Processes used to determine actuarial assumptions

Premium earning pattern

For single premium products, the Unearned Premium Reserve (**UPR**) is based on a premium earning pattern that is similar to the pattern of expected future claim payments. The future claim payments are based on an assessment of the future sum insured (e.g. outstanding loan balances for mortgage and loan protection) and future claims frequencies.

Past experience is used to set these assumptions. This earning pattern is also used to recognise commissions incurred. For regular premium products, the UPR is based on the unearned proportion of premium for the given premium payment frequency.

Mortality and morbidity

Mortality and morbidity assumptions have been based on recent St Andrew's Life Insurance Pty Ltd (**insurance company**) experience, or where data was limited, on the experience of similar products issued by the insurance company. The disputed claims provision is based on individual claim estimates and an assumed 50 per cent probability of disputed claims being incurred.

Future maintenance expenses

For life insurance contracts valued using the projection method, maintenance unit costs are based on budgeted expenses in the year following the reporting date.

Voluntary discontinuances

For life insurance contracts valued using the projection method, voluntary discontinuance assumptions have been based on recent insurance company experience. These rates are derived from the overall discontinuance rate for the individual product group and then further adjusted for duration and premium structure.

Variable	Impact of movement in underlying variable
Mortality rates	For contracts providing death benefits, greater mortality rates would lead to higher levels of claims occurring sooner than anticipated, increasing associated claims cost and therefore reducing profit and shareholder's equity.
Morbidity rates	The cost of disability related claims depends on both the incidence of policyholders becoming disabled and the duration which they remain so. Higher than expected incidence and duration would be likely to increase claim costs, reducing profit and shareholder equity.
Discontinuance rates	Higher than expected policy discontinuance rates reduces future premium income, however this is offset by reduced future claims costs, commissions and maintenance expenses. The likely impact would be to reduce future profit and shareholder equity.
Maintenance expenses	Higher than expected maintenance expenses would reduce future profit and shareholder equity.
Risk-free discount rate	For life insurance contracts valued using the projection method, changes in the risk-free discount rate, such as changes in market yields caused by changes in investment markets and economic conditions, impact both life insurance policy liabilities and asset values at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2019

5.1 INSURANCE BUSINESS (CONTINUED)

(b) Processes used to determine actuarial assumptions (continued)

Risk-free discount rates

For life insurance contracts valued using the projection method, a risk-free discount rate based on Government bond yields at the reporting date is used. Risk-free rates are term-dependent and as at 31 August 2019 varied from 0.681 to 0.908 per cent.

(c) Sensitivity analysis

Under Margin on Services (**MoS**) reporting, changes in assumptions for life insurance contracts valued using the projection method are generally recognised by adjusting the value of future profit margins in the life insurance policy liabilities. Therefore, where a change in assumptions does not result in loss recognition, there is no impact on the policy liabilities in the current period. As at 31 August 2019, no related product groups were in loss recognition. Changes in assumptions will however give rise to a difference in the emergence of profit margins in future periods. Changes in assumptions will not affect policy liabilities determined using the accumulation method, however, claims provisions would be affected in the current period.

(d) Reconciliation of movements

	2019 $m	2018 $m
RECONCILIATION OF MOVEMENTS IN INSURANCE POLICY LIABILITIES		
Life insurance contract policy liabilities		
Gross life insurance contract liabilities at the beginning of the financial year	6	11
Increase / (decrease) in life insurance contract policy liabilities (i)	3	(5)
Gross life insurance contract liabilities at the end of the financial year	9	6
Liabilities ceded under reinsurance		
Opening balance at the beginning of the financial year	(2)	(1)
Increase in life reinsurance assets (ii)	(2)	(1)
Closing balance at the end of the financial year	(4)	(2)
Net life policy liabilities at the end of the financial year	5	4
(i) plus (ii) = change in life insurance contract liabilities reflected in the profit for the year	1	(6)
Components of net life insurance contract liabilities		
Future policy benefits	23	28
Future charges for acquisition costs	(18)	(24)
Total net life insurance contract policy liabilities	5	4
Components of general insurance liabilities		
Unearned premium liability	3	4
Outstanding claims liability	1	1
	4	5
Total insurance policy liabilities	9	9 [1]

(1) Total insurance policy liabilities were disclosed in Liabilities held for sale as at 31 August 2018.
Future policy benefits include the unearned premium components of the liability. The accumulation method has been used to calculate policy liabilities and components relating to expenses and profits are not separately calculated.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2019

5.1 INSURANCE BUSINESS (CONTINUED)

(e) Life insurance regulatory capital requirements

The regulatory capital requirement of each fund and for the subsidiary in total is the amount required to be held in accordance with LPS 110 *Capital Adequacy*. These are amounts required to meet the prudential standards prescribed by the *Life Insurance Act 1995* to provide protection against the impact of fluctuations and unexpected adverse circumstances on the insurance company.

The methodology and basis for determining the capital base and regulatory capital requirements are in accordance with relevant prudential requirements.

	2019		2018	
	Statutory Fund No. 1 $m	Shareholders' Fund $m	Statutory Fund No. 1 $m	Shareholders' Fund $m
CAPITAL BASE				
Net assets	30	1	34	1
Add / (subtract) regulatory adjustments to net assets	(11)	–	(15)	–
Total capital base	19	1	19	1
Asset risk charge	1	–	1	–
Insurance risk charge	2	–	–	–
Operational risk charge	2	–	2	–
Aggregation benefit	(1)	–	–	–
Total prescribed capital amount	4	–	3	–
Assets in excess of prescribed capital amount	15	1	16	1
Capital adequacy multiple	5	73	7	72

	2019 $m	2018 $m
COMPOSITION OF CAPITAL BASE		
Common Equity Tier 1 Capital	31	35
Subtract regulatory adjustments to Common Equity Tier 1 Capital	(11)	(15)
Total capital base	20	20
PRESCRIBED CAPITAL AMOUNT		
Statutory Fund No. 1	4	3
Additional amount to meet insurance company minimum	6	7
Total prescribed capital amount	10	10
Assets in excess of prescribed capital amount	10	10
Capital adequacy multiple	2	2

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2019

5.1 INSURANCE BUSINESS (CONTINUED)

(e) Life insurance regulatory capital requirements (continued)

Disaggregated information on life insurance (before consolidation adjustments) is as follows:

SUMMARISED INCOME STATEMENT	2019 $m	2018 $m
Revenue		
Life insurance premium revenue	44	52
Investment income	1	1
Net life insurance revenue	45	53
Expenses		
Net claims and other liability expense from insurance contracts	39	37
Other expenses	9	7
	48	44
Profit / (loss) before income tax	(3)	9
Income tax expense / (income)	1	(3)
Profit / (loss) after income tax	(2)	6
Statement of sources of profit for statutory funds		
Operating profit after income tax arose from:		
Components of profit related to movement in life insurance liabilities:		
Planned margins of revenues over expenses released	3	7
Difference between actual and assumed experience	(6)	(2)
Investment earnings on assets in excess of life insurance policy liabilities and provision	1	1
SUMMARISED BALANCE SHEET		
Assets		
Investment assets	42	50
Other assets	5	4
	47	54
Liabilities		
Net life insurance liabilities	5	4
Liabilities other than life insurance liabilities	11	14
	16	18
Issued capital, reserves and retained profits		
Directly attributable to shareholders	31	36
	31	36

The life insurance business has no life investment contracts.

(f) Accounting policy

The life insurance operations of the Consolidated Entity are conducted within separate funds as required by the *Life Insurance Act 1995* and is reported in aggregate with the shareholders' fund in the Income Statement, Balance Sheet and Statement of Cash Flows of the Consolidated Entity. The life insurance operations of the Consolidated Entity comprise the selling and administration of life insurance contracts.

Life insurance contracts involve the acceptance of significant insurance risk. Insurance risk is defined as significant if, and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance (i.e. have no discernible effect on the economics of the transaction).

Insurance contracts include those where the insured benefit is payable on the occurrence of a specified event such as death, injury or disability caused by accident or illness.

The insured benefit is either not linked or only partly linked to the market value of the investments held by the Consolidated Entity. Financial risks are substantially borne by the Consolidated Entity.

Monies held in the statutory fund are subject to distribution and transfer restrictions and other requirements of the *Life Insurance Act 1995*.

Under AASB 1038 *Life Insurance Contracts*, the financial statements must include all assets, liabilities, revenues, expenses and equity, irrespective of whether they are designated as relating to shareholders or policy owners. Therefore, the Consolidated Entity's financial statements comprise the total of all statutory funds and the shareholders' fund.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2019

5.1 INSURANCE BUSINESS (CONTINUED)

(f) Accounting policy (continued)

Insurance contract liability

Profits of the insurance contract business are brought to account on a MoS basis in accordance with guidance provided by LPS 340 *Valuation of Policy Liabilities* as determined by APRA. Under MoS, profit is recognised as fees are received and services are provided to policyholders. When fees are received but the service has not been provided, the profit is deferred. Losses are expensed when identified.

Consistent with the principle of deferring unearned profit is the requirement to defer expenditure associated with the deferred profit. MoS permits costs associated with the acquisition of policies to be charged to profit or loss in the Income Statement over the period that the policy will generate profits. Costs may only be deferred to the extent that a policy is expected to be profitable.

Profit arising from life insurance is based on actuarial assumptions, and calculated as the excess of premiums and investment earnings less claims, operating expenses and the amortisation of acquisition costs that will be incurred over the estimated life of the policies. The profit is systematically recognised over the estimated time period the policy will remain in force.

Under MoS, insurance contract liabilities may be valued using a projection approach or an accumulation approach where this does not result in a material difference to the projection approach. The insurance company's Directors and the appointed actuary have deemed the projection approach appropriate for the level premium funeral cover portion of the business, and the accumulation approach appropriate for the remainder of the business. Under the accumulation approach, premiums received are deferred and earned in accordance with the underlying incidence of risk. Costs of acquiring insurance contracts, both direct and indirect, are deferred to the extent that related product groups are expected to be profitable. Under the projection approach, insurance contract liabilities are valued as the net present value of projected policy cash flows (premiums, benefits, expenses and profit margins to be released in future periods), using best estimate assumptions about the future. Future cash flows are discounted at a risk-free discount rate.

Where a related product group is not expected to be profitable, the insurance contract liability is increased by the excess of the present value of future expenses over future revenues.

Revenue recognition

Premiums in respect of life insurance contracts are recognised as revenue in the Income Statement from the date of attachment of risk. Premiums with no due date are recognised as revenue on a cash basis. Premiums with a regular due date are recognised as revenue on an accruals basis. Unpaid premiums are only recognised as revenue during the days of grace or where secured by the surrender value of the policy and are included in the intergroup balance in the Balance Sheet.

Investment income is recognised on an accruals basis. Realised and unrealised gains and losses are included in the Income Statement as investment income.

Claims expense – insurance contracts

Claims incurred all relate to the provision of services, including the bearing of risks, and are treated as expenses.

Claims are recognised when the liability to the policyholder under the policy contract has been established. Claims recognition is based upon:

- cost estimates for losses reported to the close of the financial year; and
- estimated incurred but not reported losses, based upon past experience.

Deferred acquisition costs - life insurance contracts

The fixed and variable costs of acquiring new life insurance business are deferred to the extent that such costs are deemed recoverable from future premiums or policy charges. These costs include commission, policy issue and underwriting costs, certain advertising costs and other sales costs. Acquisition costs deferred are limited to the lesser of the actual costs incurred and the allowance for the recovery of such costs in the premium or policy charges. The actual acquisition costs incurred are recorded in profit or loss in the Income Statement. The value and future recovery of these costs are assessed in determining policy liabilities. This has the effect that acquisition costs are deferred within the policy liability balance and amortised over the period that they will be recovered from premiums or policy charges.

Critical accounting judgements and estimates

The Consolidated Entity's insurance subsidiaries make estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The areas where critical accounting judgements and estimates are applied are noted as:

Policy liabilities

Policy liabilities for life insurance contracts are computed using statistical or mathematical methods, which are expected to give approximately the same results as if an individual liability was calculated for each contract. The computations are made by suitably qualified personnel on the basis of recognised actuarial methods, with due regard to relevant actuarial principles.

The methodology takes into account the risks and uncertainties of the particular classes of life insurance business written. The key factors that affect the estimation of these liabilities and related assets are:

- The cost of providing benefits and administering these insurance contracts;
- Mortality and morbidity experience on life insurance products, including enhancements to policyholder benefits; and
- Discontinuance experience, which affects the Bank's ability to recover the cost of acquiring new business over the lives of the contracts.

In addition, factors such as regulation, competition, interest rates, taxes, securities market conditions and general economic conditions affect the level of these liabilities.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2019

NOTE 6. OTHER NOTES

6.1 EMPLOYEE BENEFITS

(a) Superannuation commitments

Superannuation plan
The Bank contributes to a number of superannuation plans which comply with the *Superannuation Industry (Supervision) Act 1993*. Contributions are charged to profit or loss in the Income Statement as they are made.

Basis of contributions
Employee superannuation contributions are based on various percentages of employees' gross salaries. The Consolidated Entity's contributions are also based on various percentages of employees' gross salaries.

The Consolidated Entity is under no legal obligation to make superannuation contributions except for the minimum contributions required under the relevant superannuation guarantee legislation.

(b) Share based payments

The Consolidated Entity currently operates an Award Rights Plan for equity-settled compensation. The plan allows the Consolidated Entity's employees to acquire shares in the Bank. The fair value of rights granted is recognised as an employee expense with a corresponding increase to the Employee Benefits Reserve. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the rights. The fair value of the rights granted is measured using industry accepted pricing methodologies, taking into account the terms and conditions upon which the rights are granted. The fair value of the rights is expensed over the vesting period. Where rights do not vest due to failure to meet a non-market condition (e.g. employee service period) the expense is reversed. Where rights do not vest due to failure to meet a market condition (e.g. total shareholder return test) the expense is not reversed.

(i) Description of share based payments

Long-term incentives – Award Rights

The Award Rights Plan was first introduced and approved by shareholders on 11 December 2008, the current Award Rights Plan was approved by shareholders on 30 November 2017. It is an equity based program under which Award Rights are granted as long-term incentives. The two types of award rights currently granted to employees under the plan are Performance Award Rights (**PARs**) and Deferred Award Rights (**DARs**). No amount is payable by employees for the grant or exercise of these award rights.

PARs
The vesting framework for PARs will depend upon when the issue has been granted.

For PARs granted prior to December 2015 the vesting framework will be based on the Total Shareholder Return (**TSR**) of the Bank measured against a peer group over a 2 to 3 year period. That peer group consists of the S&P / ASX 200 from time to time, excluding selected entities in resources, real estate investment trusts, telecommunications (offshore headquartered), energy and utilities and such other inclusions and exclusions the Board considers appropriate. TSR is a measure of the entire return a shareholder would obtain from holding an entity's securities over a period, taking into account factors such as changes in the market value of the securities and dividends paid over the period.

One half of an employee's PARs will vest if the Bank's TSR performance over the three year period is in the top 50 per cent of the peer group. All of the PARs vest if the Bank's TSR performance is in the top 25 per cent. For TSR performance between those targets, a relative proportion of the PARs between 50 per cent and 100 per cent would vest. If the Bank's TSR performance is below 50 per cent of the Peer Group, no PARs vest.

For issues granted from December 2015, the vesting framework will also contain an EPS component, with 80 per cent of the employee's PARs to vest based on the Bank's TSR performance measured against a peer group over a three year period. The remaining 20 per cent of PARs vest based on the Bank's EPS performance, measured against a financial services peer group over a three year period.

For issues granted from December 2018, the performance testing and vesting period for both the TSR and the EPS tranches was extended to four years.

PARs may be exercised by the employee once they have vested.

DARs
There are no market performance hurdles or vesting conditions for DARs but the holder must remain an employee of the Bank. DARs vest over three years in the ratio of 20 per cent at the end of year one, 30 per cent at the end of year two and 50 per cent at the end of year three. DARs may be exercised by the employee once they have vested.

Restricted shares
The Consolidated Entity has used shares with restrictions on disposal as a non-cash, share based component of both short term and long term incentive awards.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2019

6.1 EMPLOYEE BENEFITS (CONTINUED)

(b) Share based payments (continued)

(ii) Award rights on issue

The number of award rights and restricted shares on issue for the Bank is as follows:

	Deferred award rights		Performance award rights		Restricted shares	
	2019 '000	2018 '000	2019 '000	2018 '000	2019 '000	2018 '000
Balance at beginning of the year	999	1,045	2,278	2,377	234	228
Granted	665	480	811	822	178	156
Forfeited / expired	(108)	(159)	(1,203)	(610)	–	–
Exercised	(304)	(367)	(99)	(311)	(210)	(150)
Outstanding at the end of the year	1,252	999	1,787	2,278	202	234

(iii) Measurement of fair values

The fair value of the PARs and DARs has been measured using the trinomial pricing methodology.

Restricted shares have been valued based on the volume weighted average price of ordinary shares in the Bank sold on the ASX during a 5 day trading period. The shares vest on the respective expiry dates and meeting certain service conditions.

The weighted average of the inputs used in the measurement of the long term incentive award rights grants during the year were as follows:

	Deferred award rights		Performance award rights		Restricted shares	
	2019	2018	2019	2018	2019	2018
Fair value at grant date ($)	8.21	11.05	4.91	7.14	10.71	13.03
Share price at grant date ($)	9.61	12.63	9.64	12.66	9.96	12.68
Expected volatility (%)	19.0	22.5	19.0	22.5	20.1	22.5
Risk free interest rate (%)	2.0	1.9	2.0	1.9	2.0	1.9
Dividend yield (%)	7.8	6.6	7.8	6.6	7.4	6.6

6.2 COMMITMENTS

	Consolidated		Bank	
	2019 $m	2018 $m	2019 $m	2018 $m
(A) LEASE COMMITMENTS				
Future rentals in respect of operating leases (principally in respect of premises) not provided for in these financial statements comprise amounts payable:				
Within 1 year	38	39	38	39
Between 1 year and 5 years	85	118	85	118
Later than 5 years	72	43	72	43
	195	200	195	200
(B) CUSTOMER FUNDING COMMITMENTS				
Guarantees, indemnities and letters of credit	301	304	301	304
Customer funding commitments	1,498	1,449	651	691
	1,799	1,753	952	995

In the normal course of business the Consolidated Entity makes commitments to extend credit to its customers. Most commitments either expire if not taken up within a specified time or can be cancelled by the Consolidated Entity within one year. Credit risk is significantly less than the notional amount and does not crystallise until a commitment is funded. Guarantees are provided to third parties on behalf of customers. The credit risks of such facilities are similar to the credit risks of loans and advances.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2019

6.3 CONTINGENT LIABILITIES

As at 31 August 2019, the Consolidated Entity does not have any contingent liabilities.

6.4 RELATED PARTIES INFORMATION

(a) Controlled entities

Details of interests in material controlled entities are set out in Note 6.5.

During the year there have been transactions between the Bank and its controlled entities. The Bank conducted normal banking business with its operating controlled entities. Amounts owing to or from controlled entities generally attract interest on normal terms and conditions, except in respect of Virgin Money (Australia) Pty Limited, Virgin Money Financial Services Pty Ltd, BOQ Specialist Pty Ltd, BOQ Home Pty Limited, Home Credit Management Pty Ltd and dormant entities as set out in Note 6.5(a).

The Bank receives management fees from its operating controlled entities except Virgin Money Financial Services Pty Ltd, BOQ Specialist Pty Ltd, BOQ Home Pty Limited, Home Credit Management Pty Ltd and dormant entities as set out in Note 6.5(a).

The Bank has a related party relationship with equity accounted joint ventures and associates, refer to Note 6.6.

(b) Key management personnel compensation

KMP have authority and responsibility for planning, directing and controlling the activities of the Bank and the Consolidated Entity, including Directors and other Group Executives.

KMP compensation included in 'administrative expenses' and 'employee expenses' (refer to Note 2.2) is as follows:

	Consolidated and Bank	
	2019 $	2018 $
Short term employee benefits	6,958,085	8,893,945
Long term employee benefits	156,398	86,018
Post employment benefits	316,392	311,532
Share based employment benefits	1,719,578	4,754,422
Termination benefits	975,000	-
	10,125,453	14,045,917

Individual Directors and Group Executives compensation disclosures

Information regarding individual Directors and Group Executives compensation and some equity instruments disclosures as permitted by Regulation 2M.3.03 of the *Corporations Regulations 2001* is provided in the Remuneration Report section of the Directors' Report.

Apart from the details disclosed in the Remuneration Report, no Director has entered into a material contract with the Bank since the end of the previous financial year and there were no material contracts involving Directors' interests existing at year end.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2019

6.4 RELATED PARTIES INFORMATION (CONTINUED)

(c) Other financial instrument transactions with key management personnel and personally-related entities

A number of the KMP and their close family members hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities. These entities, as well as the KMP and their close family members, are related parties to the Consolidated Entity. Financial instrument transactions with KMP and their related parties during the financial year arise out of the provision of banking services, the acceptance of funds on deposit, the granting of loans and other associated financial activities. The terms and conditions of the transactions entered into with KMP and their related parties were no more favourable than those available, or which might reasonably be expected to be available on similar transactions to non-related entities, on an arm's length basis. No amounts have been written down or recorded as impaired during the year (2018: nil).

The transactions undertaken between the Consolidated Entity and KMP or their related parties up to 31 August 2019 are:

	Balance as at		For the period (1)		
	1 September 2018 $	31 August 2019 $	Total loan drawdowns / (repayments) $	Total loan / overdraft interest $	Total fees on loans / overdraft $
Term products (loans / advances)					
KMP	1,928,903	1,536,789	314,022	78,824	240
Other related parties	1,460,422	186,543	(33,809)	20,962	60
Total	3,389,325	1,723,333	280,213	99,786	300

(1) Amounts are included only for the period that the Director/Executive is classified as a member of KMP. Jon Sutton resigned effective 5 December 2018 and Brendan White ceased employment 6 March 2019. On this basis, loans and advances between the Consolidated Entity and Mr Sutton and Mr White are not included in the closing balance as at 31 August 2019.

	Balance as at		For the period (2)		
	1 September 2017 $	31 August 2018 $	Total loan drawdowns / (repayments) $	Total loan / overdraft interest $	Total fees on loans / overdraft $
Term products (loans / advances)					
KMP	1,788,768	1,928,903	2,004,249	140,768	600
Other related parties	1,487,199	1,460,422	(84,727)	57,711	240
Total	3,275,967	3,389,325	1,919,522	198,479	840

(2) Amounts are included only for the period that the Director/Executive is classified as a member of KMP. Michelle Thomsen resigned as an Executive on 29 June 2018. On this basis, loans and advances between the Consolidated Entity and Ms Thomsen are not included in the closing balance as at 31 August 2018.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2019

6.4 RELATED PARTIES INFORMATION (CONTINUED)

(c) Other financial instrument transactions with key management personnel and personally-related entities (continued)

Other transactions

Transactions with KMP and their related parties (other than loans and shares) during the financial year were related to personal banking, investment, finance leasing, insurance policy and deposit transactions. These transactions are on normal commercial terms and conditions, in the ordinary course of business and are considered trivial or domestic in nature.

On 26 May 2015, the Bank issued 15,000 Wholesale Capital Notes at a price of $10,000 per note. Details of those notes issued to Directors are set out below:

	2019		2018	
	Balance $	Interest earned $	Balance $	Interest earned $
Roger Davis	200,000	8,785	200,000	8,798
David Willis	70,000	3,075	70,000	3,079
Total	270,000	11,860	270,000	11,877

On 28 December 2017, the Bank issued 3,500,000 Capital Notes at a price of $100 per note. Details of those notes issued to Directors are set out below:

	2019		2018	
	Balance $	Interest earned $	Balance $	Interest earned $
Roger Davis	50,000	1,537	50,000	1,317
Roger Davis's related parties	50,000	1,537	50,000	1,317
Total	100,000	3,074	100,000	2,634

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2019

6.5 CONTROLLED ENTITIES

(a) Particulars in relation to material controlled entities

The Group's controlled entities at 31 August 2019 are set out below. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly by the Group. The country of incorporation or registration is also their principal place of business.

	Place of business/ country of incorporation	Parent entity's interest		Amount of investment		Principal activities
Controlled entities:		2019 %	2018 %	2019 $m	2018 $m	
Alliance Premium Funding Pty Ltd	New Zealand	100%	100%	–	–	Dormant
Bank of Queensland Limited Employee Share Plans Trust	Australia	100%	100%	–	–	Trust
BOQ Asset Finance and Leasing Pty Ltd	Australia	100%	100%	–	–	Asset finance & leasing
BOQ Covered Bond Trust	Australia	100%	100%	–	–	Issue of covered bonds
BOQ Credit Pty Limited	Australia	100%	100%	–	–	Asset finance & leasing
BOQ Equipment Finance Limited	Australia	100%	100%	15	15	Asset finance & leasing
BOQF Cashflow Finance Pty Ltd	Australia	100%	100%	–	–	Professional finance
BOQ Finance (Aust) Limited	Australia	100%	100%	230	230	Asset finance & leasing
BOQ Finance (NZ) Limited	New Zealand	100%	100%	22	22	Asset finance & leasing
BOQ Funding Pty Limited	Australia	100%	100%	–	–	Dormant
BOQ Home Pty Ltd	Australia	100%	100%	157	157	Investment holding entity
BOQ Share Plans Nominee Pty Ltd	Australia	100%	100%	–	–	Dormant
BOQ Specialist (Aust) Limited	Australia	100%	100%	13	13	Professional finance and asset finance & leasing
BOQ Specialist Pty Ltd	Australia	100%	100%	–	–	Professional finance
B.Q.L. Management Pty Ltd	Australia	100%	100%	–	–	Trust management
B.Q.L. Nominees Pty Ltd	Australia	–	100%	–	–	Dormant
Home Credit Management Pty Ltd	Australia	100%	100%	–	–	Investment holding entity
Home Financial Planning Pty Ltd	Australia	100%	100%	–	–	Dormant
Impala Trust No. 1 – Sub-Series 2	Australia	100%	100%	–	–	Securitisation
Pioneer Permanent Pty Ltd	Australia	100%	100%	32	32	Dormant
Series 2008-1 REDS Trust	Australia	100%	100%	–	–	Securitisation
Series 2009-1 REDS Trust	Australia	100%	100%	–	–	Securitisation
Series 2010-1 REDS Trust	Australia	100%	100%	–	–	Securitisation
Series 2010-2 REDS Trust	Australia	100%	100%	–	–	Securitisation
Series 2012-1E REDS Trust	Australia	100%	100%	–	–	Securitisation
Series 2013-1 REDS Trust	Australia	100%	100%	–	–	Securitisation
Series 2015-1 REDS Trust	Australia	100%	100%	–	–	Securitisation
Series 2015-1 REDS EHP Trust	Australia	–	100%	–	–	Securitisation
Series 2017-1 REDS Trust	Australia	100%	100%	–	–	Securitisation
Series 2018-1 REDS Trust	Australia	100%	100%	–	–	Securitisation
Series 2018-1 REDS EHP Trust	Australia	100%	–	–	–	Securitisation
Series 2019-1 REDS Trust	Australia	100%	–	–	–	Securitisation

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2019

6.5 CONTROLLED ENTITIES (CONTINUED)

(a) Particulars in relation to material controlled entities (continued)

	Place of business/ country of incorporation	Parent entity's interest		Amount of investment		Principal activities
Controlled entities:		2019 %	2018 %	2019 $m	2018 $m	
St Andrew's Australia Services Pty Ltd	Australia	100%	100%	-	–	Insurance holding entity
St Andrew's Insurance (Australia) Pty Ltd	Australia	100%	100%	-	–	General insurance
St Andrew's Life Insurance Pty Ltd	Australia	100%	100%	-	–	Life insurance
Statewest Financial Planning Pty Ltd	Australia	100%	100%	-	–	Dormant
Virgin Money (Australia) Pty Limited	Australia	100%	100%	53	53	Financial services
Virgin Money Financial Services Pty Ltd	Australia	100%	100%	-	–	Financial services
Virgin Money Home Loans Pty Limited	Australia	100%	100%	-	–	Dormant
				522	522	

(b) Significant restrictions

In accordance with APS 222 *Associations with related entities*, the Bank and its subsidiaries that form part of the Extended Licensed Entity have various restrictions. This includes not having unlimited exposures to related entities, including general guarantees.

(c) Acquisition of controlled entities

(i) Accounting for business combinations

All business combinations occurring on or after 1 July 2009 are accounted for by applying the acquisition method. For every business combination, the Group identifies the acquirer, which is the combining entity that obtains control of the other combining entities or businesses. The Group controls an entity if it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the investee.

Contingent Liabilities

A contingent liability of the acquiree is assumed in a business combination only if such a liability represents a present obligation and arises from a past event, and its fair value can be measured reliably.

Transactions Costs

Transactions costs that the Group incurs in connection with a business combination, such as a finders fee, legal fees, due diligence fees and other professional and consulting fees are expensed as incurred.

(ii) Entities established during the year

The following entities were established during the financial year:

- Series 2018-1 REDS EHP Trust was opened on 13 November 2018; and
- Series 2019-1 REDS Trust was opened on 29 August 2019.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2019

6.5 CONTROLLED ENTITIES (CONTINUED)

(d) Operations classified as held for sale

On 17 April 2018, the Bank announced it had entered into an agreement to sell the Group's controlled entities, St Andrew's Australia Services Pty Ltd, St Andrew's Insurance (Australia) Pty Ltd and St Andrew's Life Insurance Pty Ltd (**St Andrew's Group**). As at 31 August 2019, this agreement is no longer in place and the St Andrew's Group has ceased to be held for sale on the Consolidated Balance Sheet.

The St Andrew's Group was classified as held for sale as at 31 August 2018. The assets and liabilities held for sale were measured at the lower of their carrying amount and fair value less costs of disposal, except for assets such as deferred tax assets, financial assets and contractual rights under insurance contracts, which are specifically exempt from this requirement. The comparative period balances are shown below.

	2018 (1) $m
Cash and cash equivalents	6
Due from other financial institutions – term deposits	46
Other assets	5
Total assets	57
Insurance policy liabilities (1)	9
Other liabilities	13
Total liabilities	22

(1) Refer to Note 5 for further information on insurance business disclosures.

(e) Disposal of controlled entities

The following entities were closed during the financial year:

- Series 2015-1 REDS EHP Trust was closed on 24 May 2019.

BQL Nominees Pty Ltd was deregistered during the year, effective 21 February 2019 (2018: 5 entities were deregistered).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2019

6.6 INVESTMENTS IN JOINT ARRANGEMENTS AND ASSOCIATES

The Consolidated Entity holds interests in a number of collectively and individually immaterial joint ventures and investments in associates that are accounted for using the equity method.

(a) Accounting for joint arrangements and associates

The Consolidated Entity's investments in joint venture entities and associates are accounted for under the equity method of accounting in the consolidated financial statements. Joint ventures are entities in which the Consolidated Entity has joint control over all operational decisions and activities. Associates are entities in which the Consolidated Entity has significant influence over, but not control.

(b) Details of joint venture and associates

Set out below are the joint ventures and associates of the Consolidated Entity as at 31 August 2019 which, in the opinion of the Directors, are immaterial to the Consolidated Entity. Australia is the place of business and also the country of incorporation for all joint ventures and associates.

	Ownership Interest		Carrying amount	
	2019 (%)	2018 (%)	2019 $m	2018 $m
Joint arrangements [(1)]				
Ocean Springs Pty Ltd (Brighton)	9.31	9.31	6	6
Dalyellup Beach Pty Ltd (Dalyellup)	17.08	17.08	7	8
East Busselton Estate Pty Ltd (Provence)	25.00	25.00	-	1
Coastview Nominees Pty Ltd (Margaret River)	5.81	5.81	-	-
Provence 2 Pty Ltd (Provence 2)	25.00	25.00	-	-
Associates				
MiFund Pty Ltd [(2)]	35.00	-	3	-
Total equity accounted investments			16	15

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

(2) The investment in MiFund Pty Ltd is held by the Bank.

Summary financial information for equity accounted joint ventures and associates, adjusted for the share of ownership held by the Consolidated Entity and the Bank, is contained below:

	2019 $m	2018 $m
Loss from continuing operations	(1)	-
Total comprehensive loss	(1)	-

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2019

6.7 AUDITOR'S REMUNERATION

	Consolidated		Bank	
KPMG AUSTRALIA	2019 $000	2018 $000	2019 $000	2018 $000
Audit services				
– Statutory audits and reviews of the financial reports	1,773	1,737	1,324	1,279
– Regulatory audits and reviews as required by regulatory authorities	462	346	325	244
Total audit services	2,235	2,083	1,649	1,523
Audit related services				
– Other assurance services	534	532	397	399
– Regulatory assurance services	94	235	–	235
Total audit related services	628	767	397	634
Non-audit services				
– Taxation services	169	171	169	171
– Other	333	103	263	103
Total non-audit services	502	274	432	274

6.8 EVENTS SUBSEQUENT TO BALANCE DATE

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

On 11 October 2019, the Bank entered into a Subscription Agreement in relation to a debt for equity swap for the purchase of 8,128 fully paid ordinary shares issued by its subsidiary, St Andrew's Australia Services Pty Ltd, for the value of $30,000,000.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2019

6.9 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements, and have been applied consistently across the Consolidated Entity.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to benefit from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. In the Bank's financial statements, investments in subsidiaries are carried at cost.

(ii) Securitisation

The Consolidated Entity conducts a loan securitisation program whereby mortgage loans are packaged and sold to the RMBS Trusts. The Consolidated Entity also securitises hire purchase, chattel mortgages and finance leases which are packaged and sold to the REDS EHP Trusts. The Bank acquired Impala Trust No. 1 – Sub-Series 2 (**Impala Trust**) through the acquisition of Investec Bank (Australia) Limited. Assets securitised to the Impala Trust are financed by the Bank through the BOQ Specialist channel and consist of medical finance equipment.

Consolidated Entity

The Consolidated Entity receives the residual income distributed by the RMBS and Impala Trust (**Trusts**) after all payments due to investors and associated costs of the program have been met. As a result, the Consolidated Entity is considered to retain the risks and rewards of the Trusts and they do not meet the derecognition criteria of AASB 9.

The Trusts fund their purchase of the loans by issuing floating-rate debt securities. The securities are issued by the Trusts. These are represented as borrowings of the Consolidated Entity, however, the Consolidated Entity does not stand behind the capital value or the performance of the securities or the assets of the Trusts. The Consolidated Entity does not guarantee the payment of interest or the repayment of principal due on the securities. The loans subject to the securitisation program have been pledged as security for the securities issued by the Trusts. The Consolidated Entity is not obliged to support any losses that may be suffered by investors and does not intend to provide such support.

The Bank provides the securitisation programs with arm's length services and facilities, including the management and servicing of the leases securitised.

The Bank has no right to repurchase any of the securitised assets and no obligation to do so, other than in certain circumstances where there is a breach of warranty within 120 days of the sale or when certain criteria are met under the clean up provision per the Trust Deed Supplement.

The transferred assets are equitably assigned to the Trusts. The investors in the securities issued by the Trusts have full recourse to the assets transferred to the Trusts.

Bank

Interest rate risk from the Trusts is transferred back to the Bank by way of interest rate and basis swaps. Accordingly, under AASB 9 the original transfer of the mortgages from the Bank to the Trusts does not meet the derecognition criteria set out in AASB 9. The Bank continues to reflect the securitised loans in their entirety and also recognises a financial liability to the Trusts. The interest payable on the intercompany financial asset / liability represents the return on an imputed loan between the Bank and the Trusts and is based on the interest income under the mortgages, the fees payable by the Trusts and the interest income or expense not separately recognised under the interest rate and basis swaps transactions between the Bank and the Trusts.

All transactions between the Bank and the Trusts are eliminated on consolidation.

(iii) Transactions eliminated on consolidation

Intra-group balances, and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into Australian dollars at the foreign exchange rate ruling at that date. Non-monetary items in a foreign currency that are measured at historical cost are translated using the exchange rate at the date of the transaction. Foreign exchange differences arising on translation are recognised in the profit or loss. Where a foreign currency transaction is part of a hedge relationship it is accounted for as above, subject to the hedge accounting rules set out in Note 3.8.

(ii) Foreign operations

The Consolidated Entity carries out its foreign operations in New Zealand through the wholly controlled subsidiary, BOQ Finance (NZ) Limited, and through the non-incorporated branch of BOQ Equipment Finance Limited.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2019

6.9 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Operating Leases

Operating leases, in which the Consolidated Entity is the lessor, are measured at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated to write off the cost of operating lease assets less their estimated residual values using the straight-line basis over the term of the lease. This is generally recognised in profit or loss. Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Operating leases, in which the Consolidated Entity is the lessee, are expensed on a straight-line basis over the term of the lease, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased property. When an operating lease terminates before the lease period expires, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

(d) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (**GST**), except where the amount of GST incurred is not recoverable from the Australian Tax Office (**ATO**). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from or payable to the ATO is included as a current asset or current liability in the Balance Sheet.

Cash flows are included in the Statements of Cash Flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from or payable to the ATO are classified as operating cash flows.

(e) Property, plant and equipment

(i) Recognition and initial measurement

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation and accumulated impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

(ii) Subsequent costs

Subsequent additional costs are only capitalised when it is probable that future economic benefits in excess of the originally assessed performance of the assets will flow to the Consolidated Entity in future years. Where these costs represent separate components, they are accounted for as separate assets and are separately depreciated over their useful lives. Costs that do not meet the criteria for subsequent capitalisation are expensed as incurred.

(iii) Subsequent measurement

The Consolidated Entity has elected to use the cost model to measure property, plant and equipment after recognition. The carrying value is the initial cost less accumulated depreciation and any accumulated impairment losses.

(iv) Depreciation

Depreciation is charged to the profit or loss in the Income Statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment.

The estimated useful lives are as follows:

	Years
IT equipment	3-10
Plant, furniture and equipment	3-20
Leasehold improvements (1)	6-12

(1) Or term of lease if less.

The useful lives are reassessed annually.

(f) Impairment of non-financial assets

Non-financial assets, other than deferred tax assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. For goodwill and intangible assets with an indefinite life, the recoverable amount is estimated at the same time each year.

The Bank conducts an annual internal review of non-financial asset values to assess for any indicators of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets – a CGU. An impairment loss is recognised in profit or loss in the Income Statement for the amount by which the asset's carrying amount exceeds its recoverable amount. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit on a pro-rata basis.

This grouping is subject to an operating segment ceiling test. Non-financial assets, other than goodwill, that suffered impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed. An impairment loss in respect of goodwill is not reversed.

(i) Calculation of recoverable amount

The recoverable amount of a non-financial asset or CGU is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

DIRECTORS' DECLARATION

1. In the opinion of the Directors of Bank of Queensland Limited:

   (a) the consolidated financial statements and notes and the remuneration report included within the Directors' Report set out on pages 58 to 169 , are in accordance with the *Corporations Act 2001* (Cth), including:

      (i) giving a true and fair view of the financial position of the Bank and Consolidated Entity as at 31 August 2019 and of their performance, for the year ended on that date; and

      (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and

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

2. The Directors have been given the declarations required by Section 295A of the *Corporations Act 2001* (Cth) from the Managing Director & CEO and Chief Financial Officer for the financial year ended 31 August 2019.

3. The Directors draw attention to Section 1.2 (a) to the financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the Directors:

Roger Davis
Chairman
16 October 2019

George Frazis
Managing Director & CEO
16 October 2019

KPMG

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Bank of Queensland Limited

Report on the audits of the Financial Reports

Opinions

We have audited the consolidated ***Financial Report*** of Bank of Queensland Limited (the Consolidated Entity Financial Report). We have also audited the ***Financial Report*** of Bank of Queensland Limited (the Bank Financial Report).

In our opinion, each of the accompanying Consolidated Entity Financial Report and Bank Financial Report are in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Consolidated Entity's*** and of the ***Bank's*** financial position as at 31 August 2019 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The respective ***Financial Reports*** of the Consolidated Entity and Bank comprise:

- Balance Sheets as at 31 August 2019
- Income Statements, Statements of Comprehensive Income, Statements of Changes in Equity, and Statements of Cash Flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

The ***Consolidated Entity*** consists of the Bank of Queensland Limited (the ***Bank***) and the entities it controlled at the year-end or from time to time during the financial year.

Basis for opinions

We conducted our audits in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audits of the Financial Reports* section of our report.

We are independent of the Consolidated Entity and Bank in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audits of the Financial Reports in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

KPMG

INDEPENDENT AUDITOR'S REPORT

Key Audit Matters

The ***Key Audit Matters*** we identified for the Consolidated Entity and Bank are:

- Expected Credit Loss (ECL) for loans and advances at amortised cost
- Valuation of goodwill
- Valuation of intangible computer software
- Valuation of financial instruments at fair value
- Information technology (IT) systems controls

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audits of the Financial Reports of the current period.

These matters were addressed in the context of our audits of the Financial Reports as a whole, and in forming our opinions thereon, and we do not provide a separate opinion on these matters.

Expected credit loss (ECL) for loans and advances at amortised cost- Consolidated Entity and Bank

Refer to Note 3.3(a) to the Financial Reports

The key audit matter	How the matter was addressed in our audits

On 1 September 2018, the Consolidated Entity and Bank adopted AASB 9 *Financial Instruments* (AASB 9).
 	
The accounting standards require ECLs to incorporate forward–looking assumptions, reflecting the Consolidated Entity's and Bank's view of future economic scenarios.
 	
ECL (**collective provision for impairment**) for loans and advances at amortised cost is a key audit matter due to the significance of loans and advances balances and judgement applied by the Consolidated Entity and Bank in determining the ECL, and the resulting judgement required by us in challenging these estimates.
 	
The Consolidated Entity and Bank has exercised judgement in developing ECL models and also in determining assumptions such as defining a significant increase in credit risk (SICR). This estimation is inherently challenging and uses complex models based on the Consolidated Entity's and Bank's ability to predict probability of default and loss given default. The ECL staging requirements in the models incorporate estimates of default on both a 12 month and
	Our procedures for ECL (**collective provision for impairment)** included:
	
	• Understanding the key controls on the Consolidated Entity's and Bank's estimate of the ECL, including:
	    • review and approval by Management of key forward-looking assumptions used in the model;
	    • review and approval by Management of key data elements used in the ECL models;
	    • monitoring mechanisms to identify loans with a SICR or default event; and
	    • review and approval mechanisms in place to assess the ECL output and out of model adjustments.
	
	With the assistance of our credit risk specialists, our further procedures included:
	
	• Assessing the appropriateness of the Consolidated Entity's and Bank's provisioning methodology against the requirements of the accounting standards and industry practice

lifetime basis. We applied significant judgement to assess the impact of the forward-looking macroeconomic assumptions and factors outside of the control of the Consolidated Entity and Bank on their ECL models. Significant judgement is applied by the Consolidated Entity and Bank in determining the nature and level of out of model adjustments. It is the Consolidated Entity's and Bank's policy to use out of model adjustments where the underlying models may not represent emerging risks or trends in the loan portfolios.	including estimates of default on both a 12 month and lifetime basis. • Testing the completeness and accuracy of relevant data elements used within ECL models for a sample of customers, such as checking year end balances to the general ledger, and repayment history and risk ratings to source systems. • Re-performing the ECL calculation for loan portfolios using the Consolidated Entity's and Bank's provisioning methodology and relevant data used within the ECL models, as tested above. We compared our results to the amount recorded by the Consolidated Entity and Bank. • Determining key assumptions within the ECL models including SICR and assessed the Consolidated Entity's and Bank's analysis over these assumptions including whether the methodology used in developing the assumption was appropriate and in line with accounting standards requirements. • Assessing the ECL assumptions against forward-looking publicly available macro-economic information, such as forecasts for Real-GDP, residential house price index and unemployment rates. • Assessing the out of model adjustments applied by the Consolidated Entity and Bank to the ECL estimates. We compared the loan portfolios' underlying performance and characteristics to current market conditions, emerging risks and trends, using our knowledge of the industry and public views of commentators.
For credit–impaired loans, it is the Consolidated Entity's and Bank's policy to determine **specific provision for impairment** in addition to the collective provision based on their judgement. This focuses on estimating when an impairment event has occurred and the present value of expected future cash flows, which have high estimation uncertainty. We focused on the high degree of estimation uncertainty related to the business and agribusiness loans, as the forecast cash flows are dependent on future and uncertain events, for example, the timing and proceeds from the future sale of collateral.	Our procedures for **specific provision for impairment** for credit-impaired loans included: • Testing key credit risk monitoring controls, including controls for loan risk ratings, annual assessments of loans and security valuations. • Performing credit assessment, on a sample of loans and advances including business and agribusiness loans for which specific impairment provisions are held. This included: – Considering the latest developments in relation to the borrower by inspecting the Consolidated Entity's and Bank's latest loan strategy papers

	for evidence of occurrence of impairment events and inquiries with Management; – Examining the forecasts of future cash flows prepared by the Consolidated Entity and Bank, including key assumptions in relation to the amount and timing of recoveries, by: I. Checking the collateral valuation and other sources of repayment underlying the Consolidated Entity's and Bank's determination of the impairment to external evidence where available, including the Consolidated Entity's and Bank's external valuation expert reports; and II. Checking the consistency of methods applied by the Consolidated Entity and Bank in estimating the expected future cash flows, including timing, from the estimated sale proceeds from the collateral in calculating the recoveries. – Challenging the Consolidated Entity's and Bank's judgement with respect to estimated recoverable values by considering current economic conditions and specific areas of credit risk concentration (industries and geographies), which may impact security values. • Assessing the appropriateness of the Consolidated Entity's and Bank's disclosures in the financial reports using our understanding obtained from our testing against the requirements of the accounting standards.

INDEPENDENT AUDITOR'S REPORT

<table>
<tr><th colspan="2">Valuation of goodwill – Consolidated Entity and Bank</th></tr>
<tr><td colspan="2">Refer to Note 4.1 to the Financial Reports</td></tr>
<tr><td>The key audit matter</td><td>How the matter was addressed in our audits</td></tr>
<tr><td>The assessment of the valuation of goodwill is considered a key audit matter due to the significant forward-looking assumptions used in the Consolidated Entity's and Bank's value-in-use (VIU) model.

We focused on the significant forward-looking assumptions applied in the VIU model, including:

• Forecast operating cash flows, forecast growth rates and the terminal growth rates. Estimating the projected cash flow forecast is inherently uncertain. The sector in which the Consolidated Entity and Bank operates in is highly competitive and experiencing slower growth and regulatory change, which increases the risk of inaccurate forecasting; and

• Discount rate – this is judgemental in nature and varies according to the specific conditions and environment of the relevant cash-generating unit (CGU).

We involved valuation specialists to supplement our senior audit team members in assessing this key audit matter.</td><td>Our procedures included:

• Considering the appropriateness of the VIU method applied by the Consolidated Entity and Bank to perform the annual test of goodwill for impairment against the requirements of the accounting standards.

• Assessing the integrity of the VIU model used, including the accuracy of the underlying calculations.

• Assessing the historical accuracy of the Consolidated Entity's and Bank's forecast operating cash flows by comparing to actual past performance, to inform our evaluation of forecasts incorporated in the VIU model.

• Challenging the key forecast cash flow assumptions used in the VIU model using our knowledge of the Consolidated Entity and Bank, their past performance, and our inquiries with Management. We also compared key assumptions to the Consolidated Entity's and Bank's Board approved FY20 Budget.

• Using our industry knowledge and published studies of industry trends and expectations, assessing the impact of the regulatory change and increased competition on the Consolidated Entity's and Bank's key assumptions, specifically growth rates and terminal growth rates, for indicators of bias and inconsistent application.

• Working with our valuation specialists, using our knowledge of the Consolidated Entity and Bank and its industry, to independently develop a discount rate range considered comparable using publicly available market data for comparable entities adjusted by risk factors specific to the Consolidated Entity and the industry it operates in.

• Performing sensitivity analysis by varying key assumptions, in particular discount rates, forecast growth rates and terminal growth rates, within a reasonably possible range, to identify those assumptions at a higher risk of bias or inconsistency in application and to focus our further procedures.</td></tr>
</table>

	• Assessing the disclosures in the financial report using our understanding of the information obtained from our testing and against the requirements of the accounting standards.

Valuation of intangible computer software – Consolidated Entity and Bank

Refer to Note 4.1 to the Financial Reports

The key audit matter	**How the matter was addressed in our audits**

The assessment of the valuation of intangible computer software is considered a key audit matter due to the significant:
• amount of costs capitalised during the year.
• judgement applied by us to assess the Consolidated Entity's and Bank's determination of:
    • capitalised costs – the nature and amount of costs to be capitalised in accordance with the requirements of the accounting standards. This can be inherently subjective for internally generated computer software projects.
    • expected useful life – on completion of internally generated computer software, the accounting standards require the Consolidated Entity and Bank to estimate the useful life of the computer software and amortise the asset over this period. This assessment is based on the intended use of the asset. This can be judgemental and dependent upon future events, including advances in technology, thereby increasing the complexity in estimating useful life.
• We also focused on the analysis of impairment indicators performed by the Consolidated Entity and Bank.
	Our procedures included:
	• Evaluating the Consolidated Entity's and Bank's intangible computer software capitalisation policy against the capitalisation criteria and guidance in the relevant accounting standards.
	• For a sample of internally generated computer software projects currently under development, challenging the Consolidated Entity's and Bank's application of the capitalisation policy. Specifically, we challenged:
	    • the nature of project costs capitalised by testing a sample of capitalised costs to the project scope of work and underlying invoices and timesheets, as well as inquiries with Management; and
	    • the Consolidated Entity's and Bank's assessment of projects not yet classified as 'ready for-use' for indicators of being in use, such as checking the phase of implementation with Project Managers, and hence being subject to amortisation.
	• For a sample of internally generated computer software classified as 'in-use', challenging the Consolidated Entity's and Bank's estimated period of economic benefit from the use of the software compared to the original project plan. We also specifically focused on the continuation of the original project feasibility for those projects behind schedule, considering emerging technology.
	• Considering the Consolidated Entity's and Bank's assessment of intangible computer software impairment indicators by using our knowledge of the Consolidated Entity and

INDEPENDENT AUDITOR'S REPORT

	Bank, results of our testing and inquiring with Project Managers.
Valuation of financial instruments at fair value – Consolidated Entity and Bank	
Refer to Note 3.7 and 3.8 to the Financial Reports	
The key audit matter	**How the matter was addressed in our audits**
The valuation of financial instruments measured at fair value is considered a key audit matter as determining the fair value of financial instruments involves a significant level of judgement by the Consolidated Entity and Bank. The level of judgement increases where key inputs to the valuation are not readily available in the market and require additional judgement. This increases the risk of error and adds complexity to our audit. We involved valuation specialists to supplement our senior audit team members in assessing this key audit matter.	Working with our valuation specialists, our procedures included: • Checking the Consolidated Entity's and the Bank's valuation of a sample of financial instruments (asset and liabilities), by comparing the observable inputs, including quoted prices, to independently sourced market data. • Using independent models, reperforming the valuation for a sample of derivative assets and liabilities where fair value was determined using observable inputs. This included comparing a sample of observable inputs in the Consolidated Entity's and Bank's valuations to independently sourced market data, such as interest rates, foreign exchange rates and volatilities. • Where the fair value of derivatives and other financial assets were determined using unobservable inputs ('level 3' instruments), challenging the Consolidated Entity's and Bank's valuation by testing the key inputs used to comparable data in the market, including the use of proxy instruments and available alternatives. We also checked the Consolidated Entity's and Bank's valuation methodology to industry practice and the criteria in the accounting standards. • Assessing the appropriateness of the Consolidated Entity's and Bank's disclosures in the financial reports using our understanding obtained from our testing against the requirements of the accounting standards.

INDEPENDENT AUDITOR'S REPORT

Information Technology (IT) systems and controls – Consolidated Entity and Bank	
Refer to Basis of Preparation in Note 1 to the Financial Reports	
The key audit matter	**How the matter was addressed in our audits**
The Consolidated Entity's and Bank's business utilises a number of complex, interdependent Information Technology (IT) systems to process and record a high volume of transactions. Controls over user access, change management, program development and other operational controls in IT systems are critical to the recording of financial information and the preparation of financial reports. The IT systems and controls, as they impact the financial recording and reporting of transactions, is a key audit matter, and significantly affect our audit approach. Our IT specialists were used throughout the engagement as a core part of our audit team.	We tested the general controls over key IT applications (systems) used in processing significant transactions and recording balances in the general ledger. We also tested automated controls embedded within these systems. Working with our IT specialists, our procedures included: • Testing the governance controls used by the Consolidated Entity's and Bank's IT team to monitor system integrity, by checking matters impacting the operational integrity of core systems for escalation and action in accordance with the Consolidated Entity's and Bank's policies. • Testing the access rights (including privileged users) given to staff by checking them to approved records and inspecting the reports for granting and removal of access rights. • Testing preventative controls designed to enforce segregation of duties between users within particular IT systems. • Testing the change management controls related to code development and workflows approval. • Testing the automated controls, principally relating to the automated calculation of certain transactions and the generation of certain reports. For a sample of automated calculations, we tested the inputs used within the calculations to source data and also tested the accuracy of the calculations.

Other Information

Other Information is financial and non-financial information in Bank of Queensland Limited's annual reporting which is provided in addition to the Financial Reports and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinions on the Financial Reports do not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

INDEPENDENT AUDITOR'S REPORT

In connection with our audits of the Financial Reports, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Reports or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Reports

The Directors are responsible for:

- preparing the Financial Reports that give a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*.
- implementing necessary internal controls to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.
- assessing the Consolidated Entity's and Bank's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Consolidated Entity or Bank or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audits of the Financial Reports

Our objective is:

- to obtain reasonable assurance about whether each of the Financial Reports as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinions.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Reports.

A further description of our responsibilities for the audits of the Financial Reports is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our Auditor's Report.

INDEPENDENT AUDITOR'S REPORT

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Bank of Queensland Limited for the year ended 31 August 2019, complies with *Section 300A* of the *Corporations Act 2001*.

Directors' responsibilities

The Directors of the Bank are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A* of the *Corporations Act 2001*.

Our responsibilities

We have audited the Remuneration Report included in pages 58 - 84 of the Directors' report for the year ended 31 August 2019.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

KPMG

Robert Warren

Partner

Sydney

16 October 2019

SHAREHOLDING DETAILS

As at Thursday 26 September 2019, the following shareholding details applied:

1. TWENTY LARGEST ORDINARY SHAREHOLDERS

SHAREHOLDER	No. of ordinary shares	%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	68,742,849	16.94
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	33,021,389	8.14
CITICORP NOMINEES PTY LIMITED	18,537,408	4.57
NATIONAL NOMINEES LIMITED	14,890,010	3.67
MILTON CORPORATION LIMITED	7,306,078	1.80
BNP PARIBAS NOMINEES PTY LTD	3,245,708	0.80
BNP PARIBAS NOMS PTY LTD	2,528,756	0.62
NATIONAL NOMINEES LIMITED	1,500,189	0.37
AMP LIFE LIMITED	1,119,548	0.28
CITICORP NOMINEES PTY LIMITED	1,062,511	0.26
CS THIRD NOMINEES PTY LIMITED	1,051,790	0.26
NAVIGATOR AUSTRALIA LTD	1,018,524	0.25
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	949,885	0.23
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	886,042	0.22
CARLTON HOTEL LIMITED	767,873	0.19
PRUDENTIAL NOMINEES PTY LTD	750,000	0.18
KARATAL HOLDINGS PTY LTD	692,344	0.17
THE MANLY HOTELS PTY LIMITED	655,540	0.16
PACIFIC CUSTODIANS PTY LIMITED	622,840	0.15
BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD DRP	559,232	0.14
Total	**159,908,516**	**39.41**

The above table includes shareholders that may hold shares for the benefit of third parties.

Voting rights

On a show of hands every person present who is a holder of ordinary shares or a duly appointed representative of a holder of ordinary shares has one vote, and on a poll each member present in person or by proxy or attorney has one vote for each share that person holds.

SHAREHOLDING DETAILS

As at Thursday 26 September 2019, the following shareholding details applied:

2. TWENTY LARGEST CAPITAL NOTES SHAREHOLDERS

SHAREHOLDER	No. of capital notes	%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	154,365	4.41
BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD DRP	88,304	2.52
DIOCESE DEVELOPMENT FUND – CATHOLIC DIOCESE OF PARAMATTA	65,000	1.86
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED – A/C 2	57,123	1.63
JOHN E GILL TRADING PTY LTD	54,593	1.56
NATIONAL NOMINEES LIMITED	52,040	1.49
DOMER MINING CO PTY LTD	32,200	0.92
TRUSTEES OF CHURCH PROPERTY FOR THE DIOCESE OF NEWCASTLE	27,499	0.79
FEDERATION UNIVERSITY AUSTRALIA	21,935	0.63
INVIA CUSTODIAN PTY LIMITED	21,310	0.61
HAVENFLASH PTY LTD	21,000	0.60
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	20,726	0.59
NETWEALTH INVESTMENTS LIMITED	18,058	0.52
CITICORP NOMINEES PTY LIMITED	17,179	0.49
NAVIGATOR AUSTRALIA LTD	16,097	0.46
PACIFIC DEVELOPMENT CORPORATION PTY LTD	15,500	0.44
NETWEALTH INVESTMENTS LIMITED	15,154	0.43
SIMPLY BRILLIANT PTY LTD	15,000	0.43
NAVIGATOR AUSTRALIA LTD	14,161	0.40
SEYMOUR GROUP PTY LTD	14,000	0.40
Total	**741,244**	**21.18**

The above table includes shareholders that may hold shares for the benefit of third parties.

Voting rights

Capital Notes do not give the holders any voting rights at any general shareholders meetings, except in certain circumstances.

3. DISTRIBUTION OF EQUITY SECURITY HOLDERS

	Ordinary Shares		Capital Notes	
Category	**2019**	2018	**2019**	2018
1 – 1,000	**57,361**	58,232	**5,148**	5,078
1,001 – 5,000	**31,527**	31,460	**403**	420
5,001 – 10,000	**6,764**	6,240	**30**	28
10,001 – 100,000	**4,017**	3,406	**26**	23
100,001 – and over	**93**	77	**1**	2
Total	99,762	99,415	5,608	5,551

The number of ordinary shareholders holding less than a marketable parcel is 3,177.

The number of capital notes holders holding less than a marketable parcel is 19.

SHAREHOLDING DETAILS

4. PARTLY PAID SHARES

There are no partly paid shares.

5. SUBSTANTIAL SHAREHOLDERS

The names of substantial shareholders in the Bank, per the meaning within the *Corporations Act 2001* (Cth), and the number of shares in which each has an interest as disclosed in substantial shareholder notices given to the Bank were:

SUBSTANTIAL SHAREHOLDER	No. of ordinary shares in which interest is held (at date of notification)	Date of notification
The Vanguard Group Inc.	19,929,774	9 July 2018
BlackRock Group	23,980,966	2 November 2018

6. SECURITIES EXCHANGE LISTING

The shares of Bank of Queensland Limited (**BOQ**) and Capital Notes (**BOQPE**) are quoted on the Australian Stock Exchange.

BOQ's medium-term notes and covered bonds are listed on the London Stock Exchange.

7. OPTIONS

At 31 August 2019, there were no options over unissued ordinary shares.

8. ON MARKET BUY-BACK

There is no current on market buy-back.

9. OTHER INFORMATION

BOQ is a publicly listed company limited by shares and is incorporated and domiciled in Australia.

SHAREHOLDER INFORMATION

SHARE REGISTRY

Link Market Services Limited

Level 21, 10 Eagle Street
Brisbane Qld 4000

Australia: 1800 779 639
International: +61 1800 779 639
Email: boq@linkmarketservices.com.au

linkmarketservices.com.au

COMPANY DETAILS

Bank of Queensland Limited
ABN 32 009 656 740
ACN 009 656 740

Registered office:
Level 6, 100 Skyring Terrace
Newstead Qld 4006

Telephone: +61 7 3212 3333
Investor Relations: +61 7 3212 3990

boq.com.au
twitter.com/boq
facebook.com.au/BOQOnline

CUSTOMER SERVICE

Australia: 1300 55 72 72
International: +61 7 3336 2420

Postal address:
GPO Box 898
Brisbane Qld 4001

KEY SHAREHOLDER DATES

Dividend dates for ordinary shares only are:

2019	
Financial full year end	31 August 2019
Full year results and dividend announcement	17 October 2019
Final ex-dividend date	6 November 2019
Final dividend record date	7 November 2019
Final dividend payment date	27 November 2019
Annual General Meeting	10 December 2019

5 YEAR FINANCIAL SUMMARY

$ millions (unless otherwise stated)	2019 $m	2018 $m	2017 $m	2016 $m	2015 $m
FINANCIAL PERFORMANCE (1)					
Net interest income	**961**	965	926	937	907
Non interest income	**128**	145	175	173	180
Total income	**1,089**	1,110	1,101	1,110	1,087
Operating expenses	**(550)**	(527)	(513)	(520)	(500)
Underlying profit before tax (2)	**539**	583	588	590	587
Loan impairment expense	**(74)**	(41)	(48)	(67)	(74)
Cash earnings before tax	**465**	542	540	523	513
Cash earnings after tax attributable to ordinary shareholders (3)	**320**	372	378	360	357
Statutory net profit after tax	**298**	336	352	338	318
FINANCIAL POSITION					
Gross loans and advances (4)	**46,216**	45,279	43,817	43,152	40,975
Total assets	**55,597**	52,980	51,658	50,853	48,018
Customer deposits	**32,428**	31,325	30,190	29,122	26,914
Total liabilities	**51,738**	49,124	47,869	47,266	44,549
Total equity	**3,859**	3,856	3,788	3,587	3,469
SHAREHOLDER PERFORMANCE					
Market capitalisation at balance date	**3,721**	4,565	4,932	4,020	4,698
Share price at balance date ($)	**9.17**	11.49	12.59	10.55	12.67
Cash basic earnings per share (cents)	**79.6**	94.7	97.6	95.6	97.3
Cash diluted earnings per share (cents)	**74.0**	89.3	93.9	90.7	92.2
Fully franked dividend per ordinary share (cents)	**65**	76	76	76	74
Fully franked special dividend per ordinary share (cents)	**–**	–	8	–	–
Cash dividend payout ratio to ordinary shareholders	**82%**	81%	78% (5)	80%	77%
CASH EARNINGS RATIOS (6)					
Net interest margin (7)	**1.93%**	1.98%	1.87%	1.94%	1.97%
Cost-to-income ratio	**50.5%**	47.5%	46.6%	46.8%	46.0%
Return on average ordinary equity	**8.3%**	9.9%	10.4%	10.3%	10.7%
CAPITAL ADEQUACY					
Common Equity Tier 1 ratio	**9.04%**	9.31%	9.39%	9.00%	8.91%
Total Capital Adequacy ratio	**12.40%**	12.76%	12.37%	12.29%	12.72%

(1) All amounts disclosed are on cash basis except statutory net profit after tax.
(2) Underlying profit before tax is profit before impairment on loans and advances, significant items and tax.
(3) Cash earnings after tax exclude significant items (tax effected).
(4) Before specific and collective provisions.
(5) This ratio was 87 per cent including special dividend.
(6) Excludes impact of significant items.
(7) 2019 and 2018 NIM is net of offset accounts.

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.
Consolidated Entity (**the Group**)	BOQ and its subsidiaries
Cost to income ratio (**CTI**)	Operating expenses divided by net operating income.
Corporations Act 2001	*The Corporations Act 2001* (Cth)
Covered bond guarantor	Perpetual Corporate Trust Limited ABN 99 000 341 533, incorporated with limited liability in the Commonwealth of Australia and having its registered office at Level 18, 123 Pitt Street, Sydney, NSW 2000, as trustee of the BOQ Covered Bond Trust (the Trustee).
Days past due (**dpd**)	A loan or lease payment that has not been made by a customer by the due date.
Dividend payout ratio	Dividends paid on ordinary shares divided by earnings.
Dividend reinvestment plan (**DRP**)	A plan which provides shareholders with the opportunity to convert all or part of their entitlement to a dividend into new shares.
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.

Bank of Queensland Limited
ABN 32 009 656 740