

2021 ANNUAL REPORT

Year ended 31 August 2021



BOQ 
GROUP

A TRUE PARTNERSHIP WITH FAMILY RUN BUSINESSES

“We’ve been with other banks that make you feel like you’re just another asset or liability. They like to keep an eye on what you’re doing to make sure their money is safe but at BOQ you feel like you’re part of a team. They keep an eye on what you’re doing because they have a genuine interest and want to understand how they can help you better.”

– Tracey Hewitt, BOQ agribusiness customer

The Charvel property in Theodore, Queensland has been in the Hewitt family since 1958 when Alan’s parents first purchased the land. Since then, Alan and his wife Tracey have run the mixed operation of cattle grazing and irrigated cropping with the help of their three sons.

After many years with another bank, the Hewitts switched to BOQ in 2013 and formed a strong bond with BOQ Agribusiness Manager Ian Mills, who has now become part of the furniture. It was important to Tracey and Alan that they have a real and honest partnership with their bank and work with people who understand their business and believe in what they’re doing.

With over 30 years’ experience working in agribusiness across Queensland, Ian is extremely passionate about the industry and enjoys his frequent visits to the Charvel property. Ian plays his part by understanding who the Hewitts are as a family, what the farm needs season to season, and how it all fits together.

BOQ Agribusiness Manager Ian said: “It’s incredibly important to make that effort to understand the business. This is not just a financial transaction at the bank, it’s about understanding what’s important to them, listening where they want to get to and workshopping your ideas together. It’s a real partnership and that’s what we work to strive for.”

Most recently, Ian met with the Hewitts about purchasing more property. After discussing their goals and priorities they chose to instead finance a loan for a bulldozer and a renovation project, which for the same investment provided a much greater return over time.

Tracey was particularly pleased with the time, care and thought that went into the decision from Ian and the agribusiness team and felt as though they were part of a real partnership.



ABOUT THIS REPORT

About this report

This year's Annual Report includes details of BOQ's purpose and values, strategy, our value creation story, operations, audited financial statements and other statutory disclosures. The report predominantly focuses on our financial performance, with further detail on our non-financial performance measures contained in the 2021 Sustainability Report. We are continuing to enhance our reporting to explain to stakeholders how we deliver long-term value.

Unless otherwise stated, the Annual Report encompasses all BOQ activities for the financial year commenced 1 September 2020 and ended 31 August 2021. All monetary values in this document are presented in Australian dollars, which is the Bank's functional currency. Our Operating and Financial review is contained in pages 12 – 75 of this report.

Other documents in our 2021 reporting suite

BOQ produces a range of reports designed to meet the evolving expectations of a wide number of stakeholders. Our 2021 annual reporting suite also includes the following documents:

Sustainability Report

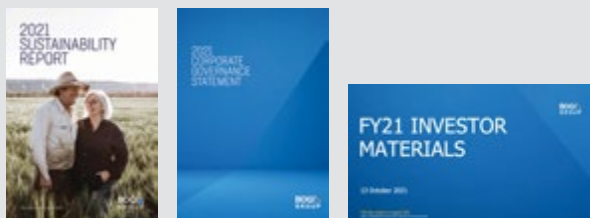
Our 2021 Sustainability Report outlines information about our performance against social, environmental and economic opportunities and challenges. This report is available on the Annual Reports page of our website and is supported by supplementary information available on the Sustainability section of our website.

Corporate Governance Statement

Our 2021 Corporate Governance Statement discloses how we have complied with the ASX Corporate Governance Council's Corporate Governance Principles & Recommendations (4th edition) and is available on the Corporate Governance page of our website.

FY21 Investor Materials

Our FY21 Investor Materials provide a high level overview of the Group's performance along with a detailed result analysis and a discussion on the outlook, which covers the macro environment and the Group's high level priorities. Investor Materials are available on the Financial Results page of our website.



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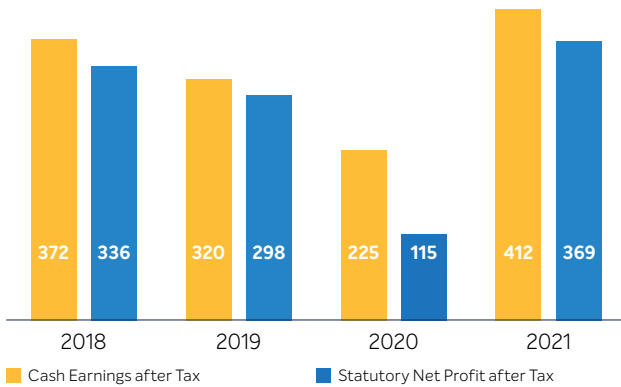
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We are always looking for ways to improve our reporting. Please send your questions or suggestions to our Investor Relations team at InvestorRelations@boq.com.au

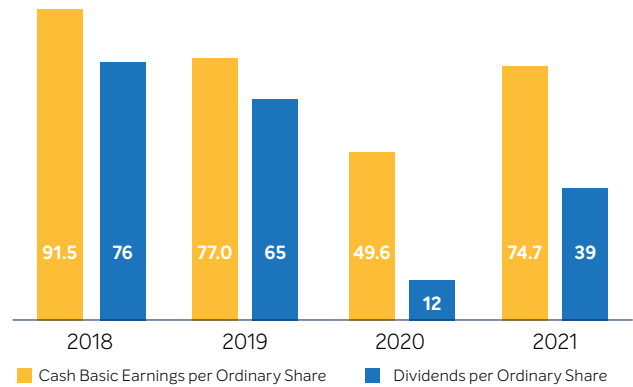
Bank of Queensland Limited
ABN 32 009 656 740
AFSL No. 244616
Level 6, 100 Skyring Terrace, Newstead QLD 4006

FY21 FINANCIAL RESULTS

PROFIT RESULTS (\$m)



EARNINGS & DIVIDENDS (¢ per ordinary share)



FY21 CASH EARNINGS after tax

\$412m

↑83% from FY20

STATUTORY NET PROFIT after tax

\$369m

↑221% from FY20

CASH BASIC EARNINGS PER ORDINARY SHARE (¢ per share)

74.7¢

↑51% from FY20

DIVIDENDS PER ORDINARY SHARE (¢ per share)

39¢

↑225% from FY20

NET INTEREST MARGIN

1.92%

Up 1bp from FY20



CASH COST TO INCOME RATIO

54.4%

Down 50bps from FY20



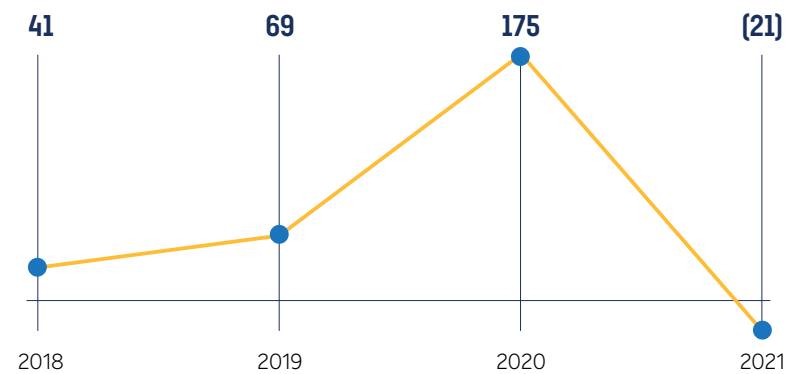
CASH RETURN ON EQUITY

8.2%

Up 280bps from FY20



LOAN IMPAIRMENT EXPENSE (\$m)



(\$21m)

Includes \$71 million reduction in the collective provision

5 YEAR FINANCIAL SUMMARY

\$ millions (unless otherwise stated)	2021 \$m	2020 \$m	2019 \$m	2018 \$m	2017 \$m
FINANCIAL PERFORMANCE⁽¹⁾					
Net interest income	1,128	986	961	965	926
Non interest income ⁽²⁾	130	128	144	160	190
Total income ⁽²⁾	1,258	1,114	1,105	1,125	1,116
Operating expenses ⁽²⁾	(684)	(612)	(571)	(542)	(528)
Underlying profit before tax ⁽³⁾	574	502	534	583	588
Loan impairment expense	21	(175)	(69)	(41)	(48)
Cash earnings before tax	595	327	465	542	540
Cash earnings after tax	412	225	320	372	378
Statutory net profit after tax	369	115	298	336	352
FINANCIAL POSITION					
Gross loans and advances ⁽⁴⁾	75,748	47,043	46,216	45,279	43,817
Total assets	91,432	56,772	55,597	52,980	51,658
Customer deposits	56,469	34,762	32,428	31,325	30,190
Total liabilities	85,235	52,541	51,738	49,124	47,869
Total equity	6,197	4,231	3,859	3,856	3,788
SHAREHOLDER PERFORMANCE					
Market capitalisation at balance date	6,063	2,785	3,721	4,565	4,932
Share price at balance date (\$)	9.46	6.13	9.17	11.49	12.59
Cash basic earnings per share (cents) ⁽⁵⁾	74.7	49.6	77.0	91.5	94.4
Cash diluted earnings per share (cents) ⁽⁵⁾	69.5	45.1	71.9	86.7	91.0
Fully franked dividend per ordinary share (cents)	39	12	65	76	76
Fully franked special dividend per ordinary share (cents)	-	-	-	-	8
Cash dividend payout ratio to ordinary shareholders	61%	24%	82%	81%	78%
CASH EARNINGS RATIOS					
Net interest margin ⁽⁶⁾	1.92%	1.91%	1.93%	1.98%	1.87%
Cost-to-income ratio ⁽²⁾	54.4%	54.9%	51.7%	48.2%	47.3%
Return on average ordinary equity	8.2%	5.4%	8.3%	9.9%	10.4%
CAPITAL ADEQUACY					
Common Equity Tier 1 ratio	9.80%	9.78%	9.04%	9.31%	9.39%
Total Capital Adequacy ratio	12.60%	12.73%	12.40%	12.76%	12.37%

(1) All amounts disclosed are on cash basis except statutory net profit after tax.

(2) Virgin Money Australia (VMA) operating costs have been restated from non-interest income and included in operating expenses per ASX announcement on 30 September 2021.

(3) Underlying profit before tax is profit before impairment on loans and advances, significant items and tax.

(4) Before specific and collective provisions.

(5) Comparatives for basic and diluted earnings per share have been adjusted for the effects of the Group's capital raise in March 2021.

(6) 2021, 2020, 2019 and 2018 Net Interest Margin (NIM) is net of offset accounts.

CHAIRMAN'S REVIEW

Dear Fellow Shareholders

I am delighted to be able to report a strong financial and operating performance for BOQ in FY21.

BOQ has delivered both statutory and cash earnings growth of 221 per cent and 83 per cent respectively. We have achieved statutory net profit after tax of \$369 million and cash earnings after tax of \$412 million.

Key highlights of our transformation progress this year include our strong financial results, achieving above system mortgage growth whilst maintaining prudent risk settings, strengthening our team with improved leadership and execution capability, further embedding our values driven performance culture, improving loan approval times for our customers, delivering phase 1 of our digital first strategy and the successful acquisition of Members Equity Bank Limited (**ME Bank** or **ME**).

The value accretive acquisition of ME Bank is strategically aligned, and is expected to deliver material scale and synergies, a diversified customer footprint, and rebalanced revenue channels with improved return on equity. The ME Bank integration is on track and is a key strategic deliverable over the next 12 months.

We are making material progress in delivering our growth strategy to uplift our financial and customer performance and build a scalable multi-brand digital-first bold challenger bank with a personal touch.

These pleasing results underscore our continuous improvement journey and high ambition to delight our customers, be a great place to work and to grow shareholder value.

Customers

Continuing to improve the customer experience and delight our customers every day is at the heart of our strategic transformation.

During FY21 we enhanced the digital bank proposition for Virgin Money Australia customers by offering transaction and saving account services for the first time. This was built on a digital platform that we will extend to form the foundation for the Retail Bank, delivering improved digital customer offerings and experiences for all the BOQ Group brands.

We will continue to work closely with our customers, the government and regulators, to ensure we maintain support for customers facing hardship or requiring help resulting from the COVID-19 pandemic.

Shareholders & Capital Management

The transformative acquisition of ME Bank and our improved performance this financial year have enhanced shareholder value.

We recognise the importance of dividends to our shareholders and the Board has determined to pay a final fully franked dividend of 22 cents per share, bringing the FY21 dividend to 39 cents per share. Barring unforeseen circumstances, we are targeting a dividend payout ratio between 60 per cent and 75 per cent of cash earnings going forward. We believe this payout ratio enables BOQ to balance an attractive annual distribution to shareholders against the capital needed to support our business transformation, growth and the resilience of the bank.

We remain committed to prudent balance sheet and capital management. Our CET1 ratio at financial year end was 9.80 per cent. During this higher risk period we intend to retain our CET1 ratio above the top end of our target range of 9.0 – 9.5 per cent.⁽¹⁾

We funded the ME Bank acquisition via a \$1.35 billion capital raising, and we thank shareholders for their support. Due to unforeseen extensive delays in Australia Post some of our retail shareholders missed the cut-off date for acceptance of the rights issue offer. We sincerely apologise to those shareholders that were unable to participate.

The capital raising timeline and structure was determined based on the material size of the capital raising as a per cent of our market capitalisation and the need to present an attractive fully underwritten bid to provide certainty of funding and price in a competitive tender process. We believe the accelerated timeline and non-renounceable structure were critical to BOQ Group achieving a timely underwritten capital raising, winning the bid, minimising the dilution impact of the capital raising and providing the opportunity to create value for all of our shareholders.

People & Culture

Embedding a performance driven culture through empowering our people and holding them to account to deliver against our key performance indicators is core to our strategic transformation. We are encouraging our people to speak up, question the status quo and experiment to achieve improved outcomes.

Reliability, transparency and trust are at the core of everything we do. Living our purpose and values drive excellent conduct and better customer and community outcomes.

Keeping our people safe and informed and maintaining continuity of our operations have been key priorities during the pandemic. We have adopted an agile approach to working that includes a hybrid model of returning to the office when health directions permit, along with remote flexible working. Our branches remained open throughout the various pandemic restrictions and we are proud of the dedication shown by our people who continue to attend our workplaces to support our customers.

We recognise that quality people and strong leadership will drive our success. We continue to enhance and develop the calibre of the leadership team and our people, building a diverse team with strong execution capability.

(1) BOQ intends to operate above the management target range of 9.0 – 9.5 per cent in FY22 until the final impacts of APRA's changes to RWAs and capital calibration are understood. Refer to page 54 in the ME Bank acquisition investor presentation for further detail.

Building a sustainable business

BOQ remains committed to building a sustainable business and recognises our social responsibility to deliver improved outcomes for all stakeholders and the environment. We continue our journey to being a more sustainable organisation by achieving carbon neutral certification during FY21.

Board renewal

The BOQ Board embarked on a period of renewal and continuous improvement in late 2019 to enhance our diversity, future fit skills mix and intellectual curiosity. Effective from the 2021 AGM the Board renewal program will be complete. The size of the Board will have reduced from 11 to 8 Directors (7 non-executive).

I welcome Mickie Rosen and Deborah Kiers who joined the Board in 2021 and look forward to the considerable contribution they will bring across their combined skills of digital transformation, consumer experiences, organisational design, people & culture, strategy and ME Bank Heritage.

I would like to take this opportunity to thank Kathleen Bailey-Lord, who retired from the Board in 2021 for her contribution to BOQ.

Looking ahead

Under the strong leadership of George Frazis, our Managing Director & CEO, and the Executive Committee we have good momentum in the business and are well positioned to continue to progress our transformation journey. We are 18 months into this journey and have a lot more to do to meet our ambitious aspirations for BOQ to create long term value for our customers, shareholders and our people.

Our operating environment remains uncertain with the ongoing pandemic, high asset prices and increased leverage at a low point in the interest rate cycle. We will continue to support our customers with flexible policies and relief packages, manage prudent risk settings in this higher risk environment and refine our strategy where appropriate.

With the increased vaccine rollout across Australia we are cautiously optimistic about the future. We encourage all of our stakeholders to get vaccinated to support their well-being and the lifting of lockdown restrictions enabling the re-opening of Australia.

I express my deepest thanks to my colleagues on the Board, our CEO, the Executive Committee and all our employees for their material contribution to BOQ.

Thank you to our customers and shareholders for your ongoing support of BOQ.



Patrick Allaway
Chairman

“Continuing to improve the customer experience and delight our customers every day is at the heart of our strategic transformation.”



MANAGING DIRECTOR AND CEO'S MESSAGE

“I believe the saying is “tough times don’t last, tough people do,” and that has never been more true of our people and our customers.”



Dear Shareholder

This year we have seen economic conditions improve compared to the previous year due to the commencement of the vaccine rollout and related consumer and business optimism. However, recent lockdowns and restrictions have reminded us that COVID-19 and the associated economic consequences remain present. I believe the saying is “tough times don’t last, tough people do,” and that has never been more true of our people and our customers who have shown resilience and optimism despite the challenges.

As stewards of a business with a long heritage, my team and I have continued to focus on delivering our strategy to enhance the experience for our customers, stakeholders and people.

Customers and Community

BOQ’s strong balance sheet and the commitment of our people allows us to support customers in hardship as well as contribute to meaningful community initiatives. In the past 12 months BOQ supported hundreds of customers in hardship with personal and business loan deferrals and in August we simplified our systems and removed dishonour fees for overdrawn accounts. We have maintained our retail and business Net Promoter Score ranking of 3rd during FY21 by delivering a superior customer experience.

We recognise the role BOQ plays in the communities in which it operates. We continued our support of Aboriginal and Torres Strait Islander peoples through our work with the STARS and Clontarf Foundations that provide education and development of life skills for these communities. We also continued our relationship with our community partner Orange Sky during the year to provide laundry and shower vans for people in need.

Progress against strategy

Our experienced executive team continues to deliver against the strategy outlined to the market in February 2020. The ME Bank acquisition underscores our growth agenda by significantly expanding our Retail bank and allowing the Group to diversify its revenue profile and geographic presence.

Significant progress has been made against the transformation roadmap with a key achievement being the launch of savings and transactions accounts for Virgin Money, entrenching its credentials as a digital bank. Another important step on our digital roadmap was the upgrade and integration of our card management system. This has allowed us to put both BOQ and VMA cards on the same platform which enables improved digital banking app capability. This has also delivered the choice and convenience customers have been requesting as the new digital wallet capability now allows them to link their cards to Apple Pay, Samsung Pay and Google Pay.

The second phase of the Virgin Money Digital bank to include home loans and additional deposit products is well progressed, and the scalability of the API based digital platform allows this technology to be leveraged as a strategic Group platform, with the build of a BOQ Digital Bank substantially underway.

The multi-year roadmap incorporates the ME Bank integration to ultimately deliver a common, cloud based Retail platform for all BOQ brands.

Work continues on enhancing our lending process from front to back, with the Small Business Enablement program underway identifying efficiencies. Other key investment includes the build of the Intelligent Data Platform foundations to enable Open Banking capabilities, and a program to enhance the user experience for our people.

We have delivered a further \$30 million in productivity savings across the Bank in FY21 in addition to the \$30 million delivered in FY20. These savings have enabled us to invest in new digital, risk and regulatory programs.

The sale of St Andrew's is expected to be completed in 1H22, enabling BOQ to simplify its business model and focus on niche customer segments.

People

The Executive Team and I are united in our commitment to making BOQ Group a great place to work and pleasingly, our engagement score increased five per cent in FY21 compared to last year's score.

We have built a strong leadership team with the addition of Martine Jager as our Group Executive Retail Banking and CEO ME Bank, Danielle Keighery as the Chief Customer Officer and Nicholas Allton in the role of Group General Counsel and Company Secretary. We have recently announced the appointment of Chris Screen to the role of Group Executive Business Banking and we will welcome David Watts as BOQ's Group Chief Risk Officer in early 2022.

During the year we welcomed a large number of new employees to the Group through the acquisition of ME Bank. This team enhances our presence in Victoria and we believe our aligned customer-focused cultures will see a successful integration of ME Bank into the BOQ Group while continuing to maintain a differentiated proposition through the ME brand.

We continued to focus on the wellbeing of our people during the year and to manage for impacts from COVID-19 we implemented flexible policies for non-front line workers and ensured eligible employees could take advantage of special leave for vaccinations. I am proud of our people and the key role they continue to play in supporting customers. I thank them for their dedication and acknowledge their hard work over the course of another trying year.

Performance

The execution of our strategy throughout FY21 has driven our strong business performance for the year.

Total income increased by 13 per cent as we continued to grow our balance sheet above system while preserving our margins. Our expenses grew 12 per cent during the year as we supported volume growth, while investing for the future.

Impairment expenses decreased during FY21 as we reduced the collective provision in light of changes to the economic environment and expected future loan losses. Maintaining a strong balance sheet continues to be important for BOQ, and our capital remains comfortably above APRA's benchmark, with a CET1 ratio of 9.80 per cent.

Overall our improvement in statutory NPAT of 221 per cent to \$369 million, reflects the improved business performance, operating conditions and a customer focused culture.

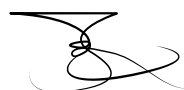
Having completed the acquisition of ME Bank on 1 July 2021, our integration program has shown solid progress with early momentum and focus resulting in the acceleration of synergies and the development of a clear integration roadmap.

The future

Even as our future feels uncertain because of the ongoing impact from the pandemic, I've never felt more optimistic about the ability of our people and customers to pull through to better times. As the vaccine rollout gathers pace and policy settings encourage economic stability and growth, I'm hopeful our customers, stakeholders and people will join our business in returning to a more stable operating environment.

Looking ahead, I am very excited about the future. The integration of ME Bank is underway and we have a clear strategic roadmap which we are executing against. We are committed to repaying the support of our shareholders by delivering sustainable profitable returns.

I believe we have the right people in place to execute on our strategy to transform BOQ into a digital bank with a personal touch to create a compelling proposition for our shareholders, customers, people and the community.



George Frazis
Managing Director and CEO

2021 DIRECTORS' REPORT

ABOUT BOQ

BOQ is one of Australia’s leading regional banks, having served customers for 147 years.

During BOQ’s long history, it has evolved from a Queensland focused, retail branch-based bank to a national diversified financial services business with a focus on niche commercial lending segments, highly specialised bankers and branches run by small business owners who are deeply anchored in their communities. In FY21 BOQ has been further strengthened and diversified through the acquisition of ME Bank.

We provide a range of products to support the financial needs of our customers and pride ourselves on building long term customer relationships that are digitally enabled with a personal touch.

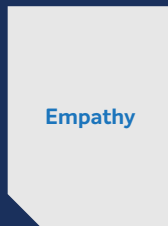
Purpose and Values

Our purpose is to create prosperity for our customers, shareholders and people through empathy, integrity and by making a difference.

Our values are contained within the purpose statement, ensuring our people are clear on the key values to which BOQ subscribes.

Our purpose and values communicate a simple and clear message for our people. We are committed to ensuring our purpose and values are reflected in everything we do – from the development of our strategy to our everyday interactions with our customers and communities.

We recognise we have more to do to ensure all our interactions and decisions have empathy at the core and this is an aspirational target for BOQ.



- We seek to understand and feel what others are experiencing, then we take action to help them. We are curious and interested in other perspectives
- We ask great questions to understand where our customers and colleagues are coming from
- We use our insights to create great experiences, by showing care, providing and receiving feedback, building trust and taking action

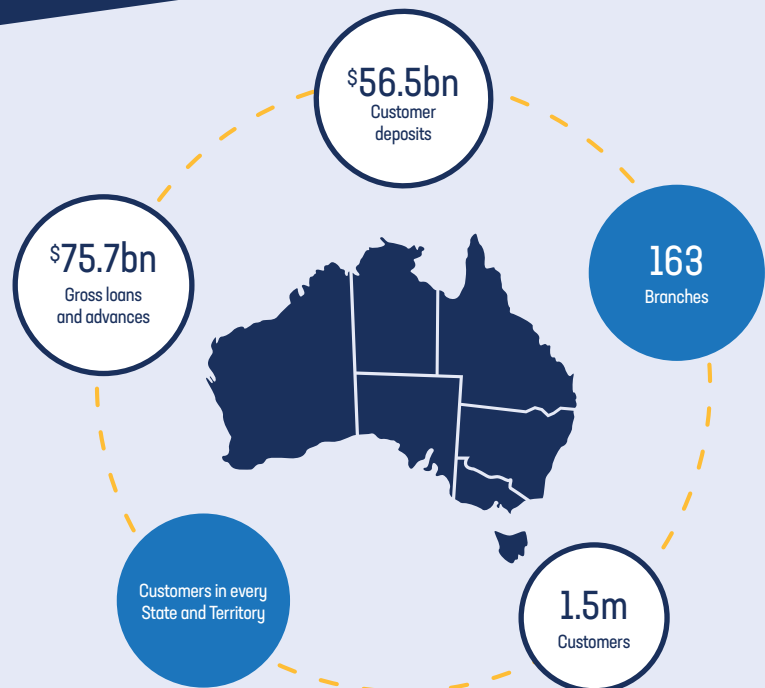


- We take pride in doing what’s right, speaking up and we do what we say we will do
- We establish high and clear standards and hold ourselves and others accountable
- We have the courage to raise and own mistakes and empower others to do the same



- We are bold and take reasonable risks to create prosperity
- We focus on delivering outcomes for our customers and improving the way things are done
- We achieve together and celebrate the positive impact we create

BOQ HAS A SIGNIFICANT PRESENCE AROUND AUSTRALIA



ABOUT BOQ

Distinctive brands serving attractive niche customer segments

Over time, BOQ has successfully acquired a portfolio of brands which form the basis of our multi-brand strategy. These different and complementary business lines provide us with a competitive advantage due to our specialised knowledge in these niche segments.

Retail Banking



Retail and SME lending, deposits, credit cards and insurance

BOQ

BOQ is the Retail banking arm of the BOQ Group and is comprised of 163 branches across Australia offering a range of banking products. Our 103 Owner-Managed Branches (**OMB**) are run by local Owner-Managers who understand the importance of delivering high quality customer service and are deeply committed to the communities in which they operate.



Digital home loans, deposits, credit cards, insurance and superannuation

VMA

VMA is a digital first retail financial services company which provides a wide range of financial products that are easy to understand and is a compelling alternative to the big banks. BOQ acquired VMA in 2013 and it operates as a standalone brand within the BOQ Group.



Home loans, personal loans, deposits and credit cards

ME Bank

ME Bank is a branchless retail bank which provides a wide range of banking products to customers through mobile bankers, direct channels and brokers. ME Bank was acquired by BOQ in July 2021 and operates as a distinct brand within the BOQ Group.

BOQ Business



Commercial lending, deposits, financial markets and insurance

BOQ Business

BOQ Business is a relationship led business with specialist bankers providing client solutions across Small Business, Agribusiness, Corporate Banking, Property Finance, Healthcare & Retirement and Tourism, Leisure & Hospitality. BOQ Business also works closely with the Owner Manager network to support commercial customers who value a more intimate business banking relationship with passionate industry experts.



Asset finance and leasing

Finance

BOQ Finance is a wholly owned subsidiary of BOQ Group Limited specialising in asset finance and leasing solutions.

BOQ Finance is a mid-market financier providing deep industry and product skills to its partner base. BOQ Finance has been operating in the Australian and New Zealand markets for more than 45 years.



Lending, deposits, credit cards and leasing for medical and professional services

BOQ Specialist

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

Group Functions

BOQ's business lines are supported by a number of Group functions including Group Customer, Technology, Risk, Finance, Transformation & Operations, Legal and our People & Culture teams. These key functions support our bank by managing our operations, property, strategy, finance, treasury, technology architecture, infrastructure & operations, risk, compliance, legal, human resources and corporate affairs.

RESPONDING TO COVID-19



The COVID-19 pandemic has had ongoing impacts for our customers and people throughout FY21 and we remain committed to supporting them through these challenging times. We recognise our responsibility to maintain confidence in the economy and our role is to ensure the systems and processes we have in place underpin the resilience of the business and our people which in turn supports customers.

Business resilience

BOQ Group continues to develop scenario models to identify potential risks to our business under a range of different economic outcomes. The application of these models ensures BOQ is able to respond quickly to either the economy showing signs of recovery, as shown in the first half of 2021 or the reintroduction of restrictions and lockdowns, as we are currently experiencing in some parts of Australia.

Our strong levels of capital and liquidity positions us well for any potential scenario and we continue to refine our risk models as additional economic data becomes available.

Employee support

The health and wellbeing of our people has remained a key focus throughout FY21. We have built upon lessons from 2020 to ensure the health, wellbeing and safety of our people is protected and our actions have been continually updated based on guidance from State and Federal authorities and the World Health Organisation. We are supportive of the National Cabinet reopening plan and vaccination program, and have provided our people with paid vaccination leave.

Banking is an essential service and accordingly we have kept our branch network open throughout this period as well as maintaining our other operations.

Managing our credit risk

Building upon the processes implemented in 2020, BOQ is continuing to monitor the credit quality of the portfolio to assess economic impacts due to COVID-19, particularly in light of the recent spike in cases causing the reintroduction of more severe restrictions and lockdowns.

BOQ has a number of credit models designed to assist in measuring the credit risk in the portfolio based on changing economic and environmental conditions.

Customer Support

While the first banking relief package came to an end on 31 March 2021, our Retail and Business Bankers and BOQ Specialist relationship managers continue to work very closely with their customers to understand their needs during this time and to support them in the ever changing COVID-19 environment. This includes re-introducing a relief package in July 2021 to support customers impacted by an extended period of lockdown.



Support for Personal Customers:

To help customers experiencing difficulty, BOQ's Customer Assistance Team provides access to a range of support measures including:

- The ability to defer mortgage and/or loan repayments, or make interest only repayments for a short period
- Special arrangements in relation to arrears
- Early access to Term Deposit funds with waiver of redemption fee
- Waiver of other fees and charges related to non-payment

In addition, BOQ has supported retail customers to manage their cash flow needs through offering competitive home loan and deposit products with flexible features such as interest only, offset and redraw facilities.

Support for Business Customers:

Australian businesses have also been under pressure from restrictions and lockdowns, and we continue to offer financial assistance to our Business Banking customers which include:

- Small business customers are able to defer repayments for up to 3 months, with loan terms extended accordingly
- Eligible customers are able to receive refunds of merchant terminal rental fees for up to 3 months
- Eligible customers do have early access to Term Deposit and Farm Management Deposit funds and a waiver of redemption fee for up to 3 months

We note that further deferrals or restructuring for businesses facing extended disruption may not be in their best interest. In these circumstances BOQ works closely with our customers to find a responsible solution.

ACQUISITION OF ME BANK

“The acquisition of ME Bank was a defining moment for BOQ, delivering on our transformation strategy and benefitting our customers, shareholders and people. The addition of ME Bank delivers material scale, broadly doubles our Retail Bank and provides geographic diversification.”

– BOQ Managing Director and CEO, George Frazis

At BOQ, we have a strong history of servicing our customers with a focus on niche segments through our owner managers and specialised bankers. We have evolved from a Queensland focused, retail branch-based bank to a national diversified financial services business through our multi-brand strategy building relationships with the communities we support. In February 2021, we announced the exciting acquisition of ME Bank, adding a strong complementary customer focused brand.



About ME Bank

ME Bank is a branchless retail bank which provides a wide range of banking products to customers through mobile bankers, direct channels and brokers. ME Bank was acquired by BOQ in July 2021 and operates as a distinct brand within the BOQ Group.

CUSTOMER NUMBERS

~580k

CUSTOMER DEPOSITS

\$18bn

EMPLOYEES⁽¹⁾

~1,100

GROSS LOANS AND ADVANCES

\$25bn

Strategic rationale

The ME Bank Acquisition is expected to deliver strategic and financial benefits to the BOQ Group:

- significantly enhanced scale, broadly doubling the retail bank and providing geographic loan portfolio and revenue diversification
- strong complementary trusted brands with shared customer-centric cultures and differentiated customer segments
- a clear pathway to a scaled, common cloud based digital retail bank technology platform
- attractive financial outcomes, including improved returns on equity and earnings per share whilst also maintaining a strong balance sheet.

Integration

Planning for the integration commenced soon after we announced the intended acquisition of ME Bank in February 2021.

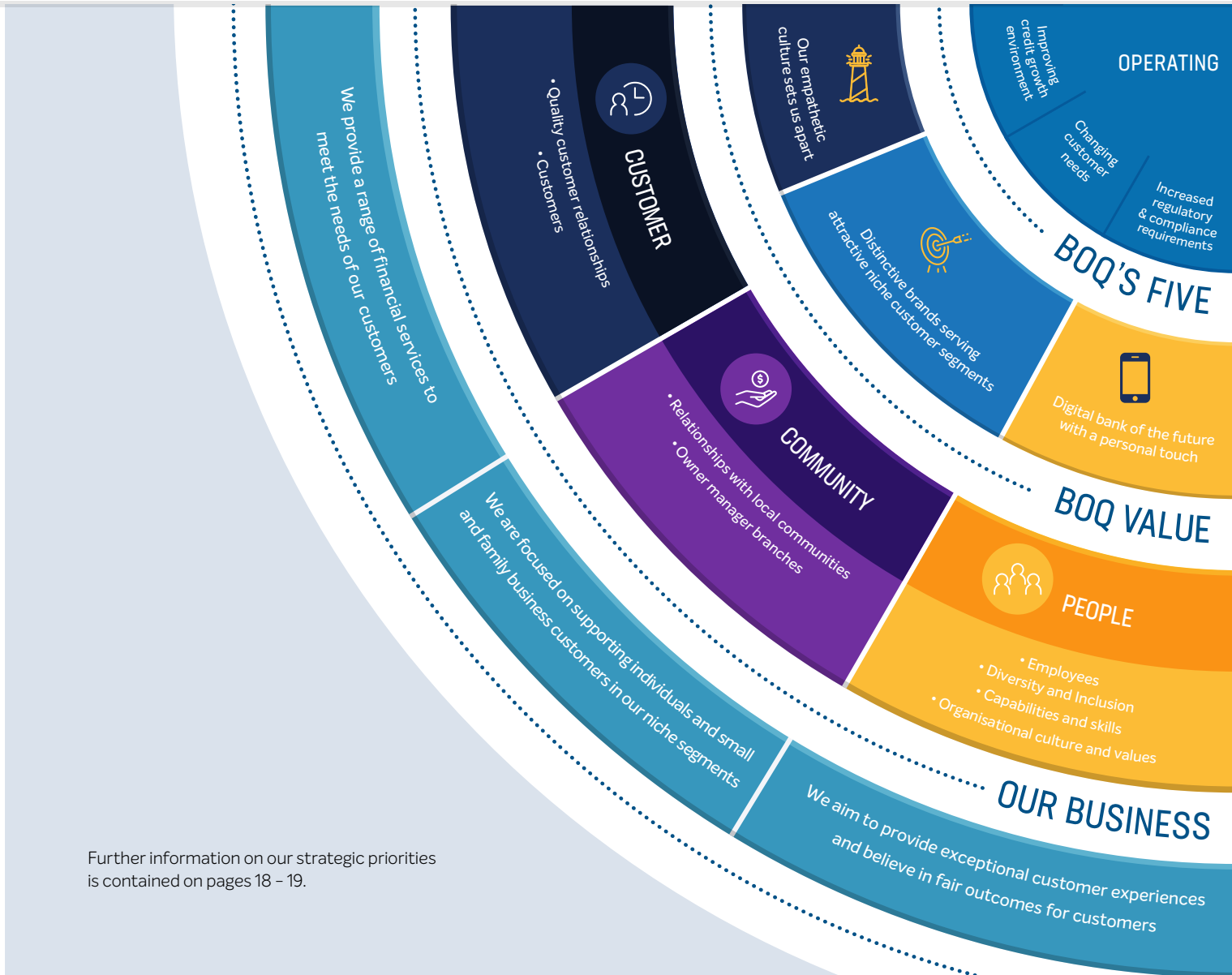
In order to deliver the strategic and financial benefits of the acquisition, BOQ has developed an Integration program with Board and Executive sponsorship and established an Integration Management Office (**IMO**) to manage the overall program. The IMO has introduced strong governance across the program, developing risk management frameworks and program management capabilities to support the delivery work streams.

Prior to completion there was good engagement between the BOQ and ME Bank teams which enabled a day 1 readiness program to be built and successfully executed. Post completion, the integration program has been able to deliver a number of quick wins as well as develop detailed integration plans and validate the due diligence assumptions. The integration plan and associated technology roadmap ensures there is a clear pathway to deliver on BOQ's strategic ambitions.

Further information on ME Bank and the integration is available in the FY21 Sustainability report, pages 28 – 29.

(1) Excludes contingent workers.

HOW WE CREATE VALUE



Further information on our strategic priorities is contained on pages 18 – 19.



Retail and SME lending, deposits, credit cards and insurance



Digital home loans, deposits credit cards, insurance, and superannuation



Home loans, personal loans, deposits and credit cards

BOQ VALUE

CUSTOMER

- Build trusted customer relationships with a personalised touch
- Achieve fairer customer outcomes
- Support individuals and businesses to achieve their financial goals

View our Sustainability Report → boq.com.au/2021

COMMUNITY

- Experienced bankers anchored in the community
- Increase access to financial services and ongoing support
- Improve financial literacy and wellbeing of the community

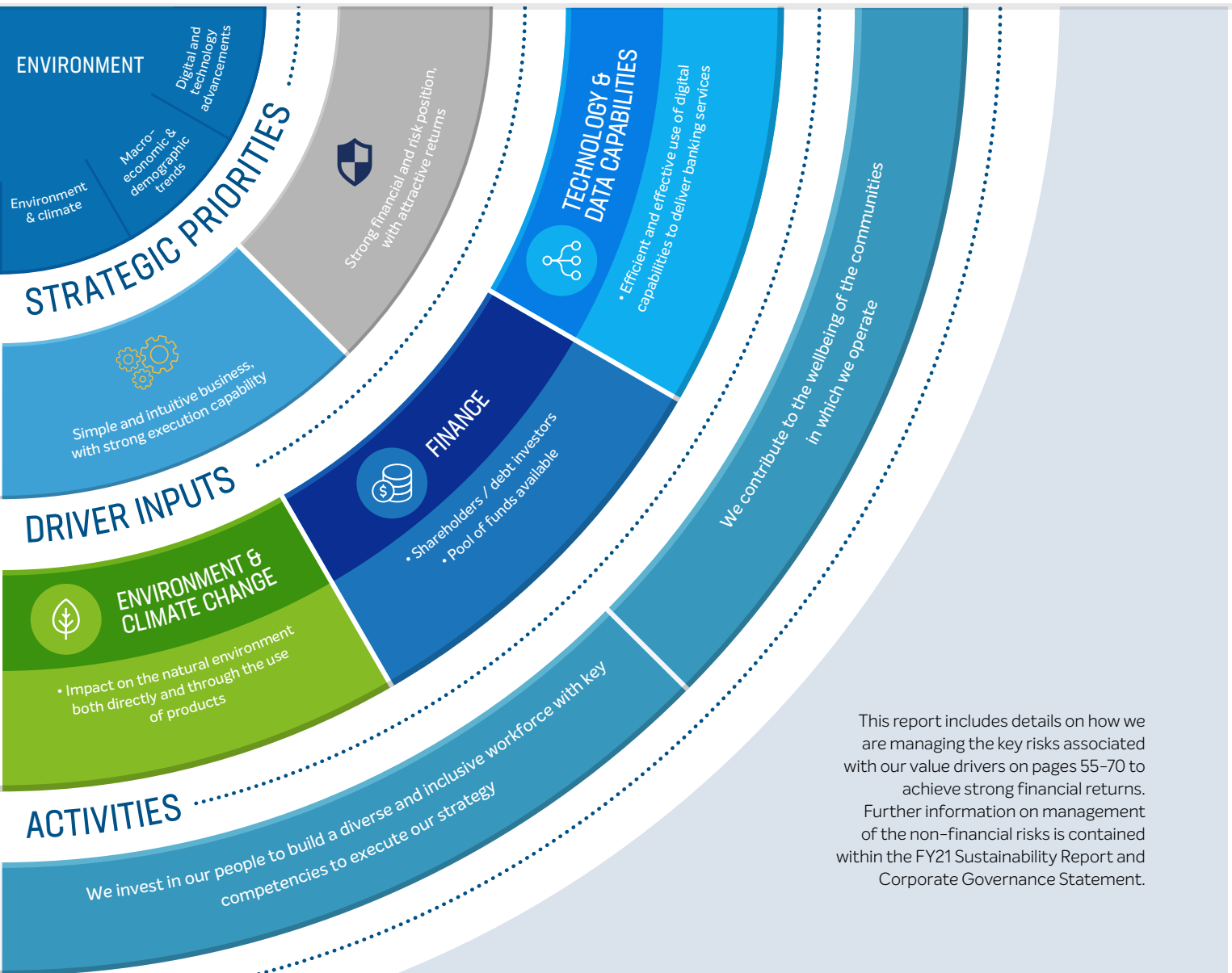
View our Sustainability Report → boq.com.au/2021

PEOPLE

- A resilient, adaptable, empowered, diverse and inclusive workforce with a strong sense of purpose and ethics
- Increase skills and capabilities of our people
- BOQ is seen as an employer of choice

View our Sustainability Report → boq.com.au/2021

At the core of how we create long term value for our stakeholders is our purpose led culture and the execution of our strategy. This is underpinned by our value drivers and the associated business activities which we undertake with the aim of delivering a set of key outcomes for our stakeholders.



This report includes details on how we are managing the key risks associated with our value drivers on pages 55-70 to achieve strong financial returns. Further information on management of the non-financial risks is contained within the FY21 Sustainability Report and Corporate Governance Statement.

DRIVER OUTCOMES

<p>ENVIRONMENT & CLIMATE CHANGE</p> <ul style="list-style-type: none"> Accountability of BOQ's impact on the environment Attract customers, employees and shareholders whose values and banking choices are aligned to BOQ's environmental goals Contribute to Australia's transition to a lower carbon economy <p>Pages 61 - 69 →</p>	<p>FINANCE</p> <ul style="list-style-type: none"> Returns to shareholders and capital reinvested for future growth Trusted to deliver sustainable returns Increased market share in niche segments <p>Financial Performance pages 20 - 54 →</p>	<p>TECHNOLOGY & DATA CAPABILITIES</p> <ul style="list-style-type: none"> Improve customer experience through flexible and resilient digital infrastructure Data insights driving customer relationships and experience Increase business efficiencies Data security, governance and privacy <p>View our Sustainability Report → boq.com.au/2021</p>
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OUR STRATEGIC PRIORITIES AND VALUE DRIVERS

Developing and executing against our strategy

Our strategy aims to deliver an exceptional customer experience through digital channels and specialised bankers to create long term shareholder value.

The strategy was informed by our key differentiators; unique brands with proud history, an innovative digital offering and loyalty programme, deeply anchored in local communities with a strong customer focus and highly specialised industry expertise.

We continue to work toward a distinctive approach for our customers and people, a comprehensive digital transformation and a focus on delivering sustainable profitable growth and attractive returns.

Our strategy is built on five clear strategic priorities focused on our customers, people and shareholders. We have set ourselves bold targets and have made good progress towards these in FY21.

Our strategic priorities	Target ⁽¹⁾	Progress	Value driver
EMPATHETIC CULTURE 	<ul style="list-style-type: none"> Top 3 NPS for personal and SME customers Employee engagement from 56% to top quartile 	<ul style="list-style-type: none"> Clear Purpose & Values BOQ Retail NPS ranked 3rd at +23 (up 6ppt from FY20 and ranking remains consistent)⁽²⁾ VMA NPS 14th at -16 (up 4ppt from -20 in FY20)⁽³⁾ ME Bank NPS ranked equal 7th at +17 (down from +23 in FY20)⁽²⁾ BOQ Mortgage NPS ranked equal 4th at +4 (from 5th in FY20)⁽²⁾ Ongoing support of customers and people impacted by COVID-19 Executive team in place and delivering Employee engagement score 64% (up from 59% in FY20) BOQ was awarded the WGEA Employer of Choice for Gender Equality citation 	 
DISTINCTIVE BRANDS 	<ul style="list-style-type: none"> Grow customer base to c.1.5m customers Growing above system from FY20, optimising revenue and return Ongoing Risk Weighted Assets (RWA) optimisation 	<ul style="list-style-type: none"> Customer base of 1.5m customers Home lending growth of c.\$2.9bn (1.7x system) Business lending and Asset finance growth of c.\$600m (0.8x system)⁽⁴⁾ All Owner Managers on new franchise agreement Expanded strategic 3rd party distribution partnerships with quality aggregators 	
DIGITAL BANK 	<ul style="list-style-type: none"> Deliver a new Digital Bank Transition customers from old to new cloud based core services platform 	<ul style="list-style-type: none"> VMA phase 1 launched in March 2021 Second phase of VMA digital bank incorporating home loans and term deposits underway BOQ retail digital bank Phase 1 well progressed Implemented new Card Management System providing customers instant card issuance, digital wallet capability & self service convenience FX digital platform and currency exchange 	
SIMPLE & INTUITIVE 	<ul style="list-style-type: none"> Productivity benefits of c.\$90m annualised run rate from FY23, containing expense growth to <1.0% p.a. in FY21 and FY22 Halve the products for sale Within 1-day time to conditional approval for home lending 	<ul style="list-style-type: none"> Products for sale reduced by from 202 to 127 since FY19 During August we reached, time to conditional yes held of 1 day for Proprietary and 3 days for our Broker channel, even as volume growth occurred⁽⁵⁾ Year 2 productivity benefits of \$30m delivered in FY21, bringing the total to \$60m Lifting our capability to improve delivery 	 
STRONG FINANCIAL & RISK POSITION 	<ul style="list-style-type: none"> Positive jaws in FY21, expanding in FY22 Strong risk and compliance outcomes Maintain group deposit-to-loan ratio of ≥70% Capital investment of c.\$100m p.a. FY20-FY22 	<ul style="list-style-type: none"> Positive jaws of 2% delivered in FY21 Deposit to Loan ratio increased to 75% Ongoing enhancements in risk-based pricing and margin management Governance risk and compliance tool implemented 	  

(1) Targets set prior to the inclusion to ME Bank.

(2) Rfi XPRT Report, August 2021.

(3) DBM Atlas Report August 2021. NPS refers to Any Financial Relationship (AFR) and businesses under \$40 million turnover.

(4) Reflects the APRA definition of lending and will therefore not directly correlate to the balance sheet growth. Adjustments made to include BOQ Finance non-Authorised deposit-taking institution (ADI) balances in overall growth result.

(5) Time to conditional yes varies during the year based on volumes and customer mix.

Alignment of our value drivers and strategic priorities

In developing our strategy we have considered our core value drivers to ensure alignment of our strategic initiatives and performance metrics to these desired outcomes. The table below provides further detail on each of BOQ's value drivers and the key strategic initiatives which have been developed with the aim of delivering the value driver outcomes.



Customer

Customers and quality relationships sit at the heart of BOQ. We create value by providing a range of financial services to meet the needs of our customers. We aim to provide exceptional customer experiences and believe in fair outcomes. We aim to support individuals and businesses to achieve their financial goals.

- Building a distinctive purpose-led culture with empathy at the heart to guide fairer decisions for our customers
- Deepening our niche segment strategy leveraging experienced specialist bankers supported by high quality credit officers
- Seizing the potential of the OMB model to drive relationships within communities
- Streamlining our product set, operations and processes to create superior customer experiences



Community

BOQ recognises the importance of contributing to the wellbeing of the wider community. Led by the owner managers, who are experienced bankers anchored in their local community, BOQ has established good relationships with the communities in which it operates. We aim to ensure ongoing access to financial services and support and improve the financial literacy and wellbeing of the community.

- Enhancing our community partnerships model to support vulnerable Australians
- Leveraging the owner manager model to build deep relationships through experienced bankers anchored in the local community
- Building a distinctive purpose led culture with empathy at the heart



People

Our employees are key to the success of our business. We value diversity and inclusion and rely on their capabilities and skills to deliver value for stakeholders. Grounded in our organisational culture and values, we seek to build a resilient, adaptable, diverse and empowered workforce with a strong sense of purpose and ethics so that BOQ is viewed as an employer of choice.

- Embed our purpose-led, empathetic culture
- Creation of exceptional employee experiences
- Grow talent and capability



Environment & climate change

Climate change is a risk to BOQ and to the Australian economy, society and environment. Banks play a central role in supporting customers through the transition to a lower carbon economy. Taking accountability of BOQ's impact on the environment will attract customers, employees and shareholders whose values are aligned to BOQ's environmental goals. Further details on BOQ's response to climate change can be found on pages 61 – 69.

- Reduce BOQ's carbon footprint with a goal of 100 per cent renewable energy by FY25
- Support customers to transition to a lower carbon economy
- Achieving carbon neutral certification from FY21



Finance

BOQ's equity and debt investors provide us with an important source of funds which are utilised through our business activities with the aim of creating value for our stakeholders. Investors expect generated capital to be reinvested to fund future growth and are seeking sustainable returns on their investment. Further details on BOQ's financial performance can be found on pages 20 – 54.

- Maintain group deposit-to-loan ratio of >70 per cent
- Ongoing RWA optimisation
- Streamline and simplify the business to deliver productivity benefits



Technology & data capabilities

Continued investment in technology and data capabilities is essential to delivering an enhanced customer experience, providing tailored products and service for customers and simplifying how we do business. Stakeholder expectations are changing rapidly and the ability to harness insights to tailor our offering will create significant value for stakeholders, while ensuring strong controls of data security, governance and privacy are in place.

- Deliver the next phase of the VMA digital bank and the BOQ and ME Bank migration
- Build an intelligent data platform
- Transition customers from old to new cloud based core services platform

FINANCIAL PERFORMANCE

For the year ended 31 August 2021

1. FINANCIAL HIGHLIGHTS

1.1 RECONCILIATION OF STATUTORY PROFIT TO CASH EARNINGS

Reported results and pro forma results

BOQ acquired 100 per cent of ME Bank on 1 July 2021. The 2021 reported result includes ME Bank for the period since ownership. Comparatives have not been restated other than in the Pro Forma result included in section 4.4 Pro Forma Results.

In order to preserve transparency, where practical, the Financial Performance Report will separately present the full year results including ME Bank’s contribution to the income statement. The reported result and commentary focusses on BOQ’s year-end performance to enable a direct comparison of the underlying performance of the Bank excluding ME Bank. In order to enhance the understanding and comparability of financial information between periods, figures and commentary disclosed in the Financial Performance Report exclude ME Bank unless stated otherwise.

In the financial tables throughout the Financial Performance Report, ‘Large’ indicates that the absolute percentage change in the balance was greater than 200 per cent or 200 basis points. ‘Large’ also indicates the result was a gain or positive in one period and a loss or negative in another.

Note on statutory profit and cash earnings

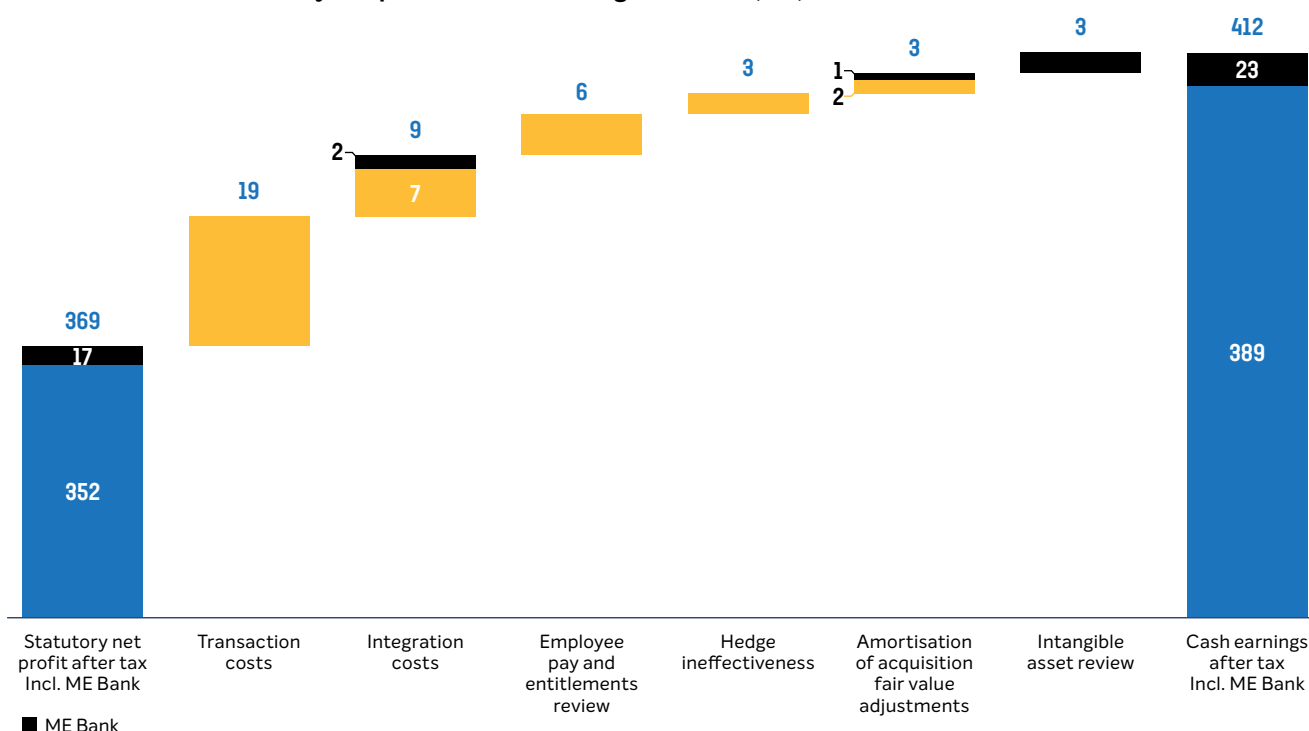
Statutory profit is prepared in accordance with the *Corporations Act 2001* and the Australian Accounting Standards, which comply with International Financial Reporting Standards (IFRS). Cash earnings is a non-accounting standards measure commonly used in the banking industry to assist in presenting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

Figures disclosed in this report are on a cash earnings basis unless stated as being on a statutory profit basis. The non-statutory measures have not been subject to an independent audit or review.

Cash earnings excludes a number of items that introduce volatility or one off distortions of the current period performance and allows for a more effective comparison of performance across reporting periods. The exclusions relate to:

- Transaction costs – costs associated with the acquisition of ME Bank;
- Integration costs – costs associated with the restructure and integration of ME Bank;
- Employee pay and entitlements review – costs associated with the remediation of employee pay and entitlements;
- Hedge ineffectiveness – this represents earnings volatility from hedges that are not fully effective and create a timing difference in reported profit. These hedges remain economically effective;
- Amortisation of acquisition fair value adjustments – this arises from the acquisition of subsidiaries; and
- Intangible asset review – a non-recurring adjustment due to a change in the ME Bank minimum threshold for the capitalisation of intangible assets to align with BOQ.

Reconciliation of statutory net profit to cash earnings after tax (\$m)



FINANCIAL PERFORMANCE

For the year ended 31 August 2021

1.1 RECONCILIATION OF STATUTORY PROFIT TO CASH EARNINGS (CONTINUED)

(a) Reconciliation of Cash Earnings to Statutory Net Profit after tax

(\$ million)	BOQ Year End Performance			BOQ Half Year Performance			Year End Incl. ME
	Aug-21	Aug-20	Aug-21 vs Aug-20	Aug-21	Feb-21	Aug-21 vs Feb-21	Aug-21
Cash earnings after tax	389	225	73%	224	165	36%	412
Amortisation of acquisition fair value adjustments	(2)	(4)	(50%)	(1)	(1)	-	(3)
Hedge ineffectiveness	(3)	(10)	(70%)	(2)	(1)	100%	(3)
Transaction costs	(19)	-	100%	(16)	(3)	Large	(19)
Integration costs	(7)	-	100%	(7)	-	100%	(9)
Intangible asset review and restructure	-	(80)	(100%)	-	-	-	(3)
Regulatory / compliance	-	(5)	(100%)	-	-	-	-
Employee pay and entitlements review	(6)	(8)	(25%)	-	(6)	(100%)	(6)
Other legacy items	-	(3)	(100%)	-	-	-	-
Statutory net profit after tax	352	115	Large	198	154	29%	369

(b) Non-Cash Earnings Reconciling items

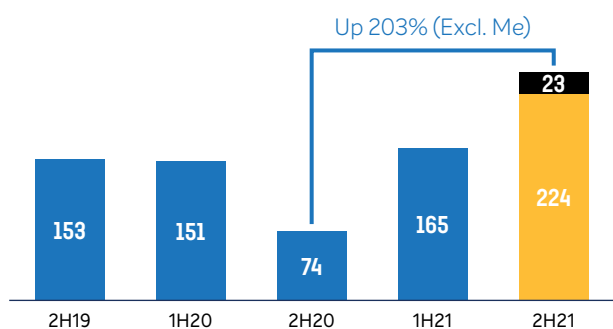
(\$ million)	Cash earnings Aug-21	Amortisation of acquisition fair value adjustments	Hedge ineffectiveness	Transaction costs	Integration costs	Employee pay and entitlements review	Intangible asset review	Statutory net profit Aug-21
Net interest Income	1,050	-	-	-	-	-	-	1,050
Non-Interest Income	125	-	(5)	-	-	-	-	120
Total income	1,175	-	(5)	-	-	-	-	1,170
Operating expenses	(633)	(3)	-	(20)	(12)	(10)	-	(678)
Underlying profit	542	(3)	(5)	(20)	(12)	(10)	-	492
Loan impairment expense	20	-	-	-	-	-	-	20
Profit before tax	562	(3)	(5)	(20)	(12)	(10)	-	512
Income tax expense	(173)	1	2	1	5	4	-	(160)
BOQ Profit after tax	389	(2)	(3)	(19)	(7)	(6)	-	352
ME Bank Profit after tax	23	(1)	-	-	(2)	-	(3)	17
Profit after tax	412	(3)	(3)	(19)	(9)	(6)	(3)	369

FINANCIAL PERFORMANCE

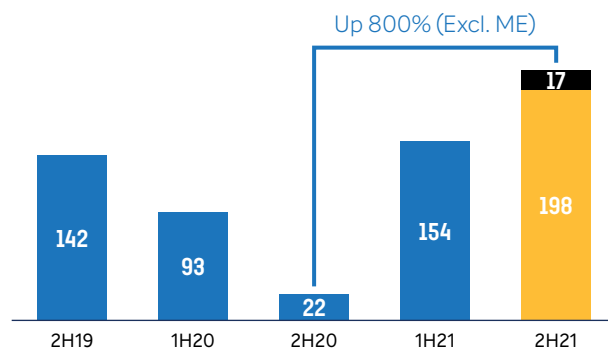
For the year ended 31 August 2021

1.2 FINANCIAL SUMMARY

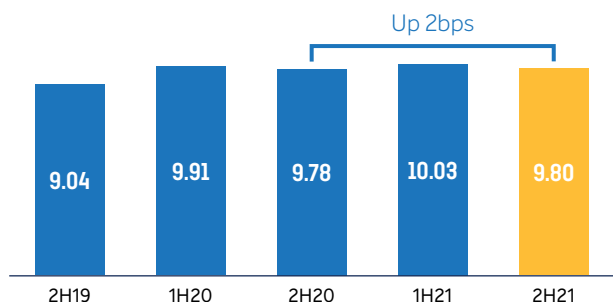
Cash earnings after tax (\$m)



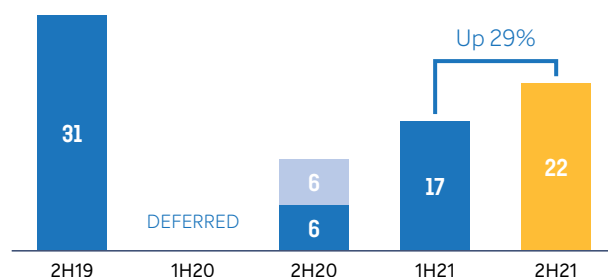
Statutory net profit after tax (\$m)



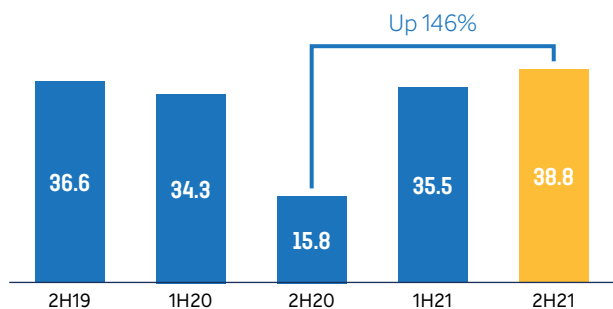
Common equity tier 1 (CET1) (%)



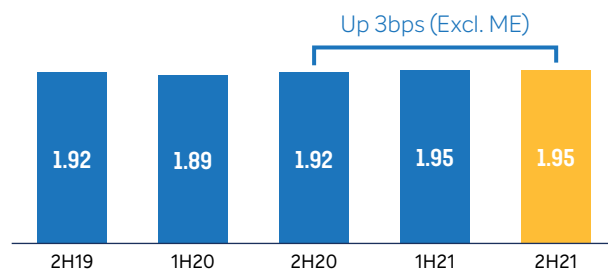
Dividends per ordinary share (cents)⁽¹⁾



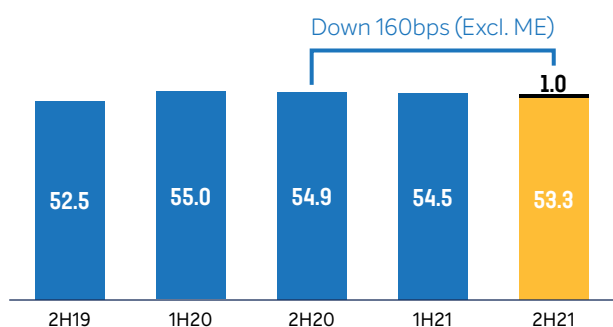
Cash basic earnings per share (EPS) (cents)⁽²⁾



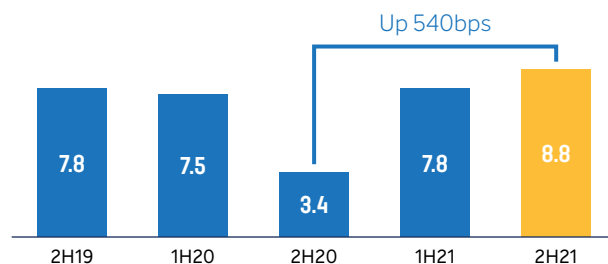
Cash net interest margin (NIM) (%)⁽³⁾



Cash cost to income (CTI) (%)⁽⁴⁾



Cash return on average equity (ROE) (%)



■ ME Bank

(1) Based on the Australian Prudential Regulation Authority guidance issued on 7 April 2020, BOQ determined to defer the decision on payment of an interim dividend. Refer to BOQ Australian Securities Exchange (ASX) Release "BOQ FY20 Interim Dividend Deferral", 8 April 2020.

(2) The basic and diluted earnings per share for 1H21, 2H20 and 1H20 have been adjusted per ASX announcement on 20 April 2021.

(3) NIM including the two month impact of ME Bank is 1.90 per cent in 2H21 and 1.92 per cent in FY21.

(4) VMA operating costs have been restated from non-interest income and included in operating expenses per ASX announcement on 30 September 2021.

FINANCIAL PERFORMANCE

For the year ended 31 August 2021

1.2 FINANCIAL SUMMARY (CONTINUED)

CASH EARNINGS AFTER TAX ⁽¹⁾

\$389m

Increase of 73 per cent on FY20, driven by income growth and lower impairment provisions.

CASH NET INTEREST MARGIN ⁽¹⁾

1.95%

Increase of four basis points on FY20. Flat NIM since 1H21 with funding cost benefits offsetting competition price pressures.

CASH OPERATING EXPENSES ⁽¹⁾

\$633m

Increase of three per cent on FY20, driven by investments in strategic technology projects and supporting business growth.

LOAN IMPAIRMENT EXPENSE ⁽¹⁾

(\$20m)

Includes a \$69 million reduction in the collective provision.

CET1

9.80%

Increase of two basis points on FY20, driven by cash earnings, offset by high risk weighted asset (**RWA**) growth, dividends and investment.

CASH ROE

8.2%

Increase of 280 basis points on FY20, driven by higher earnings.

(1) Metrics relate to BOQ only and do not include ME Bank.

BOQ's cash earnings after tax for FY21 was \$389 million, 73 per cent higher than the FY20 result. Statutory net profit after tax was \$352 million, a 206 per cent increase on FY20. The increase in earnings was the result of a credit to loan impairment expense and increased net interest income, partly offset by higher operating expenses.

The Bank acquired 100 per cent of ME Bank on 1 July 2021. ME Bank's cash earnings after tax for the two months since acquisition was \$23 million. Statutory net profit after tax was \$17 million.

Net interest income

Net interest income of \$1,050 million increased by \$64 million or six per cent on FY20. This was driven by four per cent growth in average interest earning assets and a four basis point increase in net interest margin to 1.95 per cent.

Gross loans and advances growth of eight per cent was primarily driven by home lending, which achieved growth of nine per cent. This reflected continued strong new business volumes. The commercial lending portfolio grew four per cent with growth across all business areas.

NIM increased four basis points on FY20. This was primarily driven by lower funding costs due to the benefit of deposit repricing and improved mix together with lower hedging costs. These were partially offset by competition in the market and the ongoing impact of a low interest rate environment on the returns on capital and the low cost deposit portfolio.

Non-interest income

Non-interest income of \$125 million decreased by \$3 million or two per cent on FY20. This was driven by lower insurance income with the material closure of St Andrew's to new business in FY20, lower trading income and lower VMA card and insurance income that continued to be adversely impacted by the effect of COVID-19 on the travel industry.

These were partly offset by income from a new card services arrangement with a third party supplier, the reinstatement of some fees paused during COVID-19 and higher financial markets customer transactions.

Operating expenses

Total operating expenses of \$633 million increased by \$21 million or three per cent on FY20. This increase was primarily driven by an investment in employees to deliver strategic priorities including the build out of the new Digital Bank and other technology projects, and to support volume growth.

The focus on growth and cost discipline has resulted in positive Jaws of two per cent and a reduction in the cost to income (**CTI**) ratio of 100 basis points on FY20.

Loan impairment expense

Loan impairment expense was a credit of \$20 million and compares to an expense of \$175 million in FY20. This credit was driven by a reduction in the collective provision in FY21 of \$69 million primarily due to an improved economic outlook and improvements in data quality relating to collateral. In FY20, a collective provision overlay of \$133 million was recorded for the potential impacts of COVID-19.

Specific provision expense of \$49 million increased by \$2 million or four per cent on FY20. This was driven by one large facility in Retail and the impact of lockdowns on some niche medical practices in Asset finance, partly offset by a write back of one large Agribusiness exposure that returned to performing.

Capital management

Capital management BOQ CET1 ratio of 9.80 per cent is 23 basis points lower than 1H21. This was driven by strong growth in risk weighted assets and continued capital investment in the digital transformation. The acquisition of ME Bank was fully capital funded with no impact on CET1.

Shareholder returns

BOQ has determined to pay an ordinary dividend of 22 cents per share for 2H21. That takes the FY21 dividend to 39 cents per share, which is 61 per cent of FY21 cash earnings. The Board has committed to a target dividend payout ratio of 60-75 per cent of full year cash earnings.

FINANCIAL PERFORMANCE

For the year ended 31 August 2021

1.2 FINANCIAL SUMMARY (CONTINUED)

Acquisition of ME Bank

Acquisition overview and Accounting

BOQ acquired 100 per cent of the share capital of ME Bank on 1 July 2021. ME Bank operates in the retail segment of the domestic market offering primarily home loan products and everyday transaction and online savings accounts. The acquisition provides BOQ with significantly enhanced scale and portfolio mix, broadly doubling the Retail bank GLAs, and providing geographical and customer segment diversification. BOQ and ME Bank have strong complementary challenger brands with a shared customer centric culture. It also provides an opportunity to accelerate BOQ's digital strategy providing a clear pathway to a cloud based common digital Retail bank core banking platform.

The fair values of the ME assets and liabilities acquired have been determined on a provisional basis with resulting goodwill of \$35 million as outlined below:

(\$ million)	Aug-21
ME Bank book value of assets acquired	1,646
Fair value adjustments:	
Loans and advances	16
Deposits and other borrowings	(5)
Intangibles	
Brand	26
Customer relationships	31
Total Intangibles	57
Deferred tax liabilities	(46)
Total fair value adjustments of net assets acquired	22
Net identifiable assets and liabilities	1,668
Other equity instruments ⁽¹⁾	(315)
Provisional goodwill arising on acquisition	35
Total purchase consideration transferred	1,388

(1) Other equity instruments of \$315 million include Additional Tier 1 (AT1) securities assumed on the acquisition of ME Bank.

The intangibles are expected to amortise over a period of between 6 and 10 years. Similar to previous acquisitions, this amortisation will be treated as a statutory adjustment and not included in cash earnings. Further details of the acquisition are disclosed in Note 5.5 (ii) Business combinations during the year.

Integration progress

The integration of ME Bank is well progressed. In order to reduce risk, a phased approach to integration was developed. Following the pre-completion phase and successful completion of the transaction on 1 July 2021, a 90 day sprint was undertaken to ensure a strong start to the integration program and to build momentum. During this period a number of key integration milestones have been achieved:

- Ensuring continuity of operations for our customers;
- Validation of integration hypotheses and development of detailed work stream integration plans finalised;
- BOQ Group operating model refreshed and communicated;
- Consolidated leadership team in place with clear accountabilities;
- Strategic sourcing consolidation commenced;
- Refinement of the BOQ Group Technology roadmap; and
- Clear pathway to ME Bank ADI license handback determined, expected to occur in early calendar 2022.

The scale phase of the integration program will include:

- Consolidation of ME Bank and BOQ on to a single ADI, which is critical to delivery of a number of synergies;
- Execution of the technology roadmap alongside the broader transformation program; and
- Consolidation of shared service functions, supply chain and property activities.

FINANCIAL PERFORMANCE

For the year ended 31 August 2021

1.2 FINANCIAL SUMMARY (CONTINUED)

Acquisition of ME Bank (continued)

Integration expenses and synergies

Integration expenditure is expected to range between \$130 million and \$140 million (pre-tax), with the majority to be incurred in the first two years. Due to the size and non-recurring nature of these costs, they will be treated as a statutory adjustment and not included in cash earnings.

The amount of integration expenditure for the two months to 31 August 2021 including ME Bank was \$13 million (pre-tax). Further integration costs of between \$70 million and \$80 million (pre-tax) are expected to be incurred in FY22.

The acquisition is expected to realise significant pre-tax cost synergies with further potential upside from revenue benefits, funding savings and investment net capitalised investment (**CAPEX**) synergies.

The cost synergies are primarily expected to be derived from having complementary businesses, alignment of operating models and technology roadmaps, and consolidation of supply chains and shared services functions. Approximately 60 per cent of the synergies are expected to be delivered through operating model changes with the balance from reduced project expenditure, supply chain and other synergies.

The fast start to the integration program has accelerated the delivery of these synergies, with accelerated cost synergies of \$30 to \$34 million expected to be delivered in FY22. The remainder of the \$70 to \$80 million of cost synergies is expected to be delivered in FY23, with potential upside for additional synergies in FY24 following completion of the technology integration initiatives.

Other benefits expected to be derived in FY22 from the acquisition include:

- CAPEX expenditure benefits of circa \$15 million from the consolidated investment roadmap;
- further NIM benefits from wholesale and retail deposits; and
- non-interest income benefits.

FINANCIAL PERFORMANCE

For the year ended 31 August 2021

2. GROUP PERFORMANCE ANALYSIS

2.1 INCOME STATEMENT AND KEY METRICS

(\$ million)	Year End Performance			Half Year Performance			Year End Incl. ME
	Aug-21	Aug-20	Aug-21 vs Aug-20	Aug-21	Feb-21	Aug-21 vs Feb-21	Aug-21
Net interest income	1,050	986	6%	538	512	5%	1,128
Non-interest income ⁽¹⁾⁽²⁾	125	128	(2%)	59	66	(11%)	130
Total income ⁽²⁾	1,175	1,114	5%	597	578	3%	1,258
Operating expenses ⁽¹⁾⁽²⁾	(633)	(612)	3%	(318)	(315)	1%	(684)
Underlying profit ⁽²⁾	542	502	8%	279	263	6%	574
Loan impairment expense	20	(175)	Large	44	(24)	Large	21
Profit before tax ⁽²⁾	562	327	72%	323	239	35%	595
Income tax expense ⁽²⁾	(173)	(102)	70%	(99)	(74)	34%	(183)
Cash earnings after tax	389	225	73%	224	165	36%	412
Statutory net profit after tax⁽²⁾	352	115	Large	198	154	29%	369

Key Metrics	Year End Performance			Half Year Performance		
	Aug-21	Aug-20	Aug-21 vs Aug-20	Aug-21	Feb-21	Aug-21 vs Feb-21
SHAREHOLDER RETURNS⁽³⁾						
Share price (\$)	9.46	6.13	54%	9.46	8.79	8%
Market capitalisation ⁽⁴⁾ (\$ million)	6,063	2,785	118%	6,063	4,004	51%
Dividends per ordinary share (fully franked) ⁽⁵⁾ (cents)	39	12	Large	22	17	29%
CASH EARNINGS BASIS⁽³⁾						
Basic earnings per share (EPS) ⁽⁵⁾⁽⁶⁾ (cents)	74.7	49.6	51%	38.8	35.5	9%
Diluted EPS ⁽⁵⁾⁽⁶⁾ (cents)	69.5	45.1	54%	36.2	32.8	10%
Dividend payout ratio (%)	60.6	24.2	Large	57.1	65.9	Large
STATUTORY BASIS⁽³⁾						
Basic EPS ⁽⁶⁾ (cents)	67.0	25.4	164%	34.0	32.9	3%
Diluted EPS ⁽⁶⁾ (cents)	62.6	24.4	157%	31.8	30.5	4%
Dividend payout ratio (%)	67.7	47.4	Large	65.6	70.6	Large

(1) VMA operating costs have been restated from non-interest income and included in operating expenses per ASX announcement on 30 September 2021.

(2) Refer to Section 1.1 Reconciliation of statutory net profit to cash earnings after tax for a reconciliation of cash earnings to statutory net profit after tax.

(3) All metrics relate to BOQ including ME Bank.

(4) Includes \$1.35 billion capital raise announced 22 February 2021 for ME Bank acquisition.

(5) The basic and diluted earnings per share for all prior periods have been adjusted per ASX announcement on 20 April 2021.

(6) The sum of 1H21 and 2H21 EPS does not equal FY21 due to the impact of the capital raising and the uneven distribution of cash earnings after tax across the two halves of the year.

FINANCIAL PERFORMANCE

For the year ended 31 August 2021

2.1 INCOME STATEMENT AND KEY METRICS (CONTINUED)

Key Metrics	Year End Performance			Half Year Performance			Year End Incl. ME
	Aug-21	Aug-20	Aug-21 vs Aug-20	Aug-21	Feb-21	Aug-21 vs Feb-21	Aug-21
PROFITABILITY AND EFFICIENCY MEASURES							
CASH EARNINGS BASIS							
Net profit after tax (\$ million)	389	225	73%	224	165	36%	412
Underlying profit ⁽¹⁾ (\$ million)	542	502	8%	279	263	6%	574
NIM ⁽²⁾ (%)	1.95	1.91	4bps	1.95	1.95	-	1.92
Cost to income ratio (CTI) ⁽³⁾ (%)	53.9	54.9	(100bps)	53.3	54.5	(120bps)	54.4
Loan Impairment expense to GLA (bps)	(4)	37	(41bps)	(17)	10	(27bps)	(3)
Return on average equity (ROE) ⁽⁴⁾ (%)	8.2	5.4	Large	8.8	7.8	100bps	8.2
Return on average tangible equity (ROTE) ⁽⁴⁾⁽⁵⁾ (%)	10.2	6.9	Large	10.9	9.9	100bps	10.2
STATUTORY BASIS							
Net profit after tax (\$ million)	352	115	Large	198	154	29%	369
Underlying profit ⁽¹⁾ (\$ million)	492	348	41%	245	247	(1%)	517
NIM ⁽²⁾ (%)	1.95	1.91	4bps	1.95	1.95	-	1.92
CTI (%)	57.9	68.4	Large	58.7	57.2	150bps	58.7
Loan impairment expense to GLA (bps)	(4)	37	(41bps)	(17)	10	(27bps)	(3)
ROE ⁽⁴⁾ (%)	7.4	2.8	Large	7.8	7.2	60bps	7.4
ROTE ⁽⁴⁾⁽⁵⁾ (%)	9.2	3.6	Large	9.6	9.2	40bps	9.2
ASSET QUALITY							
30 days past due (dpd) arrears ⁽⁶⁾ (\$ million)	516	567	(9%)	516	575	(10%)	941
90dpd arrears ⁽⁶⁾ (\$ million)	321	433	(26%)	321	381	(16%)	593
Impaired assets (\$ million)	209	195	7%	209	194	8%	243
Specific provisions to impaired assets (%)	51	48	Large	51	53	(200bps)	44
Total provision and general reserve for credit losses (GRCL) coverage / GLA ⁽⁶⁾ (bps)	76	98	(22bps)	76	95	(19bps)	63
CAPITAL⁽⁷⁾							
CET1 ratio (%)	9.80	9.78	2bps	9.80	10.03	(23bps)	9.80
Total capital adequacy ratio (%)	12.60	12.73	(13bps)	12.60	13.83	(123bps)	12.60
Risk weighted assets (\$ million)	44,229	31,576	40%	44,229	32,126	38%	44,229

(1) Profit before loan impairment expense and tax.

(2) NIM is calculated net of offset accounts.

(3) VMA operating costs have been restated from non-interest income and included in operating expenses per ASX announcement on 30 September 2021.

(4) Metrics relate to BOQ including ME Bank.

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

(6) Excludes the impact of fair value adjustments on the acquisition of ME Bank. Arrears have been presented on an unadjusted basis.

(7) All capital measures are as at 31 August 2021 and include ME Bank impacts.

FINANCIAL PERFORMANCE

For the year ended 31 August 2021

2.2 NET INTEREST INCOME

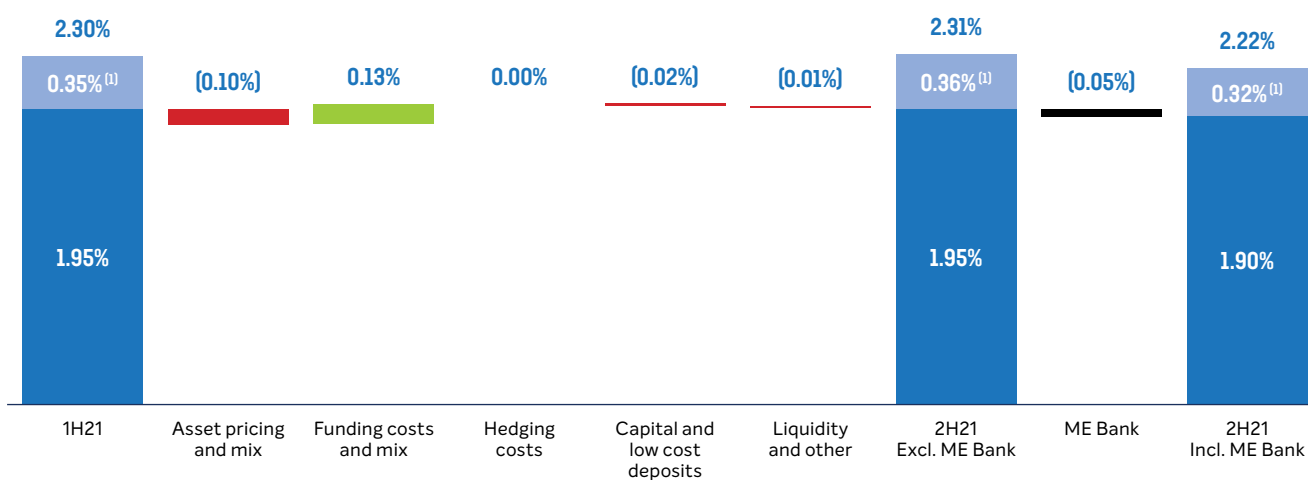
\$ million	Year End Performance			Half Year Performance			Year End Incl. ME
	Aug-21	Aug-20	Aug-21 vs Aug-20	Aug-21	Feb-21	Aug-21 vs Feb-21	Aug-21
Net Interest Income	1,050	986	6%	538	512	5%	1,128
Average interest earning assets	53,810	51,763	4%	54,667	52,952	3%	58,656
NIM	1.95	1.91	4bps	1.95	1.95	-	1.92

Net interest income increased by \$64 million or six per cent on FY20 driven by four per cent growth in average interest earnings assets and a four basis points increase in NIM.

2H21 net interest income also increased \$26 million or five per cent on 1H21 driven by three per cent growth in average interest earnings assets and three extra days which added \$9 million. NIM was flat in 2H21 as the benefits from deposit repricing and lower wholesale funding costs were offset by the ongoing impact of competition for new housing on front book rates, retention discounting and a switch from variable to fixed rate lending. The low interest rate environment continued to adversely impact returns on capital and the low cost deposit portfolio.

ME Bank net interest income in the two months since acquisition of \$78 million was earned on \$28.5 billion of average interest earning assets. This includes an effective interest adjustment of \$5 million, following a fair value adjustment to the loan portfolio on acquisition. This results in a Group NIM for FY21 including ME of 1.92 per cent (2H21 of 1.90 per cent).

Net interest margin - February 2021 to August 2021



■ ME Bank ■ NIM ■ Third party costs⁽¹⁾

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

NIM in 2H21 was in line with the prior half at 1.95 per cent. The key drivers of the movement are set out below.

Asset pricing and mix: Reduced margin by 10 basis points on 1H21. This was driven by continued competition for new housing and commercial lending through lower front book rates, retention discounting and customers switching from variable to lower margin fixed rate loans.

Funding costs and mix: Improved margin by 13 basis points. This was primarily driven by active repricing of at-call, retail and Treasury term deposits and money market portfolios as well as an improvement in portfolio mix as at-call growth continued while more expensive term deposit funding was run-off. Margin also benefitted from a reduction in wholesale funding costs including a one basis point benefit from utilisation of the Term Funding Facility (TFF).

Hedging costs: No change as cash-bills spreads were steady at an average of one basis point.

Capital and low cost deposits: Reduced margin by two basis points as the low market rate environment continued to impact on returns from the \$4.6 billion replicating portfolio (covering BOQ's capital and invested low cost deposits), uninvested capital and low cost deposits.

Liquidity and other: Reduced margin by one basis point due to lower wholesale asset spreads, higher amortisation of acquisition costs and owner manager commissions due to higher asset growth and the conversion of branches from corporate to owner-manager. Liquidity levels had minimal impact on NIM during the half.

FINANCIAL PERFORMANCE

For the year ended 31 August 2021

2.3 NON-INTEREST INCOME

\$ million	Year End Performance			Half Year Performance			Year End Incl. ME
	Aug-21	Aug-20	Aug-21 vs Aug-20	Aug-21	Feb-21	Aug-21 vs Feb-21	Aug-21
Banking Income	69	69	-	34	35	(3%)	72
Insurance Income	7	11	(36%)	3	4	(25%)	7
Other Income ⁽¹⁾⁽²⁾	48	43	12%	23	25	(8%)	50
Trading income	1	5	(80%)	(1)	2	(150%)	1
Total non-interest income ⁽¹⁾⁽²⁾	125	128	(2%)	59	66	(11%)	130

(1) VMA operating costs have been restated from non-interest income and included in operating expenses per ASX announcement on 30 September 2021.

(2) Refer to Section 1.1 (B) Non-cash earnings reconciling items for a reconciliation of cash non-interest income to statutory non-interest income.

Non-interest income of \$125 million decreased by \$3 million or two per cent on FY20 driven by lower insurance and trading income.

Banking income was in line with FY20 and decreased \$1 million or three per cent on 1H21. This reflects the ongoing shift in consumer preference to low or no fee products and a reduction in dishonour and overdrawn account fees. This was partly offset by increased merchant terminal income from small business customers, Financial Markets customer transactions and the reinstatement of some fees that were paused during COVID-19 in FY20.

Other income increased \$5 million or 12 per cent on FY20. The increase was mainly due to income from a new card services arrangement with a third party supplier including a one-off benefit in 1H21 of \$3 million. This was partly offset by lower VMA card and insurance income that continued to be adversely impacted by the effect of COVID-19 on the travel industry.

Trading income of \$1 million decreased by \$4 million or 80 per cent on FY20 as a lack of volatility and lower interest rate environment reduced trading income opportunities, together with reduced market exposures and widening in credit spreads in 2H21.

Insurance income is discussed in detail in Section 2.4 below.

ME Bank non-interest income in the two months since acquisition of \$5 million primarily comprised banking fee income in relation to lending and in the cards portfolio.

2.4 INSURANCE OVERVIEW

\$ million	Year End Performance			Half Year Performance		
	Aug-21	Aug-20	Aug-21 vs Aug-20	Aug-21	Feb-21	Aug-21 vs Feb-21
Gross written premium (net of refunds)	46	49	(6%)	23	23	-
Net earned premium	42	50	(16%)	21	21	-
Underwriting result	6	9	(33%)	2	4	(50%)
Other insurance income	-	1	(100%)	-	-	-
Total income	6	10	(40%)	2	4	(50%)
Consolidation adjustment	1	1	-	1	-	-
Group insurance result	7	11	(36%)	3	4	(25%)

St Andrew's contributed \$7 million to non-interest income in FY21, a decrease of \$4 million or 36 per cent on FY20. This reflects the decision to materially close to new business in FY20.

Gross written premium (net of refunds) declined \$3 million on FY20. The underwriting result was also \$3 million lower compared to the prior year with reduced net earned premium partly offset by reduced commission and acquisition costs. Other insurance income was impacted by reduced yields on term deposits and no account management service fees, which ceased in 1H20. With the exception of term deposit yields, which are market driven, these trends are consistent with the decision to close to new business.

The sale of St Andrew's is subject to regulatory approval and is expected to complete in 1H22.

FINANCIAL PERFORMANCE

For the year ended 31 August 2021

2.5 OPERATING EXPENSES

\$ million	Year End Performance			Half Year Performance			Year End Incl. ME
	Aug-21	Aug-20	Aug-21 vs Aug-20	Aug-21	Feb-21	Aug-21 vs Feb-21	Aug-21
Salaries and on costs ⁽¹⁾	305	274	11%	152	153	(1%)	329
Employee share programs and other	14	14	-	7	7	-	14
EMPLOYEE EXPENSES⁽¹⁾	319	288	11%	159	160	(1%)	343
Data processing ⁽¹⁾	117	118	(1%)	58	59	(2%)	120
Amortisation - intangible assets	39	39	-	22	17	29%	43
Depreciation - fixed assets	1	1	-	1	-	100%	1
TECHNOLOGY EXPENSES⁽¹⁾	157	158	(1%)	81	76	7%	164
Marketing ⁽¹⁾	32	28	14%	20	12	67%	34
Commission to owner-managed branches (OMB)	4	5	(20%)	2	2	-	4
Communications, print and stationery	19	20	(5%)	9	10	(10%)	23
Processing costs	14	13	8%	7	7	-	14
Other ⁽¹⁾	18	29	(38%)	7	11	(36%)	25
OPERATIONAL EXPENSES⁽¹⁾	87	95	(8%)	45	42	7%	100
Depreciation - right-of-use assets & lease expenses	28	27	4%	14	14	-	30
Depreciation - fixed assets	9	10	(10%)	4	5	(20%)	9
Other	3	2	50%	2	1	100%	3
OCCUPANCY EXPENSES	40	39	3%	20	20	-	42
Professional fees	17	21	(19%)	7	10	(30%)	21
Directors' fees	2	2	-	1	1	-	2
Other	11	9	22%	5	6	(17%)	12
ADMINISTRATION EXPENSES	30	32	(6%)	13	17	(24%)	35
Total operating expenses⁽¹⁾⁽²⁾	633	612	3%	318	315	1%	684
CTI ⁽¹⁾	53.9	54.9	(100bps)	53.3	54.5	(120bps)	54.4
Number of employees (FTE) ⁽¹⁾	2,218	2,052	8%	2,218	2,176	2%	3,319

(1) VMA operating costs have been restated from non-interest income and included in operating expenses per ASX announcement on 30 September 2021. FTE has also been restated.

(2) Refer to Section 1.1(B) Non-cash earnings reconciling items for a reconciliation of cash operating expenses to statutory operating expenses.

Summary

Total operating expenses of \$633 million increased by \$21 million or three per cent on FY20. This increase was primarily driven by an investment in employees to deliver strategic priorities including the build out of the new Digital Bank and to support volume growth, particularly in the areas of operations, product and marketing.

Employee expenses

Employee expenses of \$319 million increased by \$31 million or 11 per cent on FY20. This was driven by an increase of eight per cent in full time equivalent staff.

The staff increases were primarily due to continued investment in strategic technology projects, including the build out of the new Digital Bank, additional resources to support volume growth, to provide support to customers impacted by COVID-19 and for risk and compliance activities including financial crime. It also reflects higher annual leave expense impacted by continued lockdowns. These were partly offset by the full year benefits from restructures in the prior year.

Technology expenses

Technology expenses of \$157 million decreased by \$1 million or one per cent on FY20. The decrease was mainly driven by costs incurred in the prior year on risk and regulatory projects, one-off costs for the transition of data centres and productivity initiatives including supply chain management. These were partly offset by additional costs associated with the new Digital Bank and higher storage and support costs driven by business volumes.

Amortisation expense of \$39 million was in line with FY20. Projects that became fully amortised were replaced by newly amortising assets, with the newly amortising assets including Phase 1 of the new Digital Bank being more weighted to 2H21.

FINANCIAL PERFORMANCE

For the year ended 31 August 2021

2.5 OPERATING EXPENSES (CONTINUED)

Operational expenses

Operational expenses of \$87 million decreased by \$8 million or eight per cent on FY20. The primary drivers were lower discretionary expenditure including travel and entertainment, lower non-lending losses and lower consumable costs associated with COVID-19. These were partly offset by higher marketing spend on the launch of the new Digital Bank and to drive increased lending volumes.

Administration expenses

Administration expenses of \$30 million decreased by \$2 million or six per cent on FY20 driven by lower external legal costs, partly offset by an increase in group insurance costs.

ME Bank expenses

ME Bank operating expenses in the two months since acquisition of \$51 million are primarily driven by employee expenses in relation to ME's 1,101 FTE.

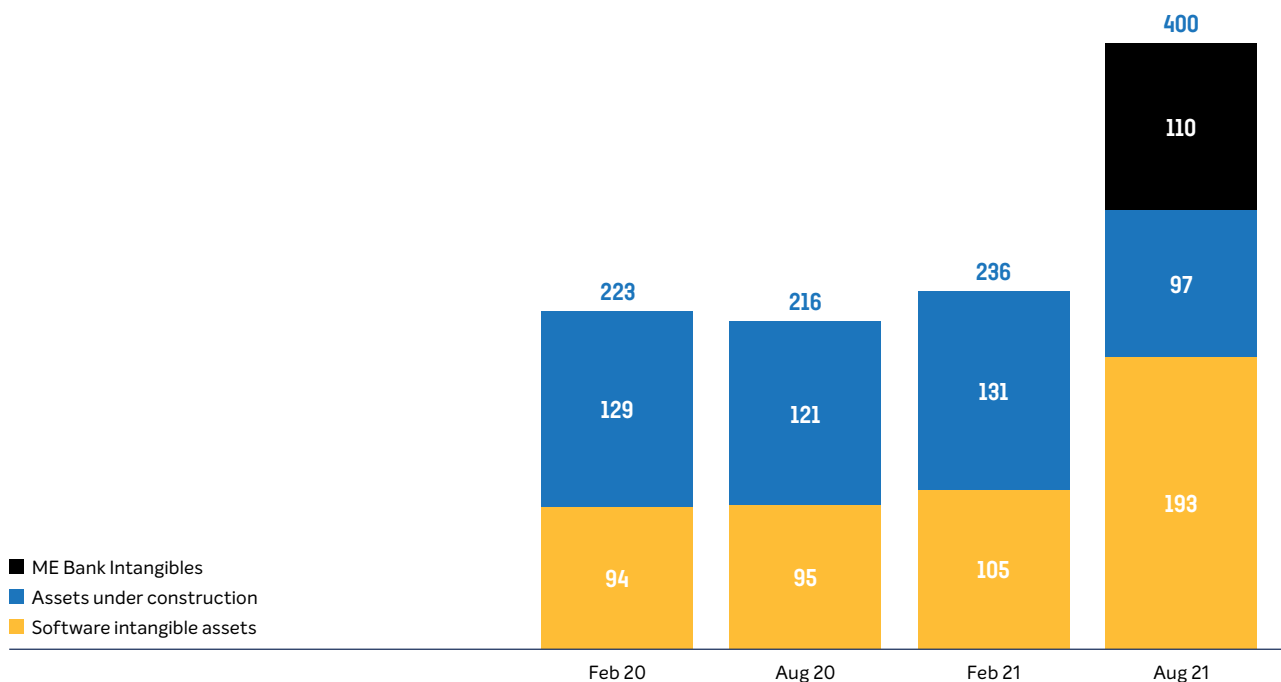
2.6 CAPITALISED INVESTMENT EXPENDITURE

BOQ's comprehensive digital transformation continues, with Phase 1 of building a next generation core platform through VMA delivered and providing an enhanced experience for customers using our transaction accounts, savings accounts and credit cards. Leveraging this foundational work to ensure a similar experience is delivered to new BOQ Retail deposit customers is well progressed. Investment continues in the digital capability of VMA and BOQ Retail Transformation, with an expanded offering to Term Deposit and Lending customers currently in development.

In addition to these customer focused initiatives, we have completed key foundational components of Open Banking and are well progressed in our planning and development of key workplace tools that will assist in delivering a productive and engaged workforce. ME Bank will continue with its development of innovative consumer deposit and lending solutions whilst we look to leverage synergies and capability across our complete digital transformation program.

Subject to the intangible asset review in 1H22, the carrying value of intangible assets is expected to increase further in FY22, with continued investment in the digital capability of VMA, digital transformation of Retail banking (ME Bank and BOQ), Open Banking, and BOQ's Enterprise Data Management Platform. These foundational investments align to BOQ's digital transformation strategy, and will provide our customers with better access to our products and services through easy to use digital experiences that are focused on their needs.

Carrying value of IT intangible assets (\$m)



FINANCIAL PERFORMANCE

For the year ended 31 August 2021

2.7 LENDING

Gross loans and advances of \$50.6 billion grew by \$3.6 billion or eight per cent on FY20. This was primarily achieved through above system growth in home lending with BOQ Blue, BOQ Specialist and VMA all contributing strong lending volumes. Commercial lending growth recovered in 2H21 at seven per cent with all business units reflecting growth.

\$ million	As at					Incl. ME
	Aug-21	Feb-21	Aug-20	Aug-21 vs Feb-21 ⁽¹⁾	Aug-21 vs Aug-20	Aug-21
Housing lending	32,433	30,187	28,891	15%	12%	53,146
Housing Lending – APS 120 qualifying securitisation ⁽²⁾	1,668	1,965	2,264	(30%)	(26%)	5,907
	34,101	32,152	31,155	12%	9%	59,053
Commercial lending ⁽³⁾	9,879	9,531	9,479	7%	4%	9,879
Asset finance	6,457	6,278	6,259	6%	3%	6,457
Consumer ⁽³⁾	152	147	150	7%	1%	359
Gross loans and advances⁽⁴⁾	50,589	48,108	47,043	10%	8%	75,748
Provisions for impairment	(313)	(374)	(369)	(33%)	(15%)	(311)
Net loans and advances	50,276	47,734	46,674	11%	8%	75,437

(1) Growth rates have been annualised.

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

(3) BOQ Specialist consumer products have been reclassified to commercial lending to align product definitions. All periods reflect this restatement and are presented on a like-for-like basis.

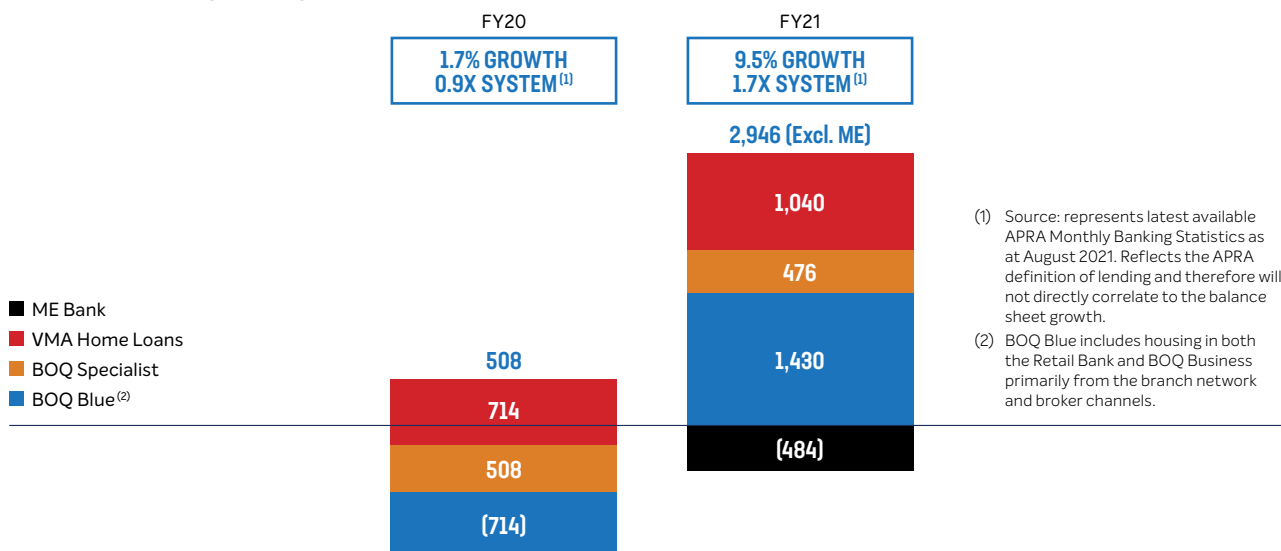
(4) Gross loans and advances aligns to the Financial Statement Note 3.3 Loans and Advances, Gross loans and advances after deducting Unearned finance lease income.

FINANCIAL PERFORMANCE

For the year ended 31 August 2021

2.7 LENDING (CONTINUED)

Growth in housing lending (\$m)



Housing (Excl. ME Bank)

The housing portfolio grew by \$2.9 billion or nine per cent on FY20 representing 1.7x system growth. Positive growth was achieved across all three channels, for the first time since FY15, as momentum steadily accelerated over the financial year.

Settlement volumes increased 55 per cent on FY20, a function of strong application flow in a buoyant property market and improved conversion rates. 1H21 growth was largely driven by owner occupied loans weighted towards fixed rate lending. 2H21 growth was characterised by growth across investor and owner occupied loans, resulting in an improved margin outcome. The turnaround in performance was driven by embedding the Retail Banking strategy, which included mortgage process simplification, improved retail banking and lending capability, an uplift in customer experience and quality third party broker relationships. The mortgage net promoter score (NPS) has also improved from -2 in August 2020 to +4 in August 2021.

The BOQ Blue portfolio grew by \$1.4 billion, a turnaround of \$2.1 billion from the previous year and the first positive full year result since FY15. This strong result was underpinned by a back-to-growth performance delivered out of the branch network and a doubling of Broker originated settlements.

The Broker channel grew by \$1.1 billion or 36 per cent on FY20. This result was achieved by a focus on building and growing quality new and existing third party partnerships, competitive pricing and consistent credit decisions. Broker and customer experience have improved due to the release of new broker enabled technologies and the delivery of consistent process efficiencies, reflected in an improved NPS result. Focus remains on continually improving mortgage processes.

The BOQ branch portfolio also reflected a turnaround in its performance, of \$1.1 billion, as it delivered positive growth of \$0.4 billion, the first full year of growth since FY14. The corporate and owner-manager network both contributed to the improved performance with a combined uplift in settlement volumes of 55 per cent.

The VMA mortgage portfolio continued to deliver strong growth in FY21. The portfolio grew by \$1.0 billion or 32 per cent on FY20, taking the portfolio to over \$4.3 billion. The VMA brand is a globally recognised brand, which tends to attract a more tech-savvy customer base and contributes to the Bank's geographical diversification by targeting metropolitan-based customers across Australia.

BOQ Specialist home lending portfolio grew by \$0.5 billion or nine per cent on FY20. Settlement volumes increased in the second half and the focus returned to new business as clients' exited COVID-19 relief and returned to normal payment cycles. BOQ Specialist continues to deliver above system growth by building relationships with health professionals in the early stages of their careers and providing a superior service and modern digital banking solutions, creating future opportunities for BOQ Specialist to meet the commercial lending needs of these medical, dental, veterinary and accounting professionals.

Housing (Incl. ME Bank)

The consolidated housing portfolio grew by \$2.4 billion or four per cent on FY20. ME Bank housing portfolio contracted \$0.5 billion in the two months since acquisition, largely due to softer application flow in the preceding quarter, which has since improved, and an increase in runoff.

Integration activities and mortgage process simplification work is well underway with the objective of returning the ME housing portfolio to growth in a sustainable way.

FINANCIAL PERFORMANCE

For the year ended 31 August 2021

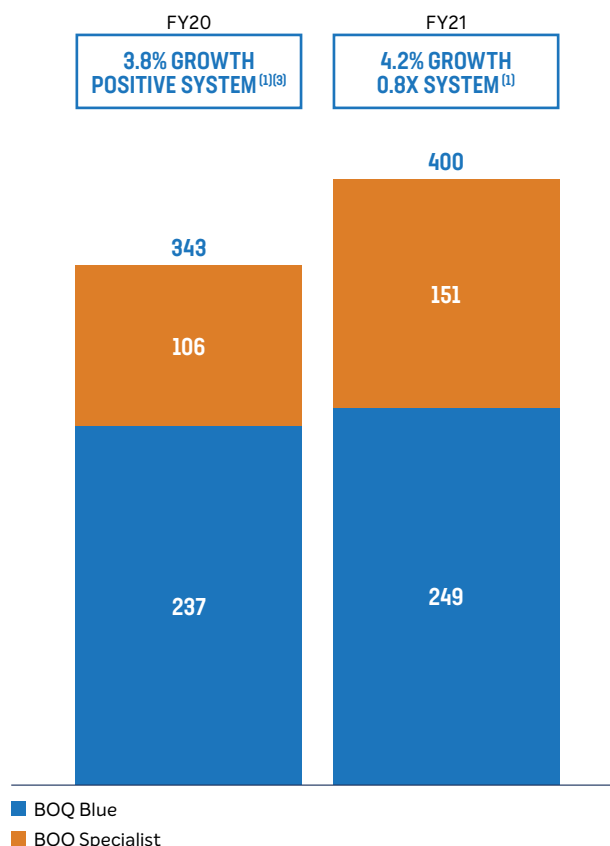
2.7 LENDING (CONTINUED)

Growth in commercial lending (\$m)

The commercial lending portfolio grew by \$0.4 billion in FY21, representing growth of four per cent on FY20 or 0.8x system growth. BOQ Commercial lending includes both corporate and small business lending, while BOQ Specialist has commercial lending and Asset finance products and BOQ Finance has asset finance products.

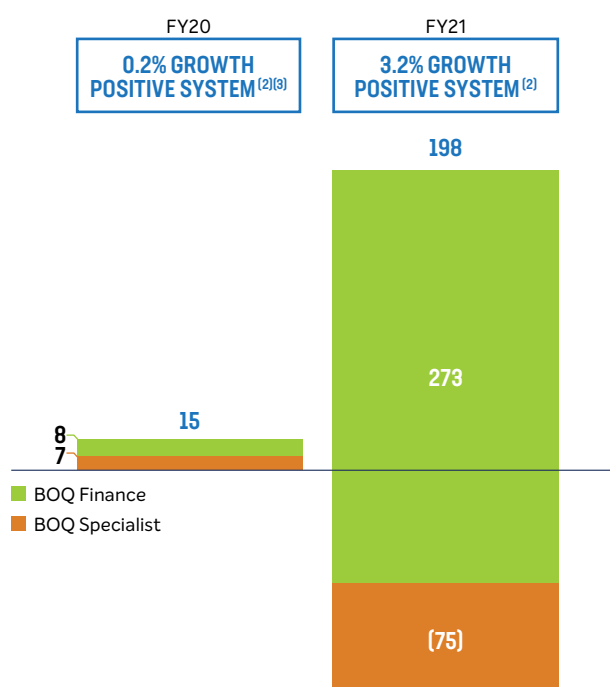
BOQ commercial lending grew by \$0.2 billion or four per cent and was mainly driven by growth in the corporate lending portfolio across construction, agribusiness and property segments. The small business lending portfolio contributed over \$50 million of growth driven by more simplified credit assessments, automation in the application process and was supported by several small business strategic initiatives. This result reverses over five years of contraction in this portfolio and was underpinned by the deeper relationships established through the COVID-19 support offered to clients. The small business strategy continues to focus on improving branch capability, risk policy, product features and business lending process transformation to further grow our portfolio in this segment.

The BOQ Specialist commercial lending portfolio grew by \$0.2 billion or seven per cent due to a strong second half. The growth was mainly achieved in corporate healthcare and small business lending as the brand offers bespoke solutions to medical, dental and veterinary professionals. Corporate Healthcare lending also grew, as customer relationships are built from graduation through to retirement, increasing the diversity of both the home lending and business lending portfolios.



Growth in Asset finance lending (\$m)

The Asset finance portfolio grew by \$0.2 billion or three per cent on FY20 compared to negative system growth. The growth was driven by continued momentum in the Equipment Finance portfolio which grew by \$0.2 billion. The main growth industries in FY21 were transport, agriculture and healthcare. This growth was partly offset by a contraction in BOQ Specialist asset financing, in particular in the dentistry industry where fewer new practices were established.



(1) Commercial system growth represents latest available APRA Monthly Banking Statistics as at August 2021. Reflects the APRA definition of lending adjusted for intra period reclassifications and growth in the BOQ Finance non-ADI Asset finance business. "Positive system" represents a growth better than system whereas "Negative system" represents growth worse than system.

(2) Asset finance system growth represents latest available Australian Finance Industry Association (AFIA) system growth statistics as at July 2021.

(3) FY20 commercial lending growth increased from 3.4 per cent to 3.8 per cent, due to the following restatements:

- (a) Commercial lending growth increased by \$13 million to align product definitions where BOQ Specialist working capital products have been reclassified from consumer to commercial lending; and
- (b) BOQ Specialist Asset finance products were reclassified from commercial lending to Asset finance. This decreased commercial lending growth and increased Asset finance growth by \$7 million.

FINANCIAL PERFORMANCE

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2.8 CUSTOMER DEPOSITS

\$ million	As at					Incl. ME
	Aug-21	Feb-21	Aug-20	Aug-21 vs Feb-21 ⁽¹⁾	Aug-21 vs Aug-20	Aug-21
Term deposits	14,678	14,240	15,013	6%	(2%)	21,991
Savings and investment accounts	15,643	14,411	13,337	17%	17%	24,293
Transaction accounts	4,409	4,020	3,596	19%	23%	5,377
Sub-total	34,730	32,671	31,946	13%	9%	51,661
Mortgage offsets ⁽²⁾	3,302	3,152	2,816	10%	17%	4,808
Customer deposits	38,032	35,823	34,762	12%	9%	56,469
Deposit to loan ratio	75%	74%	74%	1%	1%	75%

(1) Growth rates have been annualised.

(2) Mortgage offset balances are netted against home loans for the purposes of customer interest payments.

Customer deposits

Customer deposits grew by \$3.3 billion or nine per cent on FY20, consistent with the Bank's strategy to increase stable sources of funding while also reflecting ongoing high levels of liquidity in the market.

The Retail Bank remains the primary source of customer deposits with the majority generated through the branch network. The majority of inflows in FY21 have been in transaction, savings and investment accounts partially reducing reliance on term deposits as the customer deposits mix rebalanced.

The Bank has continued to maintain a strong liquidity position. As growth in customer deposits was slightly above lending growth, the deposit to loan ratio increased by one per cent on FY20 to 75 per cent.

Term deposits

Term deposits decreased by \$0.3 billion or two per cent on FY20. This was due to pricing actions to manage liquidity and reduce the cost of funds in the low rate environment and changes in customer preferences towards call accounts. As a result, term deposits have reduced from 43 per cent of the total portfolio in August 2020 to 39 per cent in August 2021.

Savings and investment accounts

Savings and investment accounts grew by \$2.3 billion or 17 per cent on FY20 with both retail and commercial accounts growing strongly.

The Bonus Interest Savings Account (**BISA**) achieved growth of over 30 per cent in FY21 and 17 per cent (annualised) in 2H21 and accounted for the majority of the growth in retail products across both periods. The growth is attributed to the highly accessible and flexible product offering competitive rates during FY21.

Transaction accounts and mortgage offsets

Transaction accounts and mortgage offsets grew by \$0.8 billion and \$0.5 billion on FY20 respectively. The growth in transaction accounts reflected COVID-19 government stimulus payments to both small businesses and individuals and the impact of lockdowns in reducing living costs including travel and entertainment. Higher offset balances also reflected the growth in home lending.

ME Bank customer deposits

ME Bank customer deposits contributed \$18.4 billion to Group deposits at August 2021 resulting in a combined deposit to loan ratio of 75 per cent. The customer deposit products are similar to BOQ and the mix is comparable with term deposits representing 40 per cent of the total portfolio. Savings and Investment accounts achieved the highest growth at over 30 per cent since August 2020, partly offset by a decrease in term deposits of three per cent.

FINANCIAL PERFORMANCE

For the year ended 31 August 2021

3. BUSINESS SETTINGS

3.1 ASSET QUALITY

		Full Year Performance			Half Year Performance			Year End Incl. ME
		Aug-21	Aug-20	Aug-21 vs Aug-20	Aug-21	Feb-21	Aug-21 vs Feb-21	Aug-21
Loan impairment expense	(\$ million)	(20)	175	Large	(44)	24	Large	(21)
Loan impairment expense / GLA	(bps)	(4)	37	(41bps)	(17)	10	(27bps)	(3)
Impaired assets	(\$ million)	209	195	7%	209	194	8%	243
30dpd arrears ⁽¹⁾	(\$ million)	516	567	(9%)	516	575	(10%)	941
90dpd arrears ⁽¹⁾	(\$ million)	321	433	(26%)	321	381	(16%)	593
90dpd arrears / GLA ⁽¹⁾	(bps)	63	92	(29bps)	63	79	(16bps)	78
Total provision and GRCL / GLA ⁽¹⁾⁽²⁾	(bps)	76	98	(22bps)	76	95	(19bps)	63

(1) Excludes the impact of the fair value adjustments on acquisition of ME Bank. Arrears have been presented on an unadjusted basis.

(2) GRCL gross of tax effect.

BOQ's loan impairment expense was a credit of \$20 million in FY21, which was driven by a reduction in the collective provision in FY21 of \$69 million. This was primarily due to an improved economic outlook, with a further reduction from improvements in data quality relating to collateral. This has resulted in a 22 basis points decrease in the BOQ's total provision and GRCL coverage, which is 76 basis points of GLAs. The total provision and GRCL coverage of 63 basis points, inclusive of ME Bank, is 13 basis points lower than FY20, due to a different product mix.

Impaired assets of \$209 million increased by \$14 million or seven per cent on FY20. This was primarily driven by the impairment of one large facility with the underlying loan portfolio remaining strong.

Arrears in the 30 day and 90 day categories improved compared to both FY20 and 1H21. The 90 days arrears ratio to GLAs reduced by 29 basis points to 63 basis points. This was primarily driven by the Retail portfolio, which has benefitted from record low interest rates, increased household deposits, house price growth and improved economic conditions.

Loan impairment expense

	Full Year Performance				Half Year Performance				Year End Incl. ME	
	Aug-21		Aug-20		Aug-21		Feb-21		Aug-21	
	Expense / (\$m)	Expense / GLA (bps)	Expense / (\$m) ⁽¹⁾⁽²⁾	Expense / GLA (bps) ⁽¹⁾⁽²⁾	Expense / (\$m)	Expense / GLA (bps) ⁽³⁾	Expense / (\$m) ⁽¹⁾⁽²⁾	Expense / GLA (bps) ⁽¹⁾⁽²⁾⁽³⁾	Expense / (\$m)	Expense / GLA (bps)
Retail lending	(12)	(4)	61	19	(2)	(1)	(8)	(4)	(13)	(2)
Commercial lending	(9)	(9)	57	60	(26)	(52)	17	36	(9)	(9)
Asset finance	1	2	57	91	(16)	(49)	15	48	1	2
Total loan impairment expense	(20)	(4)	175	37	(44)	(17)	24	10	(21)	(3)

(1) BOQ Specialist Asset finance products were reclassified from Commercial lending to Asset finance. Prior periods have been restated.

(2) BOQ Specialist consumer products have been reclassified to commercial lending to align product definitions. All periods reflect this restatement and are presented on a like-for-like basis.

(3) Metrics have been annualised.

The loan impairment expense was a credit of \$20 million in FY21 compared to an expense of \$175 million in FY20. FY20 included a \$133 million collective provision overlay for the potential impacts of COVID-19. FY21 included a \$69 million reduction in the collective provision due to an improved economic outlook and improvements in data quality relating to collateral. This was partly offset by an increase in specific provision expense from \$47 million in FY20 to \$49 million in FY21, driven by a provision for one large facility in Retail and the impact of lockdowns on a small number of niche medical practices in Asset finance.

Retail loan impairment expense was a credit of \$12 million in FY21. This was driven by a reduction in the collective provision in FY21 of \$32 million due to an improved economic outlook, notably for the housing market driven by a rebound in expectations for residential house prices. Underlying specific provisioning activity was largely consistent with FY20, but specific provision expense increased in FY21 driven by a provision for one large facility.

Commercial loan impairment expense was a credit of \$9 million in FY21. This was driven by a reduction in the collective provision in FY21 of \$22 million due to improvements in data quality relating to collateral as well as an improved economic outlook. Specific provisioning was also lower than FY20 driven by a write back of one large Agribusiness exposure that returned to performing following strong crop harvests due to improved weather conditions. Underlying specific provisioning activity remained subdued, reflecting improved economic conditions and government stimulus.

Asset finance loan impairment expense of \$1 million for FY21 was driven by a reduction in the collective provision in FY21 of \$15 million due to an improved economic outlook. This was partly offset by an increase in specific provision expense as lockdowns impacted a small number of niche medical practices.

FINANCIAL PERFORMANCE

For the year ended 31 August 2021

3.1 ASSET QUALITY (CONTINUED)

Impaired assets

\$ million	As at				Incl. ME	
	Aug-21	Feb-21	Aug-20	Aug-21 vs Feb-21	Aug-21 vs Aug-20	Aug-21
Retail lending	94	84	70	12%	34%	128
Commercial lending ⁽¹⁾	77	78	86	(1%)	(10%)	77
Asset finance ⁽¹⁾	38	32	39	19%	(3%)	38
Total impaired assets	209	194	195	8%	7%	243
Impaired assets/ GLA	41bps	40bps	41bps	1bp	-	32bps

(1) BOQ Specialist Asset finance products were reclassified from Commercial lending to Asset finance. Prior periods have been restated.

BOQ impaired assets of \$209 million increased by \$15 million or eight per cent on 1H21. This was primarily driven by an impairment of one large facility in the Retail portfolio.

Retail impaired assets increased by \$10 million or 12 per cent on 1H21 driven by one new impaired facility for \$12 million. Excluding this, impaired assets decreased in 2H21 as increasing house prices supported low specific provisioning activity.

Commercial impaired assets decreased by \$1 million or one per cent on 1H21. This was due to low specific provisioning activity. 1H21 was impacted by one large Agribusiness exposure of \$28 million returning to performing, which was partially offset by the impacts of COVID-19 and the initial lockdowns. 2H21 reflected low specific provisioning activity as economic conditions improved.

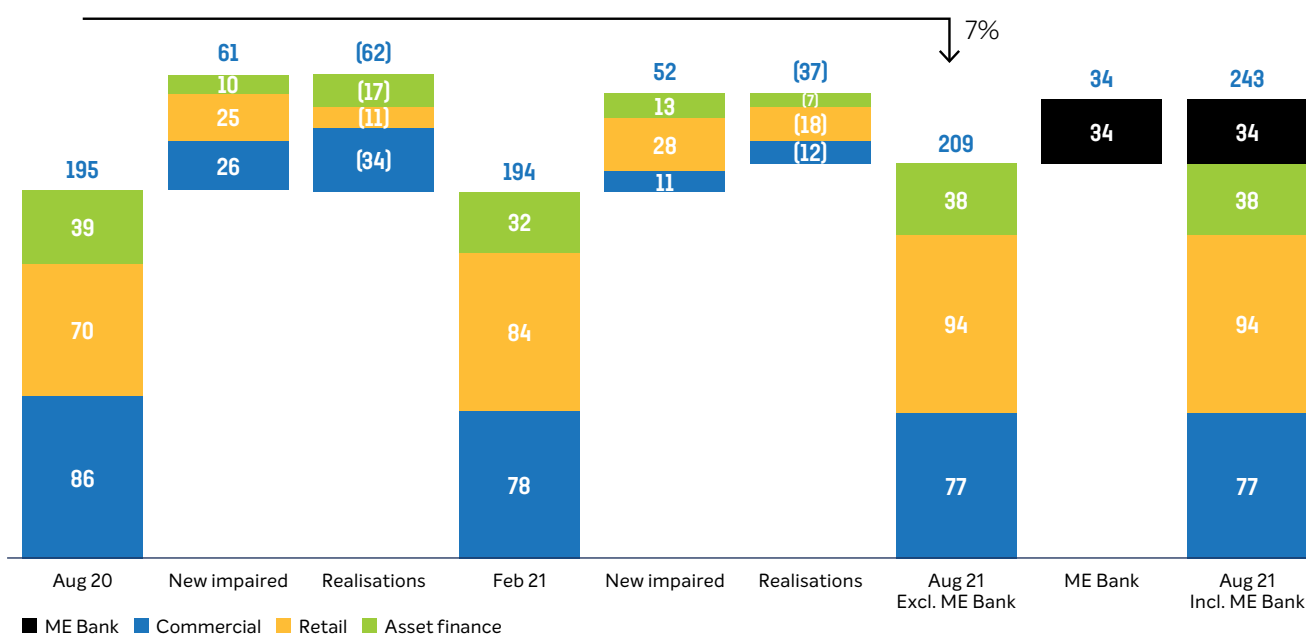
Asset finance impaired assets increased by \$6 million or 19 per cent on 1H21 but decreased \$1 million or three per cent on FY20. 1H21 was impacted by one large facility of \$4 million exiting the Group. Impairment of medical equipment and fixtures and fittings among General Practitioners contributed over \$3 million towards the increase in 2H21.

The Group holds three exposures with impaired balances greater than \$5 million for a combined total of \$27 million. This increase from \$15 million at February 2021 was due to a new \$12 million impaired balance for one large facility in the Retail portfolio. This was however a decrease from \$54 million at August 2020 as the Group returned a \$28 million Agribusiness facility to performing in 1H21 following strong crop harvests due to improved weather conditions. The Group now holds one exposure with an impaired balance greater than \$10 million.

ME Bank impaired assets of \$34 million represent 14 basis points of GLAs, reflecting a portfolio that is 99 per cent housing.

The following chart outlines the movements in impaired assets since August 2020.

Impaired assets (\$m)



FINANCIAL PERFORMANCE

For the year ended 31 August 2021

3.1 ASSET QUALITY (CONTINUED)

Provision coverage

\$ million	As at				Incl. ME	
	Aug-21	Feb-21	Aug-20	Aug-21 vs Feb-21	Aug-21 vs Aug-20	Aug-21
Specific provision	107	103	94	4%	14%	107
Collective provision (CP)	206	271	275	(24%)	(25%)	204
Total provisions	313	374	369	(16%)	(15%)	311
GRCL (\$ million)	52	58	64	(10%)	(19%)	52
Specific provisions to impaired assets ⁽¹⁾	51%	53%	48%	200bps	Large	47%
Total provisions and GRCL coverage / impaired assets ⁽¹⁾⁽²⁾	185%	236%	236%	Large	Large	198%
CP and GRCL / Total RWA (bps) ⁽¹⁾⁽²⁾	63bps	111bps	116bps	47bps	(53bps)	84bps
Total provisions and GRCL coverage / GLA ⁽¹⁾⁽²⁾	76bps	95bps	98bps	19bps	(22bps)	63bps

(1) Excludes the impact of the fair value adjustments on acquisition of ME Bank.

(2) GRCL gross of tax effect.

BOQ provisions of \$313 million decreased by \$56 million or 15 per cent from FY20. This was driven by a decrease in the collective provision partly offset by an increase in specific provisions.

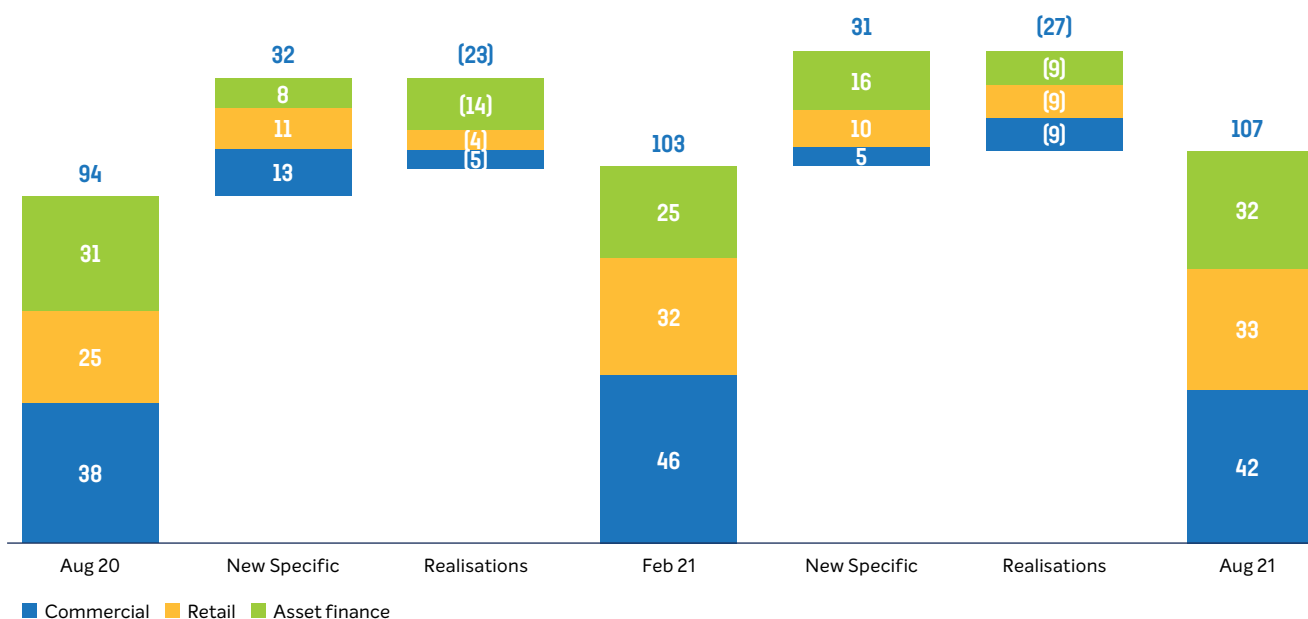
Specific provisions of \$107 million increased by \$13 million or 14 per cent from FY20. This has increased the coverage of impaired assets from 48 per cent to 51 per cent. This increase was primarily driven by the Retail and Asset finance portfolios. The increase in the Retail portfolio was driven by one large facility, partly offset by low specific provisioning activity supported by the low interest rate environment and buoyant house prices. The Asset finance portfolio increased \$6 million driven by a small number of niche medical practices within the BOQ Specialist portfolio. The Commercial portfolio decreased as an Agribusiness facility returned to performing.

The collective provision of \$206 million decreased \$69 million or 25 per cent from FY20. This included a \$75 million release in the third quarter due to an improved economic outlook and improvements in data quality relating to collateral. Economic model assumptions and management overlays are prudently managed to ensure sufficient provisions are held due to the ongoing uncertainty from COVID-19.

As a result of the decrease in the collective provision and growth in GLAs, total provisions and GRCL coverage of 76 basis points decreased by 22 basis points from FY20.

The following chart outlines the movements in specific provisions since August 2020.

Specific provisions (\$m)



FINANCIAL PERFORMANCE

For the year ended 31 August 2021

3.1 ASSET QUALITY (CONTINUED)

Arrears

Key Metrics	Portfolio Balance (\$m)						Year End Incl. ME
		BOQ Group	Aug-21	Feb-21	Aug-20	Aug-21 vs Feb-21	Aug-21 vs Aug-20
Total lending – portfolio balance (\$ million)		50,589	48,108	47,043	5%	8%	75,748
30 days past due (\$ million) ⁽¹⁾		516	575	567	(10%)	(9%)	941
90 days past due (\$ million) ⁽¹⁾		321	381	433	(16%)	(26%)	593
		Proportion of portfolio					
30 days past due: GLAs ⁽¹⁾		1.02%	1.20%	1.21%	(18bps)	(19bps)	1.24%
90 days past due: GLAs ⁽¹⁾		0.63%	0.79%	0.92%	(16bps)	(29bps)	0.78%
By portfolio							
30 days past due: GLAs (Retail Excl. ME Bank)	34,253	0.94%	1.25%	1.25%	(31bps)	(31bps)	0.94%
90 days past due: GLAs (Retail Excl. ME Bank)		0.64%	0.88%	0.97%	(24bps)	(33bps)	0.64%
30 days past due: GLAs (ME Bank) ⁽¹⁾	25,232	-	-	-	-	-	1.68%
90 days past due: GLAs (ME Bank) ⁽¹⁾		-	-	-	-	-	1.08%
30 days past due: GLAs (Commercial)	9,879	1.52%	1.48%	1.53%	4bps	(1bp)	1.52%
90 days past due: GLAs (Commercial)		0.93%	0.91%	1.25%	2bps	(32bps)	0.93%
30 days past due: GLAs (Asset finance)	6,457	0.69%	0.48%	0.50%	21bps	19bps	0.69%
90 days past due: GLAs (Asset finance)		0.20%	0.15%	0.17%	5bps	3bps	0.20%

(1) Excludes the impact of the fair value adjustments on the acquisition of ME Bank. Arrears have been presented on an unadjusted basis.

Retail arrears

Retail arrears decreased in both the 30 day and 90 day categories since 1H21 and FY20. Banking Relief Package (BRP) and government stimulus has provided support for customers experiencing difficulty and has allowed repayments to resume in a timely manner. Record low interest rates, strong house prices and improved economic conditions have further supported the decrease in arrears.

Commercial arrears

Commercial arrears increased by four basis points in the 30 day category and by two basis points in the 90 day category since 1H21. The increase in commercial arrears since 1H21 is in line with expectations as COVID-19 imposed lockdowns have reduced trading and a pause has been placed on collection activity in lockdown affected areas.

Arrears in the 90 day category have decreased by 32 basis points since FY20 with improvements across the whole portfolio as customers returned to performing from banking relief and collection activity on late stage arrears recommenced following an extended moratorium in FY20.

Asset finance arrears

Asset finance arrears increased by 21 basis points in the 30 day category and by five basis points in the 90 day category since 1H21. While arrears have been largely stable during most of the year, the increase reflects the negative impact of recent lockdowns on the arrears position as well as the pause placed on collection activity in lockdown effected areas. The increase was mainly in customers in NSW and those in health care industries within the BOQ Specialist portfolio.

COVID-19 Banking relief package

From July 2021, the Bank reinstated a number of support measures to retail and business customers impacted by COVID-19 as part of Banking Relief support initiatives. Utilisation of this latest assistance, at less than one per cent of GLAs, is considerably lower than during the initial BRP phase, at more than 15 per cent of GLAs.

In line with APRA's regulatory approach, loans deferred as part of the COVID-19 Banking Relief support measures are not included in arrears where the loans were otherwise performing.

ME Bank arrears

Over 50 per cent of ME Bank arrears are supported by Lenders Mortgage Insurance. The higher level of ME arrears also reflects changes to collection practices to provide increased support to customers impacted by lockdown.

FINANCIAL PERFORMANCE

For the year ended 31 August 2021

3.2 FUNDING AND LIQUIDITY

BOQ’s liquidity and funding risk appetite strategy is designed to ensure that the Bank has the ability to meet its financial obligations as they fall due under all market conditions. Management of liquidity risk at BOQ is focused on developing a stable customer deposit base, maintaining access to diversified wholesale funding markets and disciplined management of maturity profiles. BOQ regularly stress tests its liquidity risk profile to identify vulnerabilities under a diverse range of market scenarios.

As at 31 August, BOQ (including ME Bank) had utilised its full Term Funding Facility allowance of \$3 billion, which is comprised of an initial allowance (\$1.8 billion), supplementary allowance (\$1.1 billion) and additional allowance (\$0.1 billion). The Term Funding Facility was made available to ADI’s as part of a package of measures to support the Australian economy, by providing three-year funding through repurchase transactions at the official cash rate target.

Liquidity Coverage Ratio (LCR)

APRA requires ADIs to maintain a minimum LCR of 100 per cent. 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 policy settings.

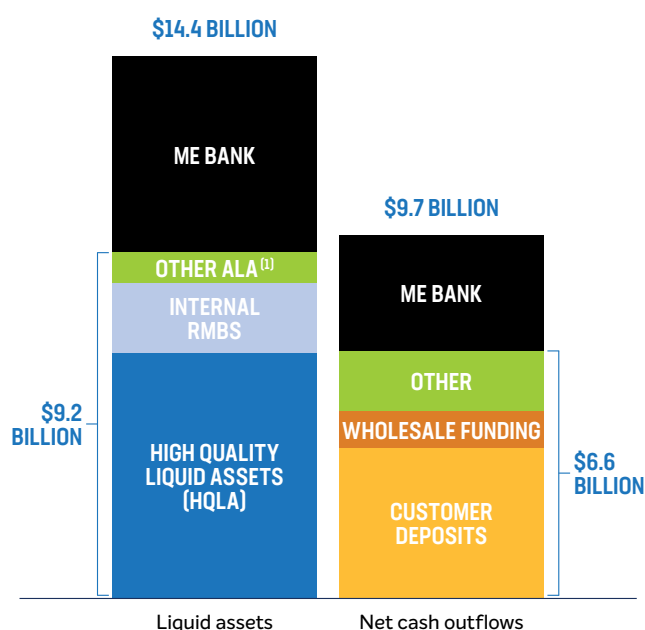
BOQ’s Level 2 LCR (including ME Bank) at 31 August 2021 was 149 per cent, which was 33 per cent lower than 1H21. ME Bank’s LCR was 169 per cent at 31 August 2021. The average Level 2 LCR since the settlement of ME Bank on 1 July 2021 was 151 per cent.

The decrease in LCR was primarily due to negative impacts from:

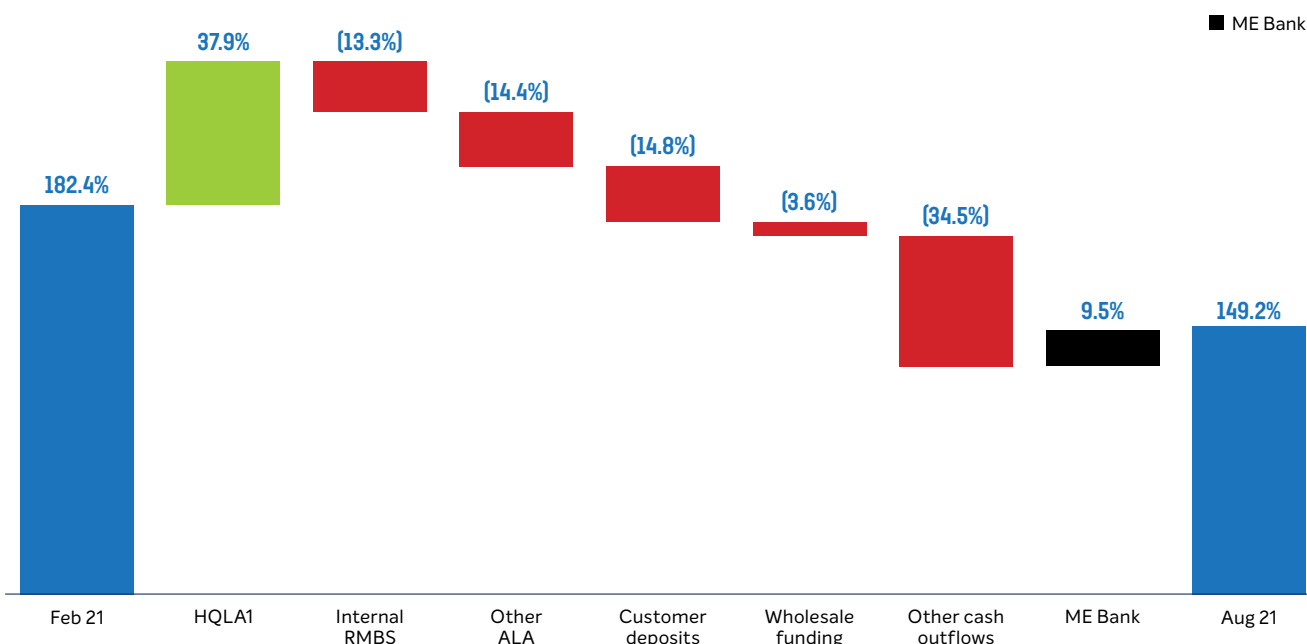
1. A \$500 million reduction in the 2021 committed liquidity facility (CLF) due to a decline in CLF available to the banking system;
2. A reduction in the available CLF due to the final drawing of the TFF;
3. An increase to net cash outflows relating to increased retail at-call deposits; and
4. The normalisation of contractual inflows following the settlement of BOQ’s equity raising for the ME Bank acquisition.

These were partly offset by a higher balance of HQLA1 and uplift from ME Bank’s strong liquidity position.

LCR – August 2021 (149%)



LCR waterfall 28 February 2021 – 31 August 2021



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

FINANCIAL PERFORMANCE

For the year ended 31 August 2021

3.2 FUNDING AND LIQUIDITY (CONTINUED)

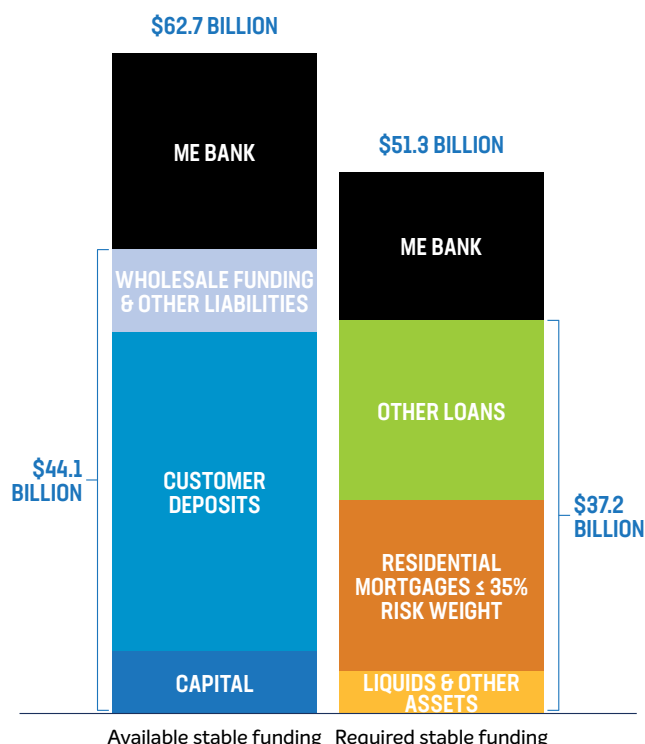
Net stable funding ratio (NSFR)

The NSFR encourages ADIs to fund their lending activities with more stable sources of funding, thereby promoting greater balance sheet resilience.

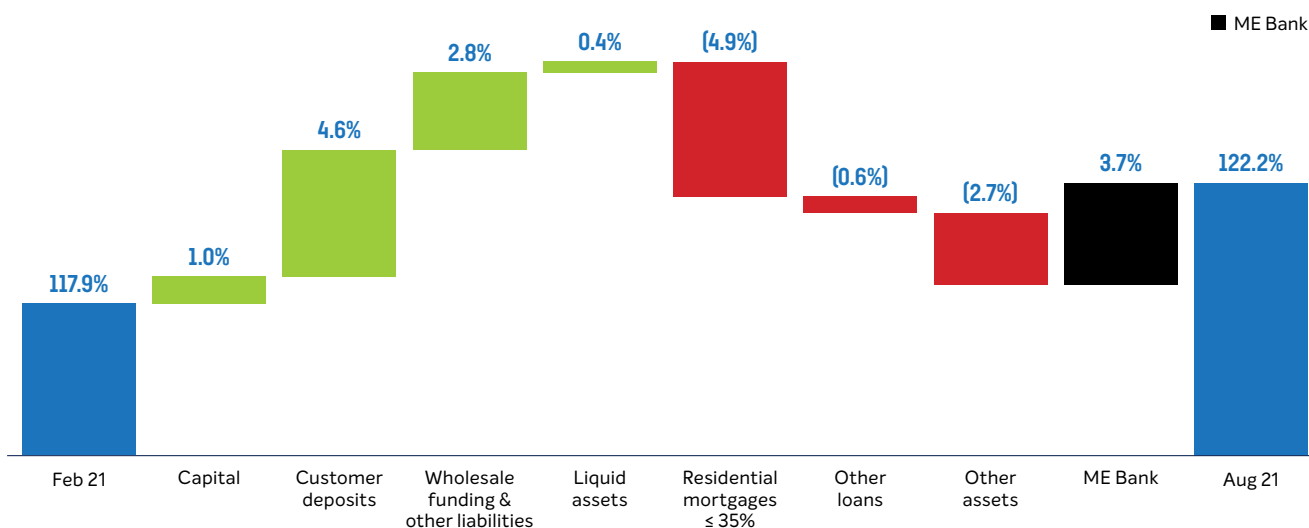
BOQ manages its NSFR on a daily basis and actively maintains a buffer above the regulatory minimum in line with BOQ's prescribed risk appetite and policy settings.

BOQ's Level 2 NSFR (including ME Bank) at 31 August 2021 was 122 per cent and ME Bank's NSFR was 132 per cent. For BOQ, this represents an increase of four per cent over 1H21, which is largely reflective of the benefit received from ME Bank's funding profile. Retail customer deposit growth has been particularly strong over the half, but the benefit to the NSFR has been offset by loan growth.

NSFR - August 2021 (122%)



NSFR waterfall 28 February 2021 - 31 August 2021



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 RBA. CLF assets include senior unsecured bank debt, covered bonds, asset backed securities (ABS) and RMBS that are eligible for repurchase with the RBA.

BOQ was granted a \$2.9 billion CLF commencing on 1 April 2021. APRA has confirmed that the CLF allowance for the banking system will be reduced to zero by the end of 2022, which is in response to the increase in HQLA available to the banking system to meet LCR requirements.

FINANCIAL PERFORMANCE

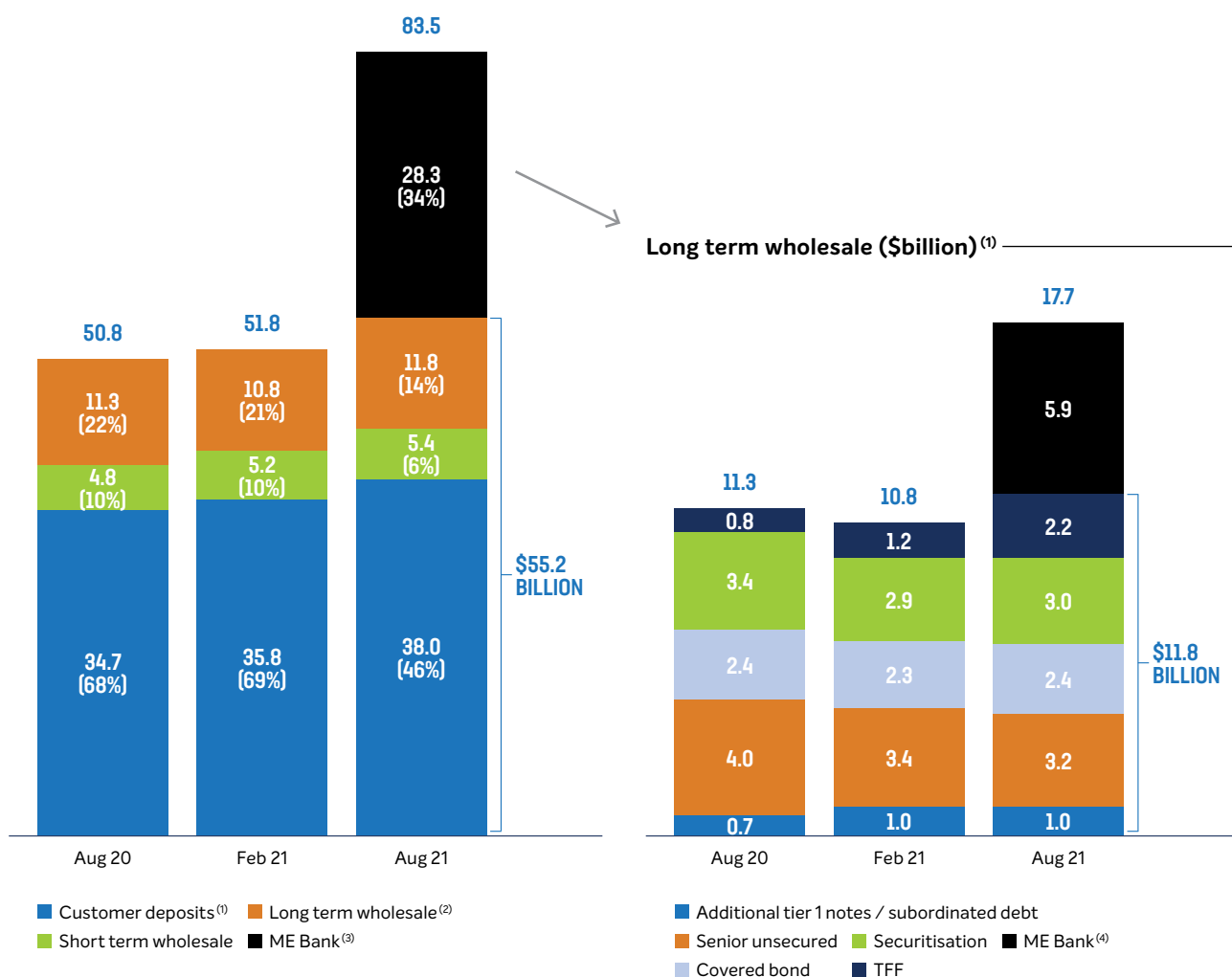
For the year ended 31 August 2021

3.2 FUNDING AND LIQUIDITY (CONTINUED)

Funding

BOQ'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)⁽¹⁾



(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.

(3) ME Bank Funding mix of \$28.3 billion includes \$18.4 billion customer deposits, \$5.9 billion long term wholesale and \$4.0 billion short term wholesale.

(4) ME Bank long term wholesale funding of \$5.9 billion includes \$4.6 billion securitisation, \$0.9 billion TFF and \$0.4 billion senior unsecured debt.

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. BOQ continues to optimise the mix of wholesale and retail funding, whilst also increasing stable sources of funding.

In FY21 BOQ's continued focus on growing customer deposits through a variety of channels has seen strong growth of \$3.3 billion. As a result, loan growth was fully funded by stable funding sources and the deposit to loan ratio increased from 74 per cent at 1H21 to 75 per cent at FY21 (excluding ME Bank). The remaining retail funding gap was funded through drawing down the TFF as well as accessing wholesale funding markets, including both in secured and unsecured formats.

FINANCIAL PERFORMANCE

For the year ended 31 August 2021

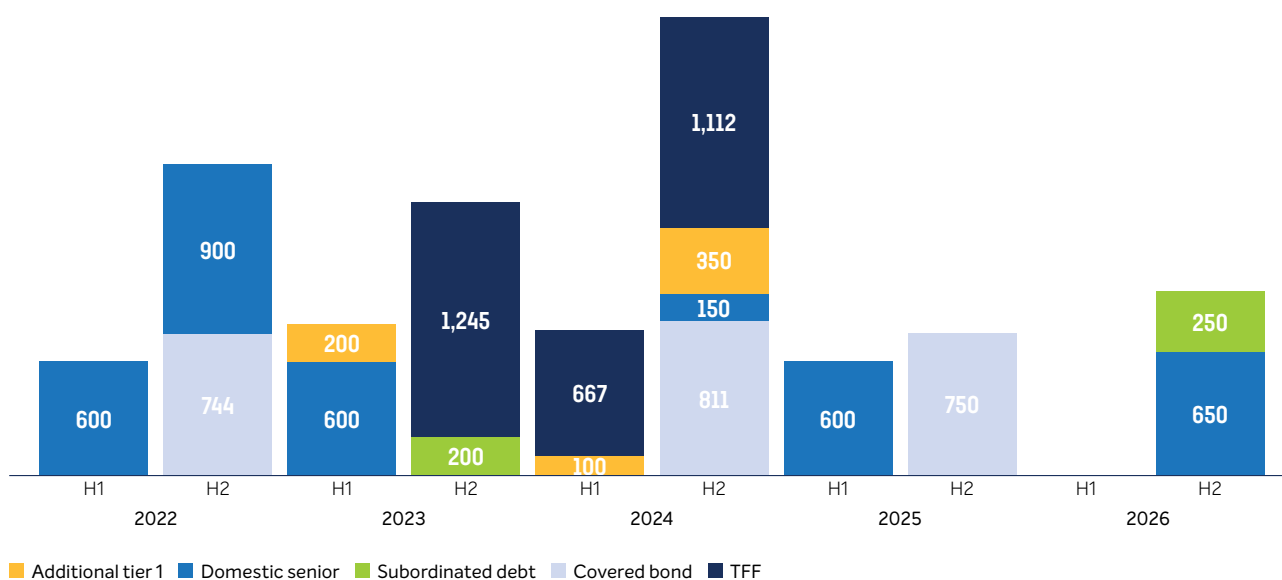
3.2 FUNDING AND LIQUIDITY (CONTINUED)

Term funding issuance

BOQ accessed term funding markets in FY21 using a range of long term wholesale products. The intention was to refinance existing maturities as well as fund loan growth, complementing the drawdown of the TFF and the inflow of customer deposits. This included the \$260 million Capital Notes 2 (Additional Tier 1 Capital) issuance (BOQPF), a \$250 million Subordinated Debt (Tier 2 Capital) and a \$650 million Senior Unsecured debt issuance. Both of these replaced the \$150 million Subordinated Debt call and the \$600 million Senior Unsecured maturity in May 2021. BOQ also issued approximately \$784 million Asset Backed Securitisation under the REDS EHP programme, having last accessed this market in 2018.

The diverse range of term funding products utilised in FY21 highlights the range of unsecured and secured debt programmes available to BOQ. This provides funding diversification benefits and also enables BOQ to fund future asset growth and manage term maturity towers over the next five years, including refinancing the TFF.

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 either BOQ's or ME Bank's option (as applicable) and is subject to obtaining prior written approval from APRA.

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

3.3 CAPITAL MANAGEMENT

Capital adequacy

\$ million	As at				
	Aug-21	Feb-21	Aug-20	Aug-21 vs Feb-21	Aug-21 vs Aug-20
CET1	4,334	3,221	3,089	35%	40%
Additional tier 1 capital	610	610	350	-	74%
Total tier 2	628	613	580	2%	8%
Total capital base	5,572	4,444	4,019	25%	39%
Total RWA	44,229	32,126	31,576	38%	40%
CET1 ratio	9.80%	10.03%	9.78%	(23bps)	2bps
Total capital adequacy ratio	12.60%	13.83%	12.73%	(123bps)	(13bps)

FINANCIAL PERFORMANCE

For the year ended 31 August 2021

3.3 CAPITAL MANAGEMENT (CONTINUED)

The Group's CET1 ratio decreased by 23 basis points during 2H21 from 10.03 per cent to 9.80 per cent.

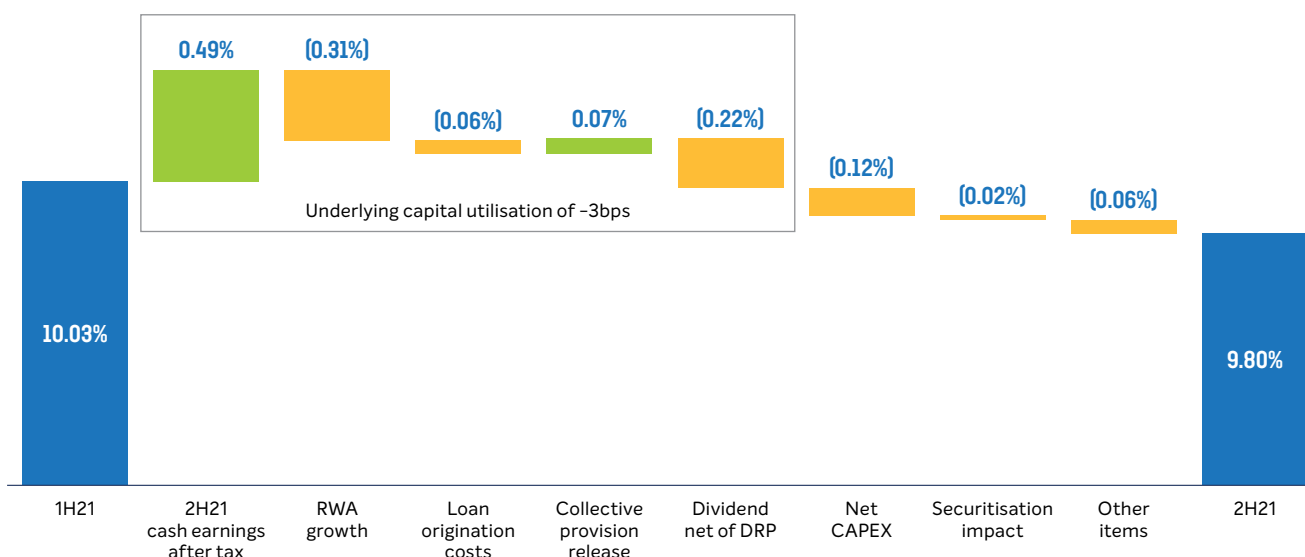
The ME Bank acquisition was funded by proceeds from the capital raising. This increased CET1 by 412 basis points, which was fully offset by ME Banks' risk weighted assets, CET1 deductions and other CET1 deductions arising from Purchase Price Allocation (**PPA**).

Cash NPAT including ME Bank generated 49 basis points of capital with an additional 7 basis points contribution from the collective provision release in the half. This was partly offset by RWA growth of 31 basis points and increased loan origination costs of six basis points, driven by above system GLA growth.

The normalisation of the dividend (net of the Dividend Reinvestment Plan (**DRP**)) reduced CET1 by 22 basis points. CAPEX is in line with the strategic roadmap, net of amortisation and utilised 12 basis points of capital. Run-off in capital relief securitised housing loans increased risk weighted assets and reduced CET1 by two basis points. Other items utilised six basis points of capital and included statutory adjustments net of reserves and deferred tax movements.

Total capital adequacy ratio decreased by 13 basis points to 12.60 per cent in FY21. This was primarily due to a lower Tier 2 ratio as ME Bank was lower than BOQ in this tier on a relative basis, which was partially offset by an increase in subordinated debt issuance.

2H21 CET1 Walk



3.4 TAX EXPENSE

BOQ including ME Bank tax expense arising on cash earnings for FY21 amounted to \$183 million. This represented an effective tax rate of 30.8 per cent, which is above the corporate tax rate of 30 per cent primarily due to the non-deductibility of interest payable on Capital Notes issued in FY18 and FY21.

FINANCIAL PERFORMANCE

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4. DIVISIONAL PERFORMANCE

4.1 RETAIL INCOME STATEMENT, KEY METRICS AND FINANCIAL PERFORMANCE REVIEW

Overview

The Retail Bank meets the financial needs and services of personal customers. The division supports customers through owner-managed and corporate branch networks, third party intermediaries, VMA distribution channels, more than 1,300 ATM's, an Australian based customer call centre, digital services and mobile mortgage specialists. BOQ acquired 100 per cent of the share capital of ME Bank on 1 July 2021. ME Bank operates in the retail segment of the domestic market primarily offering home loan products, everyday transaction and online savings accounts.

	Year End Performance			Half Year Performance			Year End Incl. ME
	Aug-21	Aug-20	Aug-21 vs Aug-20	Aug-21	Feb-21	Aug-21 vs Feb-21	Aug-21
\$ million							
Net interest income	492	437	13%	256	236	8%	570
Non-interest income ⁽¹⁾	69	74	(7%)	33	36	(8%)	74
Total income	561	511	10%	289	272	6%	644
Operating expenses	(356)	(335)	6%	(180)	(176)	2%	(407)
Underlying profit	205	176	16%	109	96	14%	237
Loan impairment expense	20	(56)	Large	14	6	133%	21
Profit before tax	225	120	88%	123	102	21%	258
Income tax expense	(70)	(37)	89%	(38)	(32)	19%	(80)
Cash earnings after tax	155	83	87%	85	70	21%	178

KEY METRICS	Year End Performance			Half Year Performance			Year End Incl. ME	
	Aug-21	Aug-20	Aug-21 vs Aug-20	Aug-21	Feb-21	Aug-21 vs Feb-21	Aug-21	
PERFORMANCE INDICATORS								
CTI ⁽¹⁾	(%)	63.5	65.6	Large	62.3	64.7	Large	63.2
Net interest income / average GLA ⁽²⁾	(%)	2.01	1.87	14bps	2.05	2.00	5bps	1.93
ASSET QUALITY								
90dpd arrears	(\$ million)	204	294	(31%)	204	274	(26%)	205
Impaired assets	(\$ million)	86	66	30%	86	78	10%	120
Loan impairment expense / GLA	(bps)	(7)	22	(29bps)	(10)	(5)	(5bps)	(3)
BALANCE SHEET								
GLA	(\$ million)	27,724	25,253	10%	27,724	26,055	6%	52,883
Housing	(\$ million)	27,674	25,195	10%	27,674	25,990	6%	52,626
Other retail	(\$ million)	50	58	(14%)	50	65	(23%)	257
Average Credit RWA	(\$ million)	9,934	8,720	14%	9,934	9,158	8%	11,245
Customer deposits⁽³⁾	(\$ million)	18,609	17,210	8%	18,609	17,424	7%	37,046
Term deposits	(\$ million)	4,706	5,647	(17%)	4,706	4,833	(3%)	12,019
Mortgage offsets	(\$ million)	2,183	1,801	21%	2,183	2,030	8%	3,689
Savings & investment	(\$ million)	9,197	7,784	18%	9,197	8,398	10%	17,847
Transaction accounts	(\$ million)	2,523	1,978	28%	2,523	2,163	17%	3,491
Deposit to loan ratio	(%)	67	68	(100bps)	67	67	-	70

(1) VMA operating costs have been restated from non-interest income and included in operating expenses per ASX announcement on 30 September 2021.

(2) Calculated on a cash earnings basis and net of offset accounts.

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

FINANCIAL PERFORMANCE

For the year ended 31 August 2021

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

Business review

The Retail Bank remains focussed on executing its strategic initiatives and is committed to supporting our customers in the current environment. Strong growth in cash earnings has been driven by lower loan impairments, improved lending margins and above system lending growth. The housing momentum generated at the end of 2H20 has translated into positive lending growth across all core channels in FY21. The BOQ Blue brand has achieved positive growth for the first time since FY15 as settlements increased 72 per cent on FY20. The successful turnaround in the BOQ Blue brand is attributed to improvements which have been delivered over the past two years, including the home buying transformation program; an experienced retail leadership team; quality third party relationships and a focus on expanding and enabling our unique and strategically important owner-managed network.

The BOQ branch network consists of 103 owner-managed and 53 corporate branches supported by seven transaction centres. The first Business Relationship Centre, a lower cost branch model, focussed on lending and deposit acquisition, was opened in November 2020 in New Farm, Queensland. Expanding and leveraging the unique owner-manager model, anchored in the communities we serve, remains a strategic focus. The branch network has delivered a turnaround in performance by reporting positive housing growth, the first time since FY14. Settlement volumes increased 55 per cent on FY20 whilst run-off has been managed through proactive retention initiatives.

The broker channel recorded home lending growth of \$1.1 billion, representing growth of 36 per cent on FY20. This was driven by building new and existing quality third party relationships, focussed customer retention and simplified end-to-end mortgage processes. Whilst further improvement are a continued focus, specifically processing times, the improvements delivered to date have enabled the settlement of more than double the volume of broker originated loans. Customer experience has improved through the delivery of new broker enabled technologies.

The VMA brand is a globally recognised brand which appeals to a more tech savvy customer base and continues to contribute to the Bank's geographical diversification by targeting metropolitan-based customers across Australia. VMA has a proven track record in executing on strong customer value led propositions. This is evidenced by a home loan portfolio which has grown to more than \$4.3 billion since the mid-2016 launch. The business has been impacted by subdued credit card performance due to the portfolio being largely linked to frequent flyer cards. The reduction in non-interest income from FY20 was more than offset by a strong uplift in interest revenue generated from VMA's home loan business. VMA has launched its Digital Bank offering, representing the largest production deployment in the Group's history. The Digital Bank launched with transaction, savings and an integrated credit card and loyalty offering. Leveraging this foundational work to ensure a similar customer experience is delivered to new BOQ Retail deposit customers is scheduled to be delivered in 1H22. Work on Phase 2 for VMA and BOQ Retail Transformation continues, with an expanded offering to term deposits and lending customers on track to deliver in 2022.

ME Bank acquisition

During FY21, BOQ acquired 100 per cent of the share capital of ME Bank. The ME Bank brand is a strong complementary brand with a shared customer centric culture which is recognised nationally, with a notable Victorian emphasis. The target customer base is slightly more digitally aware and therefore not reliant on face-to-face support. The ME Bank brand has a housing portfolio of \$25.0 billion, which is supported by a broker channel and propriety network of mobile bankers.

The housing portfolio decreased by \$0.5 billion in the two months since acquisition. This decline was in line with recent historical trends and reflected softer application flow in the preceding quarter, which has since improved, and an increase in run-off. ME Bank contributed to the Group's funding with customer deposits in excess of \$18.4 billion.

Integration activities and mortgage process simplification work is well underway with the objective of returning the ME housing portfolio to growth in a sustainable way.

Financial performance review

Retail Bank cash earnings after tax increased \$72 million or 87 per cent on FY20. Improved margins, lending growth and lower collective provisioning were partially offset by the increased investment in the VMA digital transformation.

ME Bank contributed \$23 million to the division's cash earnings after tax for the two months since acquisition.

Net interest income

Net interest income increased \$55 million or 13 per cent on FY20. This was driven by margin improvement and strong lending balance growth.

Housing margins improved due to lower funding and hedging costs and repricing. Front-to-back book and retention discounting impacts continued due to ongoing competition in the market.

Deposit margins decreased due to a lower interest rate environment, impacting transaction and saving deposit account margins. Strong transaction and savings balances growth, a function of high levels of liquidity in the market, has continued throughout FY21 resulting in total deposit growth of \$1.4 billion or eight per cent. Term deposits decreased \$0.9 billion or 17 per cent to \$4.7 billion in FY21 as the customer deposits mix rebalanced.

Third party cost increases were driven by higher payments to owner-managers and brokers relative to FY20 as a result of higher growth, whilst the increased settlement volumes have resulted in higher amortised acquisition costs.

Non-interest income

Non-interest income decreased by \$5 million or seven per cent on FY20 as COVID-19 continued to impact several transaction fee categories, notably those related to travel, whilst an ongoing shift in customer preference to lower or no fee product also continued to impact fee revenue. Lower VMA card and insurance revenue continued to be adversely impacted by the effect of COVID-19 on the travel industry. These were partly offset by income from a new card services arrangement with a third party supplier.

Operating expenses

Operating expenses increased \$21 million or six per cent on FY20. This was largely driven by an investment in employees to deliver strategic priorities including the VMA digital transformation, and to support volume growth, particularly in the areas of operations, product, marketing.

Loan impairment expense

Loan impairment expense was a credit of \$20 million in FY21 compared to an expense of \$56 million in FY20. This was primarily driven by a reduction in the collective provision in FY21 of \$37 million, which reflected an improved economic outlook. In FY20, a collective provision overlay of \$44 million was recorded for the potential impacts of COVID-19.

FINANCIAL PERFORMANCE

For the year ended 31 August 2021

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

Overview

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

\$ million	Year End Performance			Half Year Performance		
	Aug-21	Aug-20	Aug-21 vs Aug-20	Aug-21	Feb-21	Aug-21 vs Feb-21
Net interest income	555	543	2%	285	270	6%
Non-interest income	48	40	20%	23	25	(8%)
Total income	603	583	3%	308	295	4%
Operating expenses	(262)	(258)	2%	(130)	(132)	(2%)
Underlying profit	341	325	5%	178	163	9%
Loan impairment expense	-	(119)	Large	30	(30)	Large
Profit before tax	341	206	66%	208	133	56%
Income tax expense	(106)	(64)	66%	(65)	(41)	59%
Cash earnings after tax	235	142	65%	143	92	55%

KEY METRICS	Year End Performance			Half Year Performance		
	Aug-21	Aug-20	Aug-21 vs Aug-20	Aug-21	Feb-21	Aug-21 vs Feb-21
PERFORMANCE INDICATORS						
CTI (%)	43.4	44.3	(90bps)	42.2	44.7	Large
Net interest income / average GLA ⁽¹⁾ (%)	2.64	2.59	5bps	2.67	2.60	7bps
ASSET QUALITY						
90dpd arrears (\$ million)	118	139	(15%)	118	107	10%
Impaired assets (\$ million)	123	129	(5%)	123	115	7%
Loan impairment expense / GLA (bps)	-	55	(55bps)	(26)	27	(53bps)
BALANCE SHEET						
GLA (\$ million)	22,865	21,790	5%	22,865	22,053	4%
Housing (\$ million)	6,427	5,960	8%	6,427	6,162	4%
Commercial and other (\$ million)	9,981	9,571	4%	9,981	9,613	4%
Asset finance (\$ million)	6,457	6,259	3%	6,457	6,278	3%
Average Credit RWA (\$ million)	18,147	17,736	2%	18,147	17,553	3%
Customer deposits⁽²⁾ (\$ million)	10,838	9,726	11%	10,838	10,339	5%
Term deposits (\$ million)	1,393	1,543	(10%)	1,393	1,349	3%
Mortgage offsets (\$ million)	1,119	1,015	10%	1,119	1,122	-
Savings & investment (\$ million)	6,443	5,550	16%	6,443	6,011	7%
Transaction accounts (\$ million)	1,883	1,618	16%	1,883	1,857	1%
Deposit to loan ratio (%)	47	45	200bps	47	47	-

(1) Calculated on a cash earnings basis and net of offset accounts.

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

FINANCIAL PERFORMANCE

For the year ended 31 August 2021

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

Business review

BOQ Business has continued to support its large and small customers during the current difficult economic climate through ongoing lending and specific COVID-19 relief where required.

The business continued to execute on its niche segment strategy of providing a tailored relationship offering to customers and achieving total asset growth of \$1.1 billion or five per cent on FY20. This was matched by strong deposit growth of \$1.1 billion or 11 per cent over FY21 largely in the transaction and savings account products.

BOQ commercial growth of \$0.4 billion or 0.8x system. Other banking solutions such as merchant facilities and foreign exchange contributed to the diversification of the portfolio and stronger non-interest income.

The small business strategy remains a key focus and improvements to the lending offering have been made to policy, product and process. This has resulted in growth of \$52 million in the BOQ small business portfolio and the first year of growth in this portfolio since 2012. Both retention and new business volumes improved through the branch, broker and direct business banker channels.

BOQ Specialist commercial lending portfolio grew by \$0.2 billion or seven per cent on FY20, whilst asset financing in this channel contracted. Home lending grew by \$0.5 billion or nine per cent, with a strong second half as confidence returned to the sector. The mortgage offering provides a pipeline of customers with potential commercial lending needs in the future.

Improvements were made to online banking in BOQ Specialist that continued to drive deposit growth in transaction and savings accounts. BOQ Specialist focuses on clearly defined niches and has developed deep client relationships offering tailored consumer and commercial products and services to assist professionals.

BOQ Finance grew its \$5.5 billion asset finance portfolio by \$0.3 billion or five per cent due to record settlement volumes in Equipment finance and strong structured finance growth. Key industry growth continues to be in the transport, agriculture and construction industries. This was partly offset by a decline in the BOQ Specialist Asset finance book of \$75 million, which was driven by lower levels of investment from dentistry and medical practices.

Financial performance review

BOQ Business cash earnings after tax increased by \$93 million or 65 per cent on FY20. This result was driven by both improved underlying profit and favourable loan impairment expense due to a reduction in the collective provision.

Net interest income

Net interest income increased \$12 million or two per cent on FY20. This was driven by margin improvement in the business lending and asset finance portfolios.

Asset margins improved due to lower funding and hedging costs and whilst maintaining pricing. Income growth from assets was impacted as the lending growth occurred late in the year.

Deposit margins decreased due to a lower interest rate environment, impacting transaction and saving deposit account margins. Strong deposit growth has continued throughout FY21, reflecting the higher liquidity in the market and government stimulus for small business. Total deposit growth of \$1.1 billion or 11 per cent was driven by growth in transaction and savings accounts, partly offset by a decrease in term deposits as the customer deposits mix rebalanced.

Non-interest income

Non-interest income increased by \$8 million or 20 per cent on FY20. The increase was mainly driven by higher merchant terminal revenue from small business customers, financial markets customer transactions, the reinstatement of some fees paused during COVID-19 and income from a new card services arrangement with a third party supplier.

Operating expenses

Operating expenses increased by \$4 million or two per cent on FY20. This was driven by investment in small business initiatives, banker capability and regulatory and technology projects. This is targeting an improved customer experience and efficiency in the operational aspects of lending fulfilment.

The increase also reflected additional staff to support customers impacted by COVID-19 and increasing Know Your Customer (KYC) regulatory compliance costs. This was partly offset by lower discretionary spend particularly travel and entertainment.

Loan impairment expense

Loan impairment expense decreased by \$119 million on FY20. This was primarily driven by a reduction in the collective provision in FY21 of \$32 million due to improvements in data quality relating to collateral as well as an improved economic outlook. In FY20, a collective provision overlay of \$89 million was recorded for the potential impacts of COVID-19.

Specific provisions were largely unchanged on FY20 as activity remained subdued, reflecting improved economic conditions and government stimulus. A write back of one large commercial Agribusiness exposure that returned to performing following strong crop harvests due to improved weather conditions was offset by an increase in specific provision expense in Asset finance as lockdowns impacted some niche medical practices.

FINANCIAL PERFORMANCE

For the year ended 31 August 2021

4.3 OTHER SEGMENT INCOME STATEMENT AND FINANCIAL PERFORMANCE REVIEW

Overview

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

\$ million	Year End Performance			Half Year Performance		
	Aug-21	Aug-20	Aug-21 vs Aug-20	Aug-21	Feb-21	Aug-21 vs Feb-21
Net interest income / (expense)	3	6	(50%)	(3)	6	(150%)
Non-interest income	8	14	(43%)	3	5	(40%)
Total income	11	20	(45%)	-	11	(100%)
Operating expenses	(15)	(19)	(21%)	(8)	(7)	14%
Underlying profit / (loss)	(4)	1	Large	(8)	4	Large
Loan impairment expense	-	-	(100%)	-	-	(100%)
Profit / (loss) before tax	(4)	1	Large	(8)	4	Large
Income tax (expense) / benefit	3	(1)	Large	4	(1)	Large
Cash profit / (loss) after tax	(1)	-	100%	(4)	3	Large

Financial performance review

Cash earnings after tax was a loss of \$1 million in FY21, compared to \$nil for FY20.

Net interest income / (expense)

Net interest income decreased by \$3 million or 50 per cent on FY20. This primarily reflected lower income from Treasury's hedging of interest rate risk, partly offset by higher home loan break cost income.

Non-interest income

Non-interest income comprises St Andrew's insurance revenue and Treasury trading income. Non-interest income decreased by \$6 million or 43 per cent on FY20. This was mainly driven by lower insurance income following a decision in FY20 by St Andrew's to materially close to new business. It also reflects lower Treasury trading income as a lack of volatility and lower interest rate environment reduced trading income opportunities, together with reduced market exposures and widening in credit spreads in 2H21.

Operating expenses

Operating expenses decreased by \$4 million or 21 per cent on FY20. This primarily reflected a decrease in St Andrew's expenses following its closure to new business in FY20.

FINANCIAL PERFORMANCE

For the year ended 31 August 2021

4.4 PRO FORMA RESULTS

The following Pro Forma results are designed to facilitate a meaningful understanding of the combined Group's performance for FY20 and FY21 and to form a basis for the outlook for FY22.

They have been prepared on the basis that ME Bank was included for the full twelve months of FY20 and FY21. They reflect a number of adjustments to both BOQ and ME Bank in order to make the results more indicative of future performance including:

- Alignment of ME Bank to BOQ's August year end;
- Alignment of ME Bank to BOQ's presentation of net interest income, non-interest income and operating expenses; and
- Removal of St Andrew's insurance.

The Pro Forma results for the years ended 31 August 2020 and 2021 are outlined below.

\$ million	Pro Forma Year Ended Performance						Aug-21 vs Aug-20			
	BOQ Adjusted ⁽¹⁾ Aug-20	ME Bank Adjusted Aug-20	BOQ Group Pro Forma Aug-20	BOQ Adjusted ⁽¹⁾ Aug-21	ME Bank Adjusted ⁽²⁾ Aug-21	BOQ Group Pro Forma Aug-21	BOQ Adjusted ⁽¹⁾ %	ME Bank Adjusted %	BOQ Group Pro Forma %	
Net interest income	986	470	1,456	1,050	489	1,539	6%	4%	6%	
Non-interest income	117	16	133	118	16	134	1%	-	1%	
Total income	1,103	486	1,589	1,168	505	1,673	6%	4%	5%	
Operating expenses	(603)	(283)	(886)	(626)	(307)	(933)	4%	8%	5%	
Underlying profit	500	203	703	542	198	740	8%	(2%)	5%	
Loan impairment expense	(175)	(60)	(235)	20	9	29	Large	Large	Large	
Profit before tax	325	143	468	562	207	769	73%	45%	64%	
Income tax expense	(101)	(42)	(143)	(173)	(64)	(237)	(71%)	(52%)	(66%)	
Cash earnings after tax	224	101	325	389	143	532	74%	42%	64%	
Statutory net profit after tax⁽³⁾	114	87	201	352	111	463	Large	28%	130%	

KEY METRICS	Aug-20	Aug-20	Aug-20	Aug-21	Aug-21	Aug-21	Aug-21 vs Aug-20			
Profitability and efficiency measures										
NIM	(%)	1.91	1.59	1.79	1.95	1.70	1.86	4bps	11bps	7bps
CTI	(%)	54.7	58.2	55.8	53.6	60.8	55.8	(110bps)	Large	-
LIE to GLA	(bps)	37	22	32	(4)	(4)	(4)	(41bps)	(26bps)	(36bps)

(1) BOQ result has been adjusted as follows:

(a) VMA operating costs have been restated from non-interest income and included in operating expenses per ASX announcement on 30 September 2021.

(b) St Andrew's income as disclosed in note 2.4 and operating expenses and non-interest income of \$7 million in FY21 and operating expenses of \$9 million and non-interest income of \$11 million in FY20 have been removed to reflect the planned divestment in 1H22.

(2) Includes the amortisation of fair value adjustments on acquisition including an effective interest adjustment following a fair value adjustment to the loan portfolio on acquisition of ME Bank.

(3) ME statutory adjustments for FY21 include transaction costs (\$23 million), hedge ineffectiveness, intangible asset review, integration costs and amortisation of acquisition fair value adjustments.

FINANCIAL PERFORMANCE

For the year ended 31 August 2021

4.5 OUTLOOK

Despite the uncertain environment, we are cautiously optimistic that Australia remains well placed for economic recovery, characterised by further house price rises and solid growth in consumer spending and business investment.

There may still be uncertainty associated with COVID-19 for at least the next year. We expect that fiscal and monetary policy will continue to underpin the economic recovery. Over the next year, we will continue to maintain a prudent approach to provisioning given the ongoing impact of lockdowns.

FINANCIAL PERFORMANCE

For the year ended 31 August 2021

5 APPENDIX

5.1 CASH EPS CALCULATIONS

		Year End Performance			Half Year Performance		
		Aug-21	Aug-20 ⁽¹⁾	Aug-21 vs Aug-20	Aug-21 ⁽²⁾	Feb-21 ⁽¹⁾⁽²⁾	Aug-21 vs Feb-21
Reconciliation of cash earnings for EPS							
Cash earnings after tax	(\$ million)	412	225	83%	247	165	50%
Returns to other equity instruments ⁽³⁾	(\$ million)	(1)	-	(100%)	(1)	-	(100%)
Cash earnings available for ordinary shareholders	(\$ million)	411	225	83%	246	165	49%
Effect of Wholesale Capital Notes	(\$ million)	-	4	(100%)	-	-	-
Effect of Capital Notes 1	(\$ million)	9	11	(18%)	5	5	-
Effect of Capital Notes 2	(\$ million)	5	-	100%	4	2	100%
Cash diluted earnings available for ordinary shareholders	(\$ million)	425	240	77%	255	172	48%
Weighted average number of shares (WANOS)							
Basic WANOS – Ordinary shares	(million)	550	455	21%	630	468	35%
Effect of award rights	(million)	3	2	50%	3	3	-
Effect of Wholesale Capital Notes	(million)	-	18	(100%)	-	-	-
Effect of Capital Notes 1	(million)	38	59	(36%)	38	40	(5%)
Effect of Capital Notes 2	(million)	21	-	100%	28	15	87%
Diluted WANOS for cash earnings EPS⁽⁴⁾	(million)	612	534	15%	699	526	33%
Earnings per share							
Basic EPS – Ordinary shares	(cents)	74.7	49.6	51%	38.8	35.5	9%
Diluted EPS – Ordinary shares	(cents)	69.5	45.1	54%	36.2	32.8	10%

(1) The basic and diluted earnings per share for August 2020 and February 2021 have been adjusted per ASX announcement on 20 April 2021.

(2) The sum of 1H21 and 2H21 EPS and cash earning adjustments do not equal FY21 due to the impact of the capital raising and the uneven distribution of cash earnings after tax across the two halves of the year.

(3) Other equity instruments assumed on the acquisition ME Bank. Refer to Note 3.10(B) in the Financial Statements.

(4) During the year ended 31 August 2021, the Group granted 8,033,732 premium priced options to eligible employees. The options were anti-dilutive during the period and therefore have not impacted the diluted WANOS during the period.

FINANCIAL PERFORMANCE

For the year ended 31 August 2021

5.2 AVERAGE BALANCE SHEET AND MARGIN ANALYSIS

	FY21 ⁽¹⁾			FY20 ⁽²⁾		
	Average balance \$m	Interest \$m	Average rate %	Average balance \$m	Interest \$m	Average rate %
INTEREST EARNING ASSETS						
Loans & advances ⁽³⁾	45,241	1,430	3.16	44,375	1,656	3.73
Investments & other securities	8,569	28	0.33	7,388	59	0.80
Total interest earning assets	53,810	1,458	2.71	51,763	1,715	3.31
Non-interest earning assets						
Property, plant & equipment	134			157		
Other assets	1,679			1,696		
Provision for impairment	(355)			(257)		
Total non-interest earning assets	1,458			1,596		
Total assets	55,268			53,359		
INTEREST BEARING LIABILITIES						
Retail deposits	33,185	202	0.61	30,378	397	1.31
Wholesale deposits & borrowings ⁽⁴⁾	15,964	206	1.29	17,603	332	1.89
Total interest bearing liabilities	49,149	408	0.83	47,981	729	1.52
Non-interest bearing liabilities						
Total liabilities	50,327			49,221		
Shareholders' funds	4,941			4,138		
Total liabilities & shareholders' funds	55,268			53,359		
INTEREST MARGIN & INTEREST SPREAD						
Interest earning assets	53,810	1,458	2.71	51,763	1,715	3.31
Interest bearing liabilities	49,149	408	0.83	47,981	729	1.52
Net interest spread			1.88			1.79
Benefit of free funds			0.07			0.12
NIM – on average interest earning assets	53,810	1,050	1.95	51,763	986	1.91

(1) Relates to BOQ only.

(2) Comparative periods have been restated to conform to presentation in the current period. Derivatives have been reallocated to better match their association to assets or liabilities.

(3) Net of average mortgage offset balances.

(4) Includes hedging costs, execution costs and dealer fees.

FINANCIAL PERFORMANCE

For the year ended 31 August 2021

5.2 AVERAGE BALANCE SHEET AND MARGIN ANALYSIS (CONTINUED)

	2H21 ⁽¹⁾			1H21 ⁽²⁾		
	Average balance \$m	Interest \$m	Average rate %	Average balance \$m	Interest \$m	Average rate %
INTEREST EARNING ASSETS						
Loans & advances ⁽³⁾	45,970	706	3.05	44,511	724	3.28
Investments & other securities	8,697	14	0.32	8,441	14	0.33
Total interest earning assets	54,667	720	2.61	52,952	738	2.81
Non-interest earning assets						
Property, plant & equipment	126			144		
Other assets	1,732			1,626		
Provision for impairment	(350)			(360)		
Total non-interest earning assets	1,508			1,410		
Total assets	56,175			54,362		
INTEREST BEARING LIABILITIES						
Retail deposits	33,851	85	0.50	32,518	117	0.73
Wholesale deposits & borrowings ⁽⁴⁾	15,643	97	1.23	16,285	109	1.35
Total interest bearing liabilities	49,494	182	0.73	48,803	226	0.93
Non-interest bearing liabilities						
Total liabilities	50,620			50,034		
Shareholders' funds	5,555			4,328		
Total liabilities & shareholders' funds	56,175			54,362		
INTEREST MARGIN & INTEREST SPREAD						
Interest earning assets	54,667	720	2.61	52,952	738	2.81
Interest bearing liabilities	49,494	182	0.73	48,803	226	0.93
Net interest spread			1.88			1.88
Benefit of free funds			0.07			0.07
NIM – on average interest earning assets	54,667	538	1.95	52,952	512	1.95

(1) Relates to BOQ only.

(2) Comparative periods have been restated to conform to presentation in the current period. Derivatives have been reallocated to better match their association to assets or liabilities.

(3) Net of average mortgage offset balances.

(4) Includes hedging costs, execution costs and dealer fees.

GOVERNANCE AND RISK MANAGEMENT

Managing our risk landscape

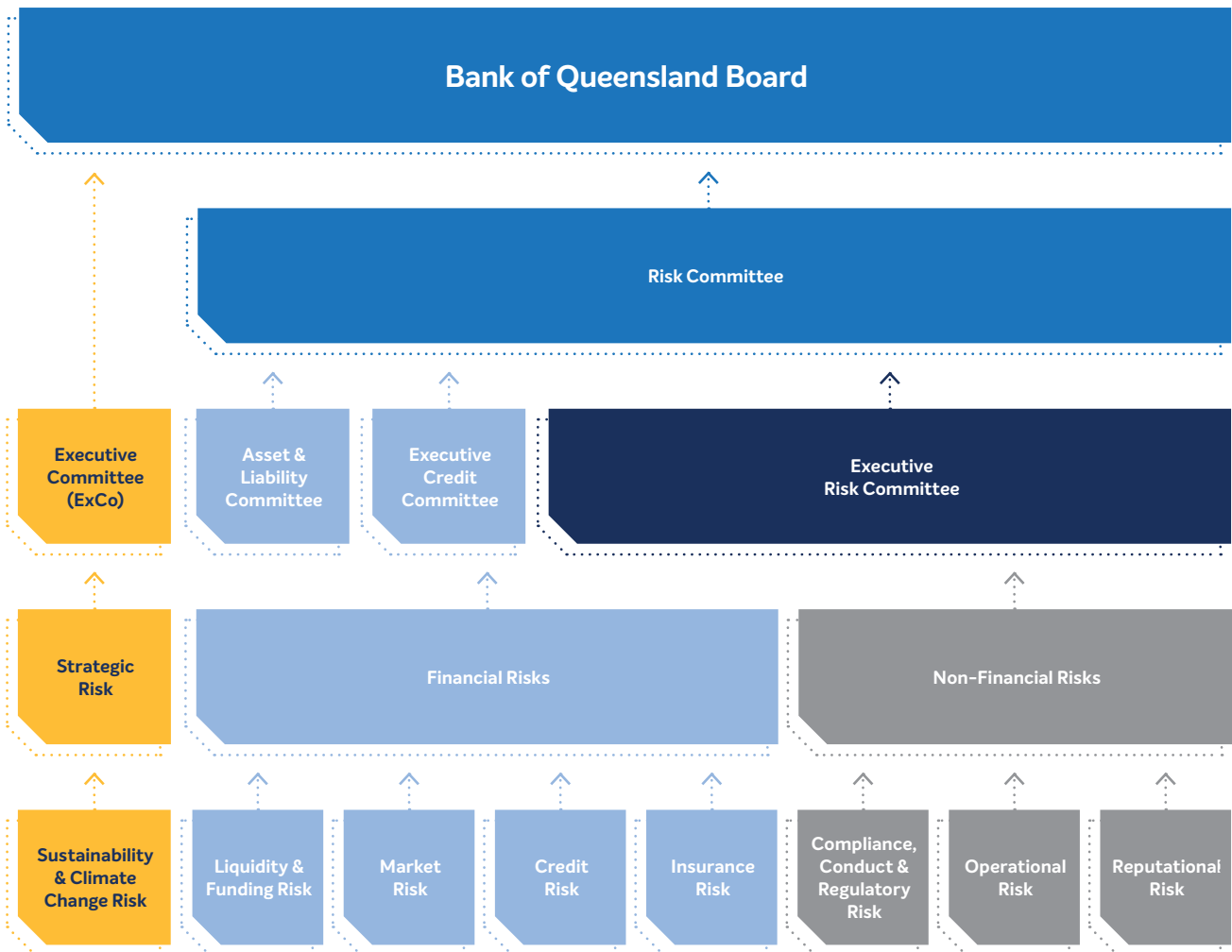
BOQ's approach to the effective and prudent management of key risks is at the forefront of our business strategy. Key risks are identified and managed as part of a Group Risk Management Framework that includes the Board approved Business Plans, Risk Management Strategy and Risk Appetite Statement, followed by the capital and funding plans.

A cornerstone of the enterprise-wide strategy is the annual Board Strategic Review, which provides a forward outlook taking into consideration various factors:

- Macroeconomic and financial services outlook
- Internal, environmental and competitive assessment
- Group strategic, risk and financial objectives
- Group strategy statement
- Financial forecast
- System growth assumptions and relative returns of business lines (Banking)
- Key strategic initiatives
- Strategic goals and targets
- Material strategy execution risks and proposed mitigating actions

Another cornerstone of the enterprise-wide strategy is the Group Risk Appetite Statement which covers the principal sources of risk and is cascaded to businesses, as part of the business unit planning process, qualitatively (through risk policies, standards and operating procedures) and quantitatively (through risk limits, settings and decision authorities).

The below diagram illustrates the governance framework for managing BOQ's key risks and how they are identified, measured, monitored and reported from Management up to the Board.



GOVERNANCE AND RISK MANAGEMENT

BOQ's operations and performance are impacted by strategic risks, financial risks and non-financial risks. Key risks are identified and managed as part of BOQ's risk management framework. The below table outlines the key risks impacting the business and how BOQ manages these.


Risk	Description
Compliance, conduct & regulatory engagement risk	The risk of failure to comply with any regulatory obligations including data privacy breaches; the risk of inadequate response to regulatory change; not acting in accordance with customers' best interests; not designing and distributing products and services to customers in an adequate, accurate and proper manner; not acting in accordance with BOQ's values and Code of Conduct; not acting in accordance with Workplace Health and Safety laws; not complying with Environmental laws. Failure to adhere to the requirements of BOQ's Financial Crime Compliance Framework which includes BOQ's Anti-Money Laundering and Counter-Terrorism Financing Program - Parts A and B, Anti-Bribery and Corruption and Sanctions Evasion.
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.
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.
Operational risk	The risk of loss resulting from inadequate or failed internal processes, people and systems, and/or from external events. As such, operational risk captures business continuity plans, crisis management, process, systems and operations risk, people related risks, health and safety related risks, information technology, information security, and data risks.
Insurance risk	Insurance risk arises from the ownership and operation of insurance companies. Insurance Risk can be broadly defined as an unexpected economic gain or loss relating to movements in claim costs. This includes the risk that inadequate or inappropriate product design (including pricing), underwriting, claims management and reinsurance management will expose the business to financial loss and the consequent inability to meet its liabilities.
Contagion risk	The primary sources of market contagion risk relate to correlated concentrations, balance sheet contagion and severe market liquidity events. Internal contagion risk is the risk that problems arising in BOQ's subsidiaries may compromise the financial and operational position of the BOQ Group.
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.
Strategic risk	Strategic Risk is the risk that might arise from the pursuit of a business model or strategy that is not viable.
Sustainability and climate change risk	More detail on climate change risk can be found on pages 61 - 69.

GOVERNANCE AND RISK MANAGEMENT

Management of Risk


Value Drivers

BOQ has a Compliance Management Framework and underlying standards and procedures that outline how compliance risks are identified and managed within risk appetite and tolerance to meet regulatory requirements. This is supported by a Privacy Management and Financial Crime Compliance Framework to manage the risk of money laundering and terrorism financing and other financial crime risks, and a Conduct Risk Standard that outlines the approach to establishing and maintaining a strong ethical culture via embedded principles and policies. Regulatory obligations are mapped to controls and captured in the Governance Risk and Compliance (GRC) tool to allow early identification of potential obligation breaches via incident management, assurance and issue management. Incident management also includes ensuring timely and appropriate notifications to regulators. Regulatory change is managed through a Regulatory Change Roadmap.


 Customer

 Finance

Risk management practices in place to support effective credit risk management include the establishment and ongoing maintenance of a limits monitoring and management framework. BOQ's Credit Risk Management Principles provide core standards for the provision of credit for all customers. The credit risk management principles express the expectations of the Board for both the analytical and behavioural aspects of granting of credit to customers. BOQ maintains a suite of credit policies to address the range of lending products provided to customers and to satisfy the Board level requirements expressed in the Credit Risk Management Principles and Risk Appetite Statement.

 Customer


 Finance

 Environment & climate change


BOQ maintains a diverse and stable pool of potential funding sources. The Bank maintains adequate liquidity buffers and short-term funding capacity to withstand periods of disruption in long-term wholesale funding markets. BOQ adopts a robust limit framework including stress testing and scenario analysis that enables risk based decisioning ensuring the business remains within risk appetite.

 Finance

BOQ has an Operational Risk Management Framework and underlying standards and procedures that outlines how operational risks are identified and managed within risk appetite and tolerance to meet regulatory, customer, operational and strategic requirements. This includes mechanisms to undertake risk-reward business decisions taking into account operational risk exposures and the control environment. These risks are managed through our GRC tool.

 Customer

 People

 Environment & climate change

 Finance

St Andrew's manages insurance risk through the Reinsurance Management Strategy, Claims Management Policy and the Risk Appetite Statement. The divestment of St. Andrew's will significantly reduce the exposure BOQ has toward insurance, and therefore the necessity to have this as a material risk class.

 Finance

BOQ's credit portfolio limit framework and risk appetite measures enable effective management of market contagion risk. BOQ applies common risk management practices across all Group subsidiaries. The performance of subsidiaries is subject to ongoing review and oversight, with senior management representation on subsidiary management committees and boards.

 Finance


BOQ has relevant risk management frameworks for the management of the underlying risks which can have an impact on reputation risk, as outlined in this section. Supporting this are conduct and reputational risk frameworks outlining the approach to establishing and maintaining a strong ethical culture via embedded principles and policies throughout the Group to support the management of reputation risk.


 Customer

 Finance


Business strategy development incorporates risk management practices to ensure any potential changes in the level of risk, including new risks, are continuously considered when making strategic decisions. Key strategic risks are subject to ongoing review and analysis with monthly reporting provided to management and the Board including performance against strategic growth targets.

 Finance

 Technology & data capabilities

 Community

Refer to page 62 for full details on how we are managing sustainability risk and climate change.

 Environment & climate change

GOVERNANCE AND RISK MANAGEMENT

MANAGING THE EVOLVING RISK ENVIRONMENT

The financial services industry continues to receive significant focus from the Federal Government, regulators, investors and consumers. A summary of the key areas of reform and areas of increased risk focus are outlined below.

Regulatory developments

Policy and Priorities

Following a suspension in March 2020, later in the year APRA recommenced its planned policy and supervision agenda to prioritise activities that responded to the impacts of COVID-19.

In February 2021, APRA released its policy and supervision activities across 2021/22. A key focus was on enhancing the resilience and crisis readiness of Australia’s financial system. Achieved by working closely with peer regulators to support the recovery from the impacts of COVID-19 through delivery of efficient, proportionate regulation that facilitates a resilient, competitive and innovative financial sector.

For the remainder of 2021, APRA’s policy priorities will centre on completing key reforms to strengthen financial resilience. Of relevance to BOQ, these include:

- Completing the bank capital reforms, with three final standards for capital adequacy to be released in November 2021 and to apply from January 2023
- Consulting on reforms to the insurance capital framework to reflect changes in the accounting standard AASB17
- Consulting on new standards for financial contingency planning and resolution, to be released in November 2021 for an extended consultation

In addition, APRA advised it also plans to release final guidance on managing the financial risks of climate change in addition to an Information Paper setting out APRA’s framework for the use of macro-prudential policy tools.

APRA also noted that several other policy releases originally scheduled for this 2021 have been deferred to 2022, including standards for operational resilience, remuneration disclosure requirements, interest rate risk in the banking book and offshore reinsurance.

ASIC released an interim one year corporate plan refreshing its strategic priorities in response to the impact of COVID-19. The priorities for 2020–21 are:

- Protecting consumers from harm at a time of heightened vulnerability
- Maintaining financial system resilience and integrity
- Supporting Australian businesses to respond to the effects of the COVID-19 pandemic
- Continuing to identify, disrupt and deter the most harmful conduct, including through enforcement action
- Continuing to build our organisational capability in challenging times

Capital Management

APRA provided guidance to all ADIs and Insurers on capital management to ensure entities can fulfil their role in supporting the economy, which included:

- Regular stress testing to assess financial resilience in a range of scenarios, including severe but plausible downturn conditions
- Assurance on the capacity to continue to lend and underwrite insurance, with the use of capital buffers to absorb the impacts of stress if needed
- A rigorous approach to recovery planning, to ensure readiness to initiate contingency measures and respond to conditions if required
- Caution in capital distributions, with an ongoing measured approach to dividends in this heightened risk environment

Conduct

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

On 12 November 2020, the *Financial Sector Reform (Hayne Royal Commission Response) Bill 2020* was introduced into the House of Representatives implementing 21 of the 76 recommendations from the Royal Commission.

The package of reforms implements a significant number of the Royal Commission recommendations and the additional commitments made by the Government to improve consumer protections and strengthen regulators. This includes addressing conflicts between the interests of financial institutions and their customers, ensuring customers are treated fairly in dealings with the financial sector and ensuring regulators have the powers and resources needed to be effective in their enforcement and supervision role.

The Bill was passed on 10 December 2020.

While the reforms apply across all financial services, including superannuation and insurance, and also impact the roles of APRA and ASIC, the key impacts for BOQ are as follows:

Legislation	Start date
Substantial changes to mandatory breach reporting	1 October 2021
Expansion of the anti-hawking rules	5 October 2021
Introduction of a deferred sales model for add-on insurance	5 October 2021
Caps on commissions for add-on insurance	1 January 2021 (but no caps enacted at this stage)
Enforceable code provisions	1 January 2021 (but no codes prescribed as enforceable at this stage)

GOVERNANCE AND RISK MANAGEMENT

MANAGING THE EVOLVING RISK ENVIRONMENT (CONTINUED)

Conduct (continued)

Risk Governance Self-Assessment

BOQ is committed to continuous improvement in our risk governance practices. During the year, BOQ continued to advance our risk maturity and capabilities to manage non-financial risks in order to deliver sustainable improvement in risk management practices, including enhancements to our key risk frameworks, mechanisms to monitor maturity and risk appetite.

Financial Accountability Regime

On 16 July 2021 the Federal Treasury released exposure draft legislation to implement further recommendations of the Banking, Superannuation and Financial Services Royal Commission, including the Financial Accountability Regime (**FAR**) that will replace the current Banking Executive Accountability Regime (**BEAR**) applicable to ADIs.

FAR imposes a strengthened responsibility and accountability framework within financial institutions, absorbs the BEAR requirements and makes a number of changes, including:

- Extension of the regime beyond the banking industry to include insurance and superannuation sectors
- Introduction of new responsibilities including product, dispute resolution, customer remediation and breach reporting, which will be allocated to senior executives
- ASIC will join APRA as a co-regulator

Timeliness for implementation of the FAR forms part of the current consultation, which BOQ continues to actively engage in and is committed to comply with the requirements of FAR.

Regulatory oversight & change

Design and Distribution Obligations

The *Treasury Laws Amendment (Design and Distribution Obligations and Product Intervention Powers) Act 2019 (DDO)* is an end-to-end approach to manage design and distribution of products. DDO places responsibility on financial firms to ensure that products are designed and distributed to the appropriate class of customer. This will be achieved by defining who the target market is for each product and then taking measures to ensure that only customers who fall within that target market are issued with that product (Target Market Definitions). The obligations will apply to all products within BOQ, with the exception of business credit. The DDO are broken into two separate categories: 'design obligations' and 'distribution obligations'. The 'design obligations' will belong to the product issuer and the 'distribution obligations' will belong to the product 'distributor'. In many cases, BOQ will act as both product issuer and distributor. In other cases, broker and white label partners will be the distributors.

DDO was implemented by the BOQ group prior to the 5 October 2021 deadline. BOQ already has processes in place for managing the life cycle of its products which will be updated to include the new requirements introduced by DDO.

New Regulatory Guide 271 – Internal Dispute Resolution

On 30 July 2020, ASIC released the Regulatory Guide (**RG**) 271 on *Internal Dispute Resolution (IDR)*, which seeks to raise the IDR standards across the financial sector. The new RG, makes parts of the IDR standards and requirements enforceable, which will require an increased focus on complaints handling across the industry.

The changes that will likely have the greatest operational impact include:

- The updated requirement to acknowledge complaints within 24 hours of receiving it
- The new 30-day resolution timeframe for standard complaints reduced from 45 days
- The heightened focus and new requirements for the early identification and investigation of systemic issues
- The need to ensure that all the social media platforms owned or controlled by a firm will be monitored for complaint identification

The new RG comes into effect on 5 October 2021, the same go-live date as the DDO regime. The effective and appropriate management of complaints continues to be a focus for BOQ and a regulatory change group will work towards effective implementation of this new RG.

Consumer Data Right Bill (CDR) and Open Banking

CDR is designed to give customers more control over their banking data, and improve customers' ability to compare and switch between products and services. The Government has committed to implementing CDR in the banking, energy and telecommunications sector. For the banking sector, this is referred to as "Open Banking" and is the first sector to apply the CDR.

At BOQ, the sharing of consumer reference data was due to take place by 1 July 2021. BOQ did not meet compliance by 1 July 2021, and has a rectification schedule in place to commence sharing consumer reference data later this year, and to ensure compliance with the CDR regime more broadly.

GOVERNANCE AND RISK MANAGEMENT

MANAGING THE EVOLVING RISK ENVIRONMENT (CONTINUED)

Hawking of Financial Products

The new anti-hawking rules came into effect on 5 October 2021 and they expand the current anti-hawking regime applicable to general insurance by making it apply to all financial products (as defined in the *Corporations Act*) sold to a retail customer. Credit products are not in-scope under the new rules.

Broadly speaking, the legislation prohibits an offer to issue or sell a financial product to a retail customer, or invite the customer to ask for a product, unless the contact occurs following a positive, express request from the customer. The prohibition applies to real-time contact which the customer does not expressly and positively request, for example, contact in-person, in online chats and by phone. The regime is not intended to apply to emails or other written correspondence where the customer is not expected to respond immediately. Once the customer has made such a request regarding a financial product, there is a period of 6 weeks in which to discuss the product and make an offer to the customer, before the customer consent/request is deemed expired.

BOQ had a project team working to ensure compliance with the new hawking regime. BOQ has provided training to employees to ensure compliance with the new rules, and implemented a refreshed approach to providing insurance products to ensure only positive, express requests from the customer are actioned.

Breach Reporting

The legislation relating to breach reporting represents a substantial overhaul of the mandatory breach reporting regime.

From 1 October 2021, BOQ has to report:

- Every breach of a civil penalty provision e.g. this would include every breach of the requirement to act efficiently, honestly and fairly – no materiality threshold
- Every breach of the misleading and deceptive conduct provisions – no materiality threshold
- Every breach of a criminal penalty provision
- Every breach that may result in material loss or damage to a person/s to whom BOQ provides financial services
- Every investigation into a potentially reportable matter that runs beyond 30 days, including where the matter is deemed non-reportable after investigation

The breaches must be reported 30 calendar days from when BOQ knew or should have known about the issue.

In addition, there is what is being referred to as the “dobbing obligations” where BOQ has a duty to lodge a report with ASIC where there are reasonable ground to believe there is reportable conduct by a mortgage broker or financial advisor (in relation to complex financial products sold to retail customers).

BOQ had a project team working to ensure compliance with the new breach reporting regime. BOQ has provided training to employees to ensure compliance with the new rules, and implemented a refreshed approach, including GRC Tool enhancements, to breach reporting to ensure the regulatory requirements are achieved.

Financial crime

Anti-Money Laundering and Counter Terrorism Financing Compliance

Recognising that banks play a vital role in preventing and detecting financial crime to protect Australia’s financial system from criminal exploitation, BOQ continues to build its financial crime capability through technology, people, partnerships and a strong Anti-Money Laundering (**AML**)/Counter Terrorism Financing (**CTF**) framework.

BOQ continues to engage with Australian Transaction Reports and Analysis Centre (**AUSTRAC**) in relation to BOQ’s AML/CTF program and continues to enhance and strengthen its AML/CTF systems and controls following the closure of the findings by AUSTRAC post their onsite review in 2018. The deployment of a new platform for AML/CTF controls has enhanced BOQ’s capability to prevent, detect and mitigate financial crime risks across BOQ.

Credit risk

Response to COVID-19

BOQ worked swiftly and decisively with the Australian Banking Association (**ABA**), the Federal Government and regulators to establish the Banking Relief Package program for customers impacted by COVID-19. BOQ deployed 70 highly skilled individuals into the Customer Assistance Team, dedicated to assisting customers impacted by COVID-19.

Building upon the processes implemented in 2020, BOQ continues to monitor the credit quality of the portfolio to assess economic impacts due to COVID-19, particularly in light of the recent spike in cases causing the reintroduction of more severe restrictions and lockdowns. BOQ has a number of credit models designed to assist in measuring the credit risk in the portfolio based on changing economic and environmental conditions.

Further information on BOQ’s response to COVID-19 can be found on page 14.

GOVERNANCE AND RISK MANAGEMENT

BOQ AND CLIMATE CHANGE

Climate change is visibly impacting our customers, our people, our suppliers, and society more broadly.

We acknowledge these impacts and take action managing our climate related risks through scenario analysis, consideration of outcomes into risk management and resilience activities, reducing our footprint by becoming a carbon neutral organisation, and tracking the impact of our lending activities.

This year we elevated our climate scenario analysis that informs the resilience of our strategy by engaging with climate scientists and other relevant experts.

Going forward, we will continue to evolve our assessment of climate risks and its impact on our business. This evolution includes further integration of the outcomes of stress testing and scenario analysis into BOQ's strategic response to climate related risks and opportunities and the activities needed to support our customers through the transition to a low carbon economy.

We also see opportunity to influence the transition to a resilient low carbon economy by engaging with our customers and suppliers, consistent with our purpose to create prosperity for our customers, shareholders and people through empathy, integrity and by making a difference.

Climate risk position

BOQ accepts climate change is the product of human influence and supports the transition to a net zero carbon economy in alignment with the Paris Agreement to keep global warming well-below 2 degrees Celsius and striving to limit warming to 1.5 degrees Celsius. The recent Intergovernmental Panel on Climate Change (IPCC) report reinforces the urgency for both governments and corporates to accelerate action to tackle climate change as warming caused by greenhouse gas emissions is increasing the rate of unprecedented disruption in every region across the world. The impacts of climate change are increasingly shaping investment flows, policy, and consumer behaviour.

Financial regulators including ASIC and APRA, through their recent draft prudential guidance, have continued to highlight climate-related risks as a potential source of financial risk to the future stability and resilience of the financial system. As a distributor of capital, we play a role in supporting the transition to a lower carbon economy through our direct consumption of resources and through our financing activities. We are committed to advocating for and integrating strong climate change action into all facets of our organisation.



GOVERNANCE AND RISK MANAGEMENT

BOQ AND CLIMATE CHANGE (CONTINUED)

Governance

The Board and Risk Committee directly oversees BOQ’s climate-related risks, opportunities and strategies and are responsible for reviewing and approving respective climate-related objectives, performance, goals, and targets. Progress on climate change commitments and targets are reviewed by the Board on a quarterly basis through our Sustainability Balanced Scorecard. Updates to policy, regulatory, and liability responses to climate change are reported to the Board and the Risk Committee on a regular basis as needed.

The Board delegates the day to day management of environmental and social risks and opportunities including climate change to the Executive Team. The Executive Team are accountable for BOQ’s actions and commitments to embed climate change into BOQ’s business strategy and risk management.

The Sustainability Working Group (**SWG**) supports executive management with the development and implementation of climate initiatives and reporting requirements. The SWG is made up of senior representatives across the Group who are involved in the day to day management of climate change and other sustainability matters. SWG members are responsible for ensuring the leadership teams across the bank remain informed on climate related issues and our progress on climate change commitments and targets.



Risk management

Our processes for identifying and assessing climate-related risks are integrated into multi-disciplinary company-wide risk management activities with a focus on material credit and operational risks.

We have updated our Risk Management Strategy (**RMS**) and Risk Appetite Statement (**RAS**) to specifically address climate and sustainability risk. These policies set out the Board’s expectations regarding the degree of risk that BOQ is prepared to accept. The RMS and RAS are updated annually, informed by workshops to validate and prioritise our approach to climate change risks. This process is supported by scenario analysis and external climate consultants and scientists.

Scenario analysis is used to inform potential future exposure to material climate risks and opportunities across business units and locations. This provides insight into where climate change mitigation and adaptation could be incorporated into our strategy to support our customers as well as to capture commercial opportunities and ensure our business operations are resilient.

The management of climate change is embedded in our business through credit policies overseen by the Executive Credit Committee such as the Ecological Care and Sustainability Lending Policy to assess potential environmental implications to credit risk. Credit risk operational activities are assessed at a portfolio level as well as at an individual credit exposure level on a case-by-case basis. Property valuations take into account factors such as flooding and environmental risk including insurance impacts 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. The climate scenario analysis is undertaken at the portfolio level.

We are also continually monitoring trends, concerns, publications, and actions that emerge from regulators and investors through structured engagement and industry forums.

This allows BOQ to keep abreast of changes to climate-related risks including compliance with any legislative or regulatory obligations. We are continuing to evolve how we assess climate risk and its impact on our business, which will include the development of a Climate Change Risk Management Framework.

GOVERNANCE AND RISK MANAGEMENT

BOQ AND CLIMATE CHANGE (CONTINUED)

Strategy

BOQ is committed to supporting Australia and our customers to transition to a low carbon and climate-resilient economy. Our approach to climate change is informed by prioritised risks and opportunities. This has led to an initial set of commitments covering BOQ's operations and includes achieving carbon neutrality and sourcing 100 per cent renewable energy.

This year we have increased the sophistication of our climate scenario analysis by engaging with climate scientists and relevant experts to better understand the potential financial-related impacts of key risks and opportunities, delivering on our prior year commitment.

With a focus on credit, liquidity market and operational risks, we have prioritised the below climate risks and opportunities over the short term (0-5 years), medium term (10 years) and long term (20+ years), informing areas required for further climate scenario analysis.

Climate Risks (R) / Opportunities (O)	Timeframe	Potential impacts on BOQ customers and BOQ
Physical		
Acute		
R & O Extreme weather events including flooding associated with extreme rain, cyclones, storms, and bushfires	Short to long term	<ul style="list-style-type: none"> Decline in value of assets due to impact Rise in insurance premiums or inability to obtain insurance Business disruption Devaluation of collateral Increased expenses Reduced profitability Increased arrears, hardship and impairments
Chronic		
R Long-term weather changes such as rising temperatures, sea level rise and drought	Long term	
Transition		
Policy		
R Government climate policies (e.g. carbon taxes and cross border tariffs)	Short to medium term	<ul style="list-style-type: none"> Reduced market competitiveness Increased operating costs/ complexity Increased credit risk
R Increased climate regulation for financial institutions	Short term	<ul style="list-style-type: none"> Enhanced reporting and compliance obligations
Technology		
R & O Transition to renewable energy, lower emissions technology, and electrification	Short to medium term	<ul style="list-style-type: none"> Increased / decreased costs Increased / decreased profitability Obsolete assets Increased / decreased credit risk
Market		
R Disruption of carbon intensive industries and associated value chains	Short to medium term	<ul style="list-style-type: none"> Obsolete assets Devaluation of collateral Increased arrears, hardship and impairments
O Growth of low carbon sectors	Short to long term	<ul style="list-style-type: none"> Increased profitability Reduced carbon intensity of loan book
R & O Shift in demand for services and products	Short to medium term	<ul style="list-style-type: none"> Increase/ decrease of customers and income Increased costs/ complexity from new products
Reputation		
R & O Increased climate risk focus from investors	Short to medium term	<ul style="list-style-type: none"> Increased/ decreased cost of capital
R & O Alignment with customer and employee values on climate change	Short to medium term	<ul style="list-style-type: none"> Higher productivity, increased ability to retain and attract talent Increase/ decrease of customers and income
Liability		
R Increased stakeholder activism/ litigation against organisations demonstrating insufficient climate action	Short to medium term	<ul style="list-style-type: none"> Business disruption, increased costs Director liability Reputational damage

GOVERNANCE AND RISK MANAGEMENT

BOQ AND CLIMATE CHANGE (CONTINUED)

Climate scenario analysis

In FY21 we expanded our scenario analyses of climate risks to include physical risks from climate extremes to BOQ’s residential lending portfolios across (including ME Bank) and the BOQ Business property and construction portfolios.

We also enhanced our transition risk analysis of commercial lending and asset finance and leasing across BOQ, BOQ Finance, and, BOQ Specialist to assess risks and opportunities from disruption of carbon intensive sectors, and growth of low carbon sectors.

The scenario analysis evaluated the impact of both physical and transition risk to BOQ in line with the latest industry guidance and best practice, utilising reference scenarios sourced from global sources including:

- IPCC to describe plausible physical climate futures resulting from global Representative Concentration Pathway (RCPs); and
- Network for Greening the Financial System (NGFS) transition pathway scenarios to assess the impact of climate-related transition risks.

	Physical Risk	Transition Risk & Opportunities
	Climate Extremes	Growth of low carbon sectors or disruption of carbon intensive sectors
Businesses and portfolios	Residential portfolio across all BOQ brands BOQB property and construction portfolio	Commercial lending and asset finance and leasing across BOQ, BOQF and BOQS
Risks Assessed	Extreme heat Extreme rain Very high fire days Cyclones and east coast lows Extreme sea level events Chronic temperature and sea level rise	Change in exposure to transition risk estimated as the additional costs upon a sector as a result of its direct and indirect emissions from a carbon price under the relevant scenario
Approach	BOQ’s portfolio was mapped on a postcode scale nationally. ⁽¹⁾ These locations were overlaid with multi-model averaged future climate change projections from publicly available regional (5 km scale) and global (~100 km scale) climate model datasets, and peer reviewed literature	Using downscaled Australian-level data from global NGFS models, in addition to Australian statistics regarding emissions and industry value added. Calculated the change in sectoral emissions and additional costs upon a sector as a result of its direct and indirect emissions from a carbon price ⁽²⁾ under different scenarios. BOQ’s financial sectoral exposure is overlaid to infer the implications for the bank. The composition of sectoral exposure was held constant for the purposes of the analysis.
Timeframe	2030, 2050	2030, 2040, 2050
Reference scenarios	Strong climate action (RCP4.5) No global climate action (RCP8.5)	NGFS: Orderly - Below 2°C – (2°C aligned) - Net Zero 2050 – (1.5°C aligned) Disorderly - Delayed Transition – (2°C aligned) - Divergent Net Zero – (1.5°C aligned)
Metrics considered	Number of days over 35°C annually 1-in-20yr wettest day rainfall Number of days annually where the Forest Fire Danger Index exceeds 25 (very high rating) Cyclone intensity, frequency and land rainfall rate 1-in-100yr Extreme sea level events	Industry value added Sectoral emissions Carbon price

(1) Assessment includes 85% of BOQ’s total credit risk.

(2) Scenario analysis process uses a carbon price as a representation of a suite of policies and regulations which may or may not be purely financial.

GOVERNANCE AND RISK MANAGEMENT

BOQ AND CLIMATE CHANGE (CONTINUED)

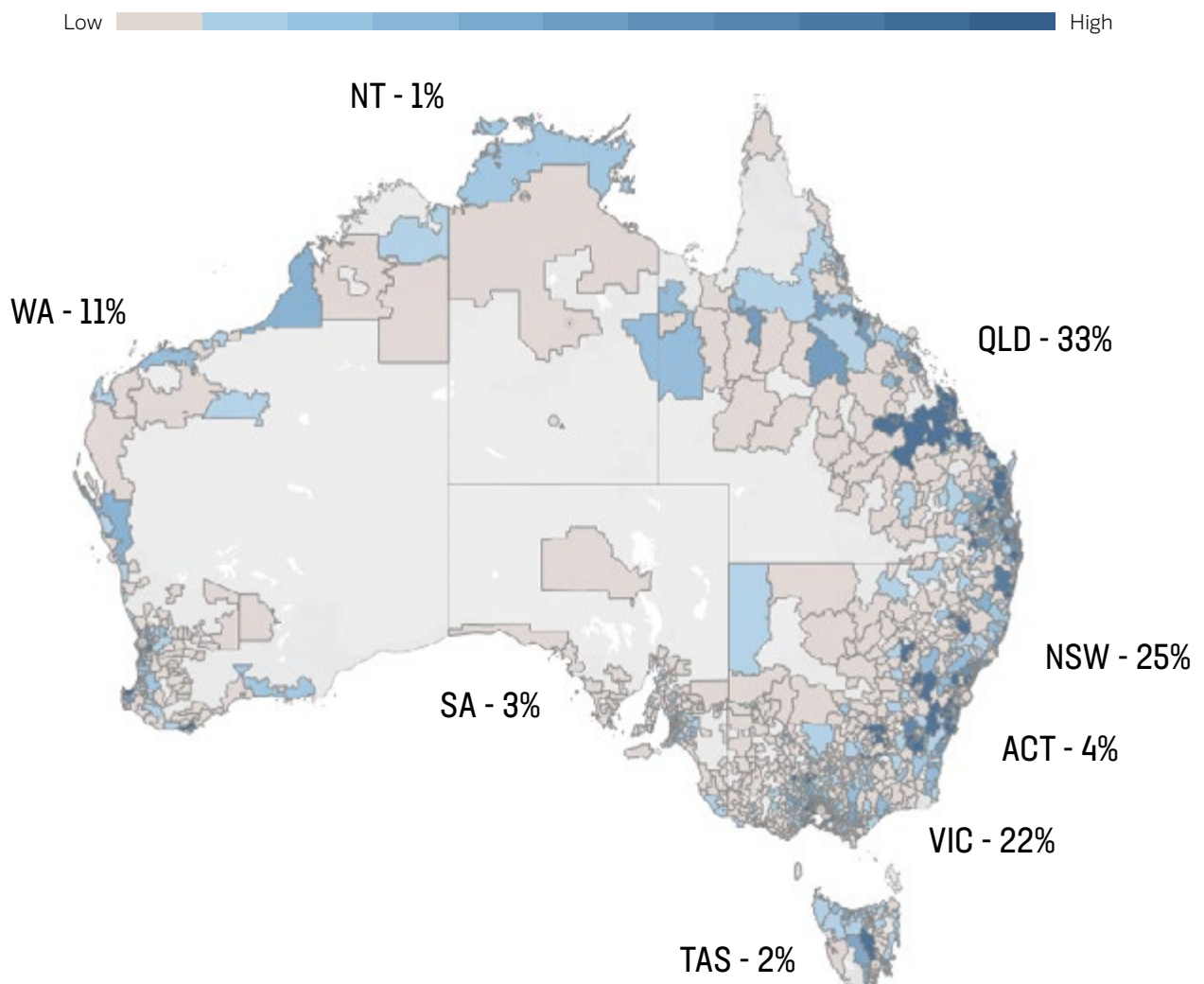
Climate scenario analysis (continued)

Physical risk scenario analysis insights

Prolonged exposure to hotter temperatures, and extreme temperature events such as widespread drought and heatwaves, extreme rainfall events and rising sea levels can damage property and reduce health and liveability. Severe weather and long-term changing weather patterns may reduce collateral values thereby increasing credit risk via a higher loss given default or result in loss of asset values and increase volatility. Moreover, macroeconomic shocks may increase liquidity risk. It is expected there will be future changes in physical climate hazards (extreme rain, heat, fire and sea level events) across BOQ's residential and construction portfolio assets.

Figure 1 shows the concentration of assessed collateral by postcode. The highest concentration of collateral is located on the north to south-east QLD coast, central and south-east NSW coast and metropolitan Victoria. While the ME Bank has diversified the geographic spread of BOQ, all states in the portfolio are at risk to increasing frequency of one or more climate hazards.

Figure 1: Concentration of BOQ's Portfolio



GOVERNANCE AND RISK MANAGEMENT

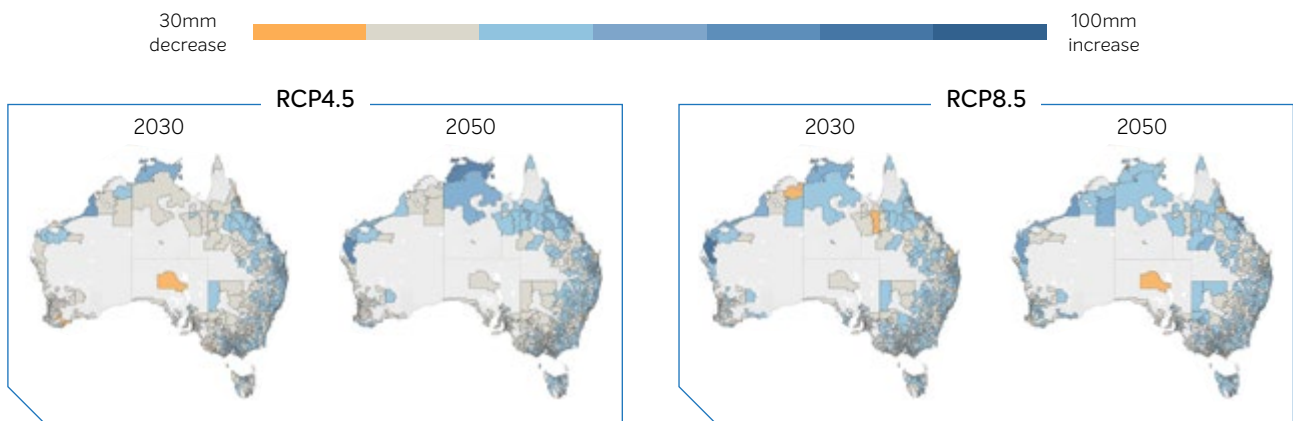
BOQ AND CLIMATE CHANGE (CONTINUED)

Climate scenario analysis (continued)

Physical risk scenario analysis insights (continued)

Scenario analysis found increases in extreme rain are likely to be experienced across Australia. Changes are non-uniformly distributed across time and spatially. Figure 2 shows the projected future change in the intensity of the 1-in-20 year extreme rainfall across BOQ’s portfolio under a strong climate action (RCP4.5) and no global climate action (RCP8.5) scenario.

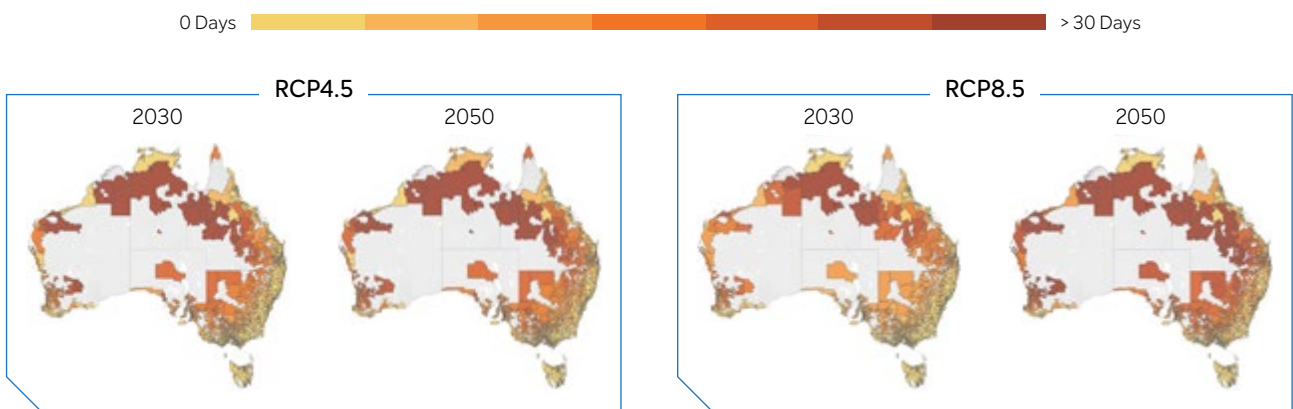
Figure 2: Future change in the 1-in-20yr extreme rainfall in 2030 compared to (1986-2005)



By 2030 under RCP8.5 the annual average temperature in Australia is projected to increase by 0.6-1.3°C above the mean temperature and extreme heat risk similarly increases. Extreme heat conditions can disrupt construction labour and change soil structure. The scenario analysis found that the BOQB property and construction portfolio is projected to experience at least 7 additional hot days over 25°C annually across inland NT, SA, WA, NSW and QLD portfolios.

A warmer and drier climate provides favourable conditions for increases in bushfire risk. Models project that under RCP8.5 in 2030, the majority of the NT, SA and WA portfolios will experience at least an additional 6 days of very high fire danger (Figure 3).

Figure 3: Future change in very high fire days annually compared to (1986-2005)



Our strategy and risk management framework has controls in place to ensure we appropriately manage physical risks. An important mechanism in ensuring our exposure to physical climate risk remains low is our customers maintaining insurance protection in accordance with their lending contracts.

In the longer term, insurance affordability or inability to insure will need to be tracked in addition to enhanced consideration of potential flood and other hazards at loan origination.

GOVERNANCE AND RISK MANAGEMENT

BOQ AND CLIMATE CHANGE (CONTINUED)

Climate scenario analysis (continued)

Transition risk scenario analysis insights

Some sectors are likely to face significant challenges because of their current high emissions intensity and the rapid rate of decarbonisation needed under low emissions scenarios. BOQ's lending portfolio has no exposure to fossil fuel power generation and minimal direct exposure to fossil fuels extraction.

BOQ's business lending portfolios have minimal exposure to sectors with greater than 50 per cent of exposure to transition risk under the most ambitious disorderly decarbonisation scenario.

Sectors contributing to the provision of clean energy are expected to thrive under the scenarios. Opportunity sectors exist in industries aligned with BOQ's portfolio including agri-tech, bioenergy, critical minerals and carbon forestry.

More than 70 per cent of BOQ's business lending portfolio is exposed to sectors with a minimal impact (<10 per cent of sectoral exposure) from the additional costs expected to be incurred during a transition to net zero emissions under both orderly and disorderly 1.5°C and 2.0°C scenarios at 2030, 2040 and 2050.

Industries including agriculture, non-metallic mineral product manufacturing and waste collection and disposal services are likely to face transition challenges despite their products remaining in demand. BOQ's behavioural loan term for these sectors is generally short providing an opportunity to re-assess and support our customer's transition at renewal points.

BOQ'S BUSINESS LENDING⁽¹⁾ PORTFOLIO EXPOSURE TO TRANSITION RISK UNDER AN ORDERLY 2°C SCENARIO.

Sectors	Current Portfolio		Sector Exposure due to transition to low carbon economy under orderly 2°C Scenario		
	\$m	%	2030	2040	2050
Professional Services and Real Estate	4,850	31%	0%	0%	0%
Accommodation and Health Services	3,617	23%	1%	1%	1%
Construction	2,003	13%	1%	1%	1%
Agriculture	1,232	8%	25%	25%	23%
Manufacturing and Mining	779	5%	5%	5%	4%
Transport	843	5%	4%	4%	4%
Other	2,509	16%	1%	1%	1%
Total	15,833	100%			

(1) Includes commercial and asset financing from BOQB, BOQS, and BOQF.

The table above shows sectors exposure due to the transition to a low carbon economy under an orderly 2°C scenario and our proportionate credit exposures in our business lending portfolio. Under an orderly 2°C scenario BOQ's portfolio has low exposure to high emitting sectors. The projected risk identified may not necessarily be realised for all customers within the sector. Customer level impacts will likely be realised based on unique exposures from geography, asset type, diversity, and operations of business models therein.

Future scenario analysis

The results from our scenario analysis work inform where to best prioritise mitigation and adaptation options whilst simultaneously harnessing the opportunities identified. The focus of our scenario analysis will evolve as our understanding of the impact of climate risks and opportunities on ourselves and our customers matures.

Climate risk scenario analysis and climate vulnerability analysis is a developing area and BOQ's approach will evolve and mature over time.

Areas for further refinement include enhancing our understanding of the interaction between physical climate risks, property damage and the resilience of construction, and insurance including underinsurance and noninsurance and subsequent impacts on credit stress testing.

We also see opportunity to continue to collaborate with broader industry groups to ensure the best outcomes for our customers and communities.

GOVERNANCE AND RISK MANAGEMENT

BOQ AND CLIMATE CHANGE (CONTINUED)

Targets & Metrics

Industry exposures

The table below outlines the proportionate credit exposures of lending activities.

Credit Risk Sector	FY21		FY20	
	\$m	% of Total Exposure	\$m	% of Total Exposure
Residential Mortgages	59,053	78.5%	31,155	66.9%
Property & Construction	5,627	7.5%	5,046	10.8%
Healthcare	3,017	4.0%	3,305	7.1%
Professional Services	1,453	1.9%	1,272	2.7%
Agriculture	1,232	1.6%	1,105	2.4%
Transportation	843	1.1%	750	1.6%
Manufacturing & Mining	779	1.0%	788	1.7%
Hospitality & Accommodation	622	0.8%	618	1.3%
Other	2,598	3.5%	2,522	5.4%
Total⁽¹⁾	75,244	100.0%	46,560	100.0%
Per Balance Sheet ⁽²⁾	75,748		47,043	

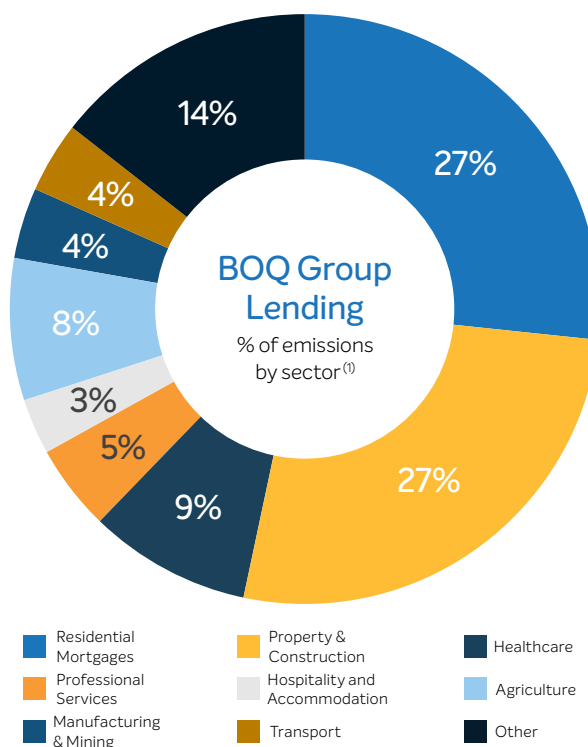
The acquisition of ME Bank has significantly shifted proportional exposures to residential lending. This shift highlights the need for continued enhancement of data and risk management processes to help pinpoint risks and impacts such as improving our geo-locational data mapping to better understand potential physical impacts and increasing our understanding of which mortgage customers may be exposed to high risk industries.

Financed emissions

BOQ recognises that measuring financed emissions is an important consideration in managing climate related risks and opportunities.

In FY21 the carbon intensity of the loan⁽³⁾ book was 0.25kg of CO₂-e per \$1 loaned, a reduction of 19 per cent⁽⁴⁾ largely driven by the shift in portfolio mix from the increase in residential exposures resulting from the integration of ME Bank and improvements in the method to estimate residential lending emissions.

Residential and commercial property makes up 86 per cent of our credit risk exposure and comprises 54 per cent of the carbon emissions from our lending portfolio as at August 2021.



(1) Due to rounding, numbers presented may not add up to the totals provided.

(2) This includes unearned income reallocated in Credit Risk and the balance of credit cards, overdrafts and personal loans.

(3) Financed emissions calculations include estimates greenhouse gas emissions associated with residential mortgages, commercial loans and asset financing.

(4) The FY20 carbon intensity of the loan book has been revised to 0.31 kg of CO₂-e per \$1 loaned.

GOVERNANCE AND RISK MANAGEMENT

BOQ AND CLIMATE CHANGE (CONTINUED)

Targets & Metrics (continued)

Operational Greenhouse Gas Footprint

In FY21 we have met our ambition to be carbon neutral across our operations. By becoming a carbon neutral organisation we have achieved a balance between the greenhouse gas emissions associated with running our business and the emission reduction activities we support.

We have looked to reduce emissions associated with fuel and electricity consumption, and emissions in the BOQ supply chain including embodied emissions from data centres, IT software and hardware, office equipment, furniture, legal & insurance, and consultants supporting BOQ strategy and head office operations. The reduction in greenhouse gas emissions between FY20 and FY21 has been largely driven by a combination of transient COVID-19 related savings (lowering consumption of electricity and reducing staff commuting) and lower indirect supply chain related emissions.

BOQ will reduce operational emissions through our commitment to purchase 100 per cent of our operational electricity from renewable sources by 2025, exploration of low emissions fleet options, and implementation of a Supplier Code of Conduct that allows for climate engagement. While we work towards minimising our footprint BOQ supports accredited projects that reduce emissions and produce verified offsets. More details of the offsets our use of offsets can be found in our FY21 Sustainability Report on page 20.

Climate related targets

BOQ is committed to cease funding equipment directly involved in the extraction of fossil fuels by 2024. As at 31 August 2021, our exposure to this industry was \$12.7 million representing 0.01 per cent of lending.

In FY21 we have taken action by becoming a carbon neutral organisation and joining the Australia Government Climate Active certification programme. The BOQ certification includes operations and supply chain contribution from BOQ Retail (including branches), Virgin Money Australia, BOQ Business and BOQ Finance, and BOQ Specialist. ME Bank has a separate Climate Active certification. The BOQ and ME Bank certifications will be integrated in 2022.

We are well progressed with our commitment to source 100 per cent of our operational electricity from renewable sources by 2025. The Sustainability Working Group has endorsed the Renewable Energy Strategy and by the end of FY22 BOQ intends to operate its major Brisbane, Sydney and Melbourne support centres on renewable electricity.

Greenhouse gas emissions (tCO ₂ -e) ⁽¹⁾	FY21	FY20	Change
Scope 1	248	252	(2%)
Scope 2	4,521	5,007	(10%)
Scope 3	29,702	36,944	(20%)
Total	34,470	42,203	(18%)

(1) Emissions estimates are calculated in accordance with the GHG Protocol using the factors consistent with Climate Active carbon neutral program. Emission estimates exclude ME Bank. BOQ and ME Bank emission estimates will be integrated in 2022.

Scope 1 includes direct emissions from transport fleet. Scope 2 includes electricity purchased. Scope 3 includes purchased goods and services, capital goods, fuel and energy-related emissions from fuel extraction, waste generated in operations, business travel, employee commuting, and working from home. Due to rounding, numbers presented may not add up to the totals provided.

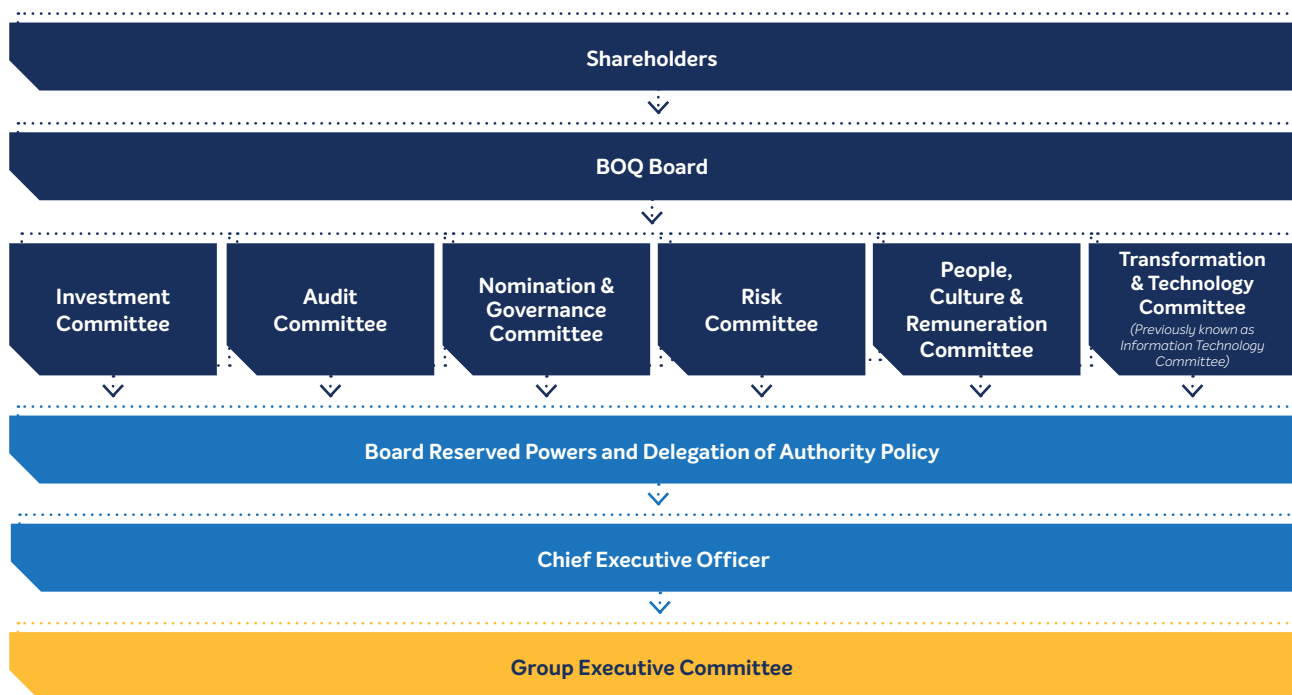
GOVERNANCE AND RISK MANAGEMENT

OUR APPROACH TO CORPORATE GOVERNANCE

BOQ continues to focus on enhancing our governance and risk management practices to meet the expectations of our stakeholders. Further details on our Corporate Governance policies and practices are set out in our Corporate Governance Statement which has been prepared in accordance with the ASX Corporate Governance Council’s Corporate Governance Principles & Recommendations (4th edition). The FY21 Corporate Governance Statement can be viewed at boq.com.au/2021.

Corporate governance framework

BOQ’s Board is responsible for setting the strategy and risk appetite of the Bank and for leading the culture and values for our people. The Corporate Governance framework sets out how the Board delegates to Management and provides oversight and governance of key decisions.



Board areas of focus

During FY21 the Board and its Committees have focused on 10 key strategic, governance and oversight activities:

- 1 Customer experience oversight**
 - Continue to improve the customer experience and delight our customers every day
 - Focus on the customer voice in all Board decisions
- 2 Strategy**
 - Ensuring a clear strategy is in place with disciplined execution
 - Successful ME Bank acquisition, strategically aligned
 - Reimagining our long term vision and new options for growth
- 3 Culture**
 - Cultural transformation underway with purpose and values of empathy, integrity and making a difference being embedded
 - Improving employee engagement, empowerment and accountability
- 4 Building a Sustainable business**
 - Achieved carbon neutral certification
 - Key sustainability targets incorporated in risk management framework
- 5 Digital transformation**
 - Commitment to a three-year technology uplift program (supported by the November – December 2019 capital raise)
 - Focus on: (1) the modernisation of infrastructure, (2) moving to a cloud based digital banking platform and (3) automating processes
 - By FY23 we aim to have implemented c.\$90 million of productivity benefits
- 6 Leadership & talent**
 - Focused on an uplift in leadership & talent to drive our success
 - Oversight of programs to enhance the calibre of the leadership team and our people, including development and retention
- 7 Business Performance Oversight**
 - Continuous improvement in our financial performance, growing EPS and ROE
 - Delivering against our transformation program
 - Pathway to delivering a scalable operating model, lowering our cost to income ratio
- 8 Financial & non-financial risk oversight**
 - Strengthening & embedding our risk culture
 - Management of the business within our risk framework with optimal growth
 - Regulatory compliance
- 9 Capital management**
 - Prudent capital management to protect deposit holders, debt security holders and shareholder interests
 - ME Bank acquisition successfully funded via a \$1.35 billion capital raising
- 10 Future-Fit Board**
 - Board composition reviewed with Board renewal program to be complete by the 2021 AGM
 - Board refresh focused on building a diverse and contemporary Board with the appropriate mix of skills, high emotional intelligence and intellectual curiosity
 - Strong presence in the business with increased interactions with key stakeholders including our people, regulators and investors

DIRECTORS' DETAILS

For the year ended 31 August 2021

BOARD OF DIRECTORS



Patrick Allaway
BA, LLB

Independent non-executive director since May 2019. Chairman since October 2019. Chair, Investment Committee and Nomination & Governance Committee. Member Transformation & Technology, People, Culture & Remuneration, Audit and Risk Committees.



George Frazis
B. Eng (Hons), MBA

Managing Director and Chief Executive Officer since September 2019.



Bruce Carter
B Econ, MBA, FAICD, FICA

Independent non-executive director since February 2014. Chairman Risk Committee, Member Audit, Transformation & Technology, Investment, People, Culture & Remuneration and Nomination & Governance Committees.



Deborah Kiers
B Sc (Hons), MPA, MAICD

Independent non-executive director since August 2021. Member Transformation & Technology, Risk, People, Culture & Remuneration, Audit and Nomination & Governance Committees.



John Lorimer
B Com

Independent non-executive director since January 2016. Member Transformation & Technology, Risk, People, Culture & Remuneration, Audit and Nomination & Governance Committees.



Warwick Negus
B Bus, M Com, SF Fin

Independent non-executive director since September 2016. Chair People, Culture & Remuneration Committee, Member Audit, Risk, Transformation & Technology, Investment and Nomination & Governance Committees.



Karen Penrose
B Com, CPA, FAICD

Independent non-executive director since November 2015. Chair Audit Committee, Member People, Culture & Remuneration, Risk, Transformation & Technology, Investment and Nomination & Governance Committees.



Mickie Rosen
BA, Economics, MBA

Independent non-executive director since March 2021. Chair Transformation & Technology. Member Risk, People, Culture & Remuneration, Audit and Nomination & Governance Committees.

DIRECTORS' DETAILS

For the year ended 31 August 2021

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 2021 and the independent auditor's report thereon.

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

Name, qualifications & independence status	Experience, special responsibilities and other Directorships
<p>Patrick Allaway <i>BA/LLB</i></p> <p>Chairman</p>	<p>Mr Allaway was appointed as a Non-Executive Director of the Bank in May 2019 and was appointed Chairman on 18 October 2019.</p> <p>Mr Allaway has extensive senior executive, non-executive, and corporate advisory experience across the financial services, property, media and retail sectors.</p> <p>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.</p> <p>Mr Allaway brings over 30 years of 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.</p> <p>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, Country Road Group, and Nine Entertainment Co. Mr Allaway chaired the Audit & Risk Committees for Metcash, David Jones, and Country Road Group.</p> <p>Mr Allaway is currently a Non-Executive Director of Allianz Australia and Dexu Funds Management Limited and a member of the Adobe International Advisory Board. He chairs BOQ's Investment and Nomination & Governance Committees and is member of the People, Culture & Remuneration, Transformation & Technology, Audit, and Risk Committees.</p>
<p>George Frazis <i>B. Eng. (Hons), MBA</i></p> <p>Managing Director & Chief Executive Officer</p>	<p>Mr Frazis joined BOQ as Managing Director and CEO in September 2019 and has over 26 years of corporate experience.</p> <p>Mr Frazis has a long history in Banking and Finance, having worked in the industry for the past 17 years. Most recently he was Chief Executive of Westpac Group's Consumer Bank. Prior to that Mr Frazis was CEO, St. George Banking Group and Chief Executive, Westpac New Zealand Limited.</p> <p>Mr Frazis has held senior executive roles at National Australia Bank, Commonwealth Bank of Australia, as well as Air New Zealand. He started his career as an officer in the Royal Australian Air Force.</p>

DIRECTORS' DETAILS

For the year ended 31 August 2021

Name, qualifications & independence status	Experience, special responsibilities and other Directorships
<p>Bruce Carter <i>B Econ, MBA, FAICD, FICA</i> Non-Executive Independent Director</p>	<p>Mr Carter was appointed a Non-Executive Director of BOQ on 27 February 2014.</p> <p>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.</p> <p>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 the Australian Submarine Corporation, Aventus Capital Limited and One Rail Australia Boards, and a Non-Executive Director of Crown Resorts Limited, AIG Australia Limited, and Sage Group Holdings Limited.</p> <p>Mr Carter is Chair of the Risk Committee and a member of the Audit, Transformation & Technology, Investment, People, Culture & Remuneration, and Nomination & Governance Committees.</p>
<p>Deborah Kiers <i>B.Sc (Hons), MPA, MAICD</i> Non-Executive Independent Director</p>	<p>Ms Kiers was appointed as a Non-Executive Director of the Bank on 5 August 2021.</p> <p>Ms Kiers previously acted as a Director of ME Bank since July 2020 and acted as Chair of the ME Bank Board's People and Culture sub-committee and as a member of the Risk and Compliance Committee.</p> <p>Ms Kiers brings over 30 years of strategic, advisory and consulting experience to boards and executive management teams across a wide range of industries including Financial Services, Energy and Resources, Industrials, Property, Infrastructure and Regulated Utilities, both in Australia and internationally.</p> <p>As Managing Director of JMW Consultants (Asia Pacific), Ms Kiers's support for companies included strategic advice, business model transformations, M&A integration, leadership transition and development for CEOs, executive teams and board directors, as well as building synergies between culture, performance and remuneration strategies.</p> <p>Ms Kiers is currently a Non-Executive Director for IFM Investors and holds the position of Chair of the IFM Board Responsible Investment and Sustainability Committee and is a member of the Board Audit and Risk Committee. Ms Kiers is also a Non-Executive Director of the Tiverton Agriculture Impact Fund.</p> <p>Ms Kiers is a member of the Audit, Risk, Nomination & Governance, People, Culture and Remuneration, and Transformation & Technology Committees.</p>
<p>John Lorimer <i>B Com</i> Non-Executive Independent Director</p>	<p>Mr Lorimer was appointed a Non-Executive Director of BOQ on 29 January 2016.</p> <p>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). In addition, Mr Lorimer was a Non-Executive Director of Aberdeen New Dawn Investment Trust plc and International Personal Finance plc.</p> <p>Currently, Mr Lorimer is a Non-Executive Director of Bupa Australia Pty Ltd and Bupa Aged Care Holdings Pty Ltd, and is Chairman of Bupa (Asia) Ltd.</p> <p>Mr Lorimer a member of BOQ's Transformation & Technology, Risk, People, Culture & Remuneration, Audit, and Nomination & Governance Committees.</p>

DIRECTORS' DETAILS

For the year ended 31 August 2021

Name, qualifications & independence status	Experience, special responsibilities and other Directorships
<p>Warwick Negus <i>B Bus, M Com, SF Fin</i> Non-Executive Independent Director</p>	<p>Mr Negus was appointed a Non-Executive Director of BOQ on 22 September 2016.</p> <p>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.</p> <p>Mr Negus is Chair of Pengana Capital Group and a Non-Executive Director of Washington H Soul Pattinson & Co Ltd, Dexus Funds Management Limited, Virgin Australia Holdings Pty Ltd and Terrace Tower Group. He is a member of the Council of UNSW and Chair of UNSW Global Limited.</p> <p>Mr Negus is Chair of the People, Culture & Remuneration Committee and a member of the Audit, Risk, Transformation & Technology, Investment, and Nomination & Governance Committees.</p>
<p>Karen Penrose <i>B Com, CPA, FAICD</i> Non-Executive Independent Director</p>	<p>Ms Penrose was appointed a Non-Executive Director of BOQ on 26 November 2015.</p> <p>Ms Penrose is an experienced non-executive director and banker. As a banker, Ms Penrose has 20 years of experience leading businesses within Commonwealth Bank of Australia and HSBC and over ten years in accounting and finance roles. Ms Penrose has particular expertise in the financial services, health, property, resources and energy sectors. Ms Penrose is a Non-Executive Director of Vicinity Centres Limited, Ramsay Health Care Limited, Estia Health Limited and Rugby Australia Limited. Ms Penrose was formerly a Non-Executive Director of AWE Limited, Spark Infrastructure Group, Landcom, and Future Generation Global Investment Company Limited. She is a member of Chief Executive Women.</p> <p>Ms Penrose is Chair of the Audit Committee and is a member of the People, Culture & Remuneration, Risk, Transformation & Technology, Investment, and Nomination & Governance Committees.</p>
<p>Mickie Rosen <i>B.A., Economics, MBA</i> Non-Executive Independent Director</p>	<p>Ms Rosen was appointed a Non-Executive Director of BOQ on 4 March 2021.</p> <p>Ms Rosen has three decades of strategy, operating, advisory, and board experience across media, technology, and e-commerce. She has built and led global businesses for iconic brands such as Yahoo, Fox, and Disney, as well as early-stage companies including Hulu and Fandango.</p> <p>Ms Rosen is also a Non-Executive Director of Nine Entertainment Co and Ascendant Digital Acquisition Company in the United States. Until recently, Ms Rosen served on the board of Pandora Media and was the President of Tribune Interactive, the digital arm of Tribune Publishing, and was concurrently the President of the Los Angeles Times. Ms Rosen commenced her career with McKinsey & Company, is based on the West Coast of the United States, and holds an MBA from Harvard Business School.</p> <p>Ms Rosen currently chairs the Transformation & Technology Committee and is a member of the Risk, People, Culture & Remuneration, Audit, and Nomination & Governance Committees.</p>

DIRECTORS' DETAILS

For the year ended 31 August 2021

Company Secretaries

Fiona Daly

LLB, LLM, AGIA, ACG, 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.

Nicholas Allton

LLB LL.M., GAICD

Mr Allton joined BOQ as Group General Counsel and Company Secretary on 1 February 2021. Nicholas has more than 27 years' experience across Financial Services, including 11 years in private practice for top-tier Australian, English and US firms. Prior to joining BOQ, Nicholas held the role of Group General Counsel and Company Secretary at MLC and spent 15 years working across a number of senior roles within the Macquarie Group.

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	People, Culture & Remuneration Committee - BOQ & St Andrews	Transformation & Technology Committee ⁽¹⁾	Investment Committee	Due Diligence Committee	Tenure as at 31 August 2021
Patrick Allaway	21/21		6/6	8/8	2/2	6/6	5/5	2/2	14/14	2 years, 4 months
George Frazis	21/21									2 years
Bruce Carter	20/21		6/6	8/8	2/2	6/6	5/5	2/2	13/14	7 years, 6 months
Deborah Kiers ⁽²⁾	1/1		0/0	1/1	0/0	0/0	1/1			1 month
John Lorimer	21/21		6/6	8/8	2/2	6/6	5/5			5 years, 7 months
Warwick Negus	20/21		6/6	8/8	2/2	6/6	5/5	2/2	14/14	4 years, 11 months
Karen Penrose	21/21	9/9	6/6	8/8	2/2	6/6	5/5	2/2	14/14	5 years, 9 months
Mickie Rosen ⁽³⁾	6/6		3/3	4/4	1/1	2/2	3/3			6 months
Kathleen Bailey-Lord ⁽⁴⁾	20/20		6/6	7/7	2/2	6/6	4/4			2 years, 3 months
Michelle Tredenick ⁽⁵⁾	6/6		2/3	3/4	1/1	4/4	2/2			9 years, 9 months

(1) Information Technology Committee changed its name to Transformation & Technology Committee effective 26 November 2020.

(2) Deborah Kiers appointed as a Director on 5 August 2021.

(3) Mickie Rosen appointed as a Director on 4 March 2021.

(4) Kathleen Bailey-Lord ceased as a Director on 5 August 2021.

(5) Michelle Tredenick ceased as a Director on 8 December 2020.

REMUNERATION REPORT

For the year ended 31 August 2021

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Dear Shareholder,

Introduction

At BOQ, our ambition is to be known as the bold challenger bank with multi-brands that are digitally enabled with a personal touch. Achieving this ambition is dependent on the successful delivery of our strategy, which is dependent on our people, culture and remuneration settings.

On behalf of the Board I am delighted to present the Remuneration Report for the period 1 September 2020 to 31 August 2021 (**FY21**) and share with you our progress and achievements against our people & culture and organisational strategies.

FY21 performance

FY21 performance was compelling, led by strong financial returns; quality, above system growth in mortgages; good margin management; and execution of strategic projects such as the launch of the Virgin Money digital bank. These results were achieved whilst also successfully acquiring ME Bank, raising capital and undertaking a 90 day sprint to accelerate the integration program for the two organisations.

FY21 remuneration changes

In last year's Report we shared a summary of our new Senior Executive Remuneration Framework (the **Framework**), which took effect on 1 September 2020. The introduction of the Framework, which includes fixed reward (**FR**) and a total variable reward opportunity comprising Performance Shares and Premium Priced Options is focused on alignment with shareholders, balanced measures of performance and long term deferral. As part of the transition to the new Framework, Senior Executives no longer have any cash incentives. Instead, 100 per cent of their variable at-risk reward, which is a fixed percentage of FR, is awarded in equity and deferred over multiple years. This significantly increases the alignment between the interests of Senior Executives and shareholders.

After the 2020 Annual General Meeting (**AGM**), Senior Executives were awarded grants of Performance Shares and Premium Priced Options.

Performance Shares differ from traditional short-term incentives that typically involve a combination of cash and shares, and where the outcome varies within a range, often dictated by complicated formulae. Performance Shares are granted as Rights, with each Senior Executive being awarded a fixed percentage of their FR at the beginning of the financial year. The Rights convert to Restricted Shares at the completion of the financial year, based on an assessment undertaken by the Board. Upside is determined by the continued performance of the business throughout the financial year, and by share price growth in future years, until vesting.

Whilst in most years it is expected that management will achieve a conversion of Rights into Restricted Shares, the outcome can be varied up or down should exceptional or threshold performance, both financial and non-financial, dictate.

Premium Priced Options have a single performance hurdle – an exercise price that is 120 per cent of the share price after the AGM in December. This aligns the interests of Senior Executives with those of Shareholders, as participants derive zero value unless the share price at vesting (four and five years from grant) exceeds the exercise price. The BOQ share price is determined by financial performance, effective risk management, and other non-financial factors (including reputation, customer growth and future outlook).

FY21 remuneration outcomes

Fixed reward for Senior Executives is set based on a combination of the executive's experience and capability, competitiveness relative to the financial services sector and similarly sized ASX listed companies, and internal relativities. Ewen Stafford, our Chief Financial Officer and Chief Operating Officer was our only Senior Executive to receive a fixed reward increase during FY21.

Remuneration outcomes for FY21 reflect a range of relevant factors:

- the Group's performance in relation to the five strategic priorities in the Group Scorecard and achievement of the Board-approved financial and non-financial measures;
- Senior Executive contribution to the Group Scorecard performance and progress toward the achievement of our strategic priorities;
- explicit consideration of risk events, behaviours and outcomes based on input from the Chief Risk Officer and Board Risk Committee;
- the additional demands and expectations of M&A activity alongside the challenges of an ongoing pandemic; and
- the experience of our shareholders during the year in terms of share price and dividends.

The Board assessed performance against the Group Scorecard as *Exceeds*. This outcome, combined with separate consideration of risk, resulted in the 100 per cent conversion of Performance Shares awarded at the start of FY21 to Restricted Shares for all continuing Senior Executives.

The Board has considered the feedback provided regarding transparency in relation to the Group Scorecard and greater disclosure of the FY21 Group Scorecard is provided in this Report.

REMUNERATION REPORT

For the year ended 31 August 2021

The performance hurdles for the FY17 long-term incentive (LTI) grant of Performance Award Rights (PARs) were tested in December 2020. Results for both measures, relative Total Shareholder Return (rTSR) and relative Earnings per Share (rEPS), were below the minimum performance threshold. As a result, the FY17 grant of PARs lapsed in full. Whilst PARs are no longer offered by the Group, awards from FY18 and FY19 remain on-foot, to be tested in FY23 and FY24 respectively.

To encourage alignment between employees and shareholders and to promote ownership across the employee population, BOQ offered a tax-exempt employee gift share plan, which we refer to as ThankQ Shares, for the first time during FY21. The ThankQ Share Plan was offered to eligible employees who would generally not participate in other forms of equity-based remuneration and saw approximately 1,600 employees receive \$1,000 in BOQ shares. At BOQ, we have a focus on encouraging employee equity ownership, and permanent employees are given the opportunity to become shareholders either through equity-based remuneration or employee share plans.

FY22 remuneration

After two years in the role, the fixed reward of our Managing Director & Chief Executive Officer was benchmarked and increased from \$1.3 million to \$1.5 million, effective from 1 September 2021. Two other Senior Executives also received increases in their fixed reward from 1 September 2021 – the Chief Information Officer and Group Executive, People & Culture.

The FY22 Group Scorecard continues to focus our Senior Executives on achieving the Group's strategy and fulfilling our ambition. The collective performance of Senior Executives, and the conversion of Performance Shares granted in FY22, will be assessed against this.

Non-executive Director (NED) fees were increased effective 1 September 2021; this represents the first increase to NED fees since FY14. A reduction to the number of NEDs (from 10 at the beginning of FY20 to 7 effective from the 2021 AGM) ensures that the total fees payable for FY22 will remain within the shareholder approved fee pool of \$2.8 million.

ME Bank acquisition

The acquisition of ME Bank on 1 July 2021 saw the Group welcome around 1,200 new team members and expanded our employee ranks to around 3,500. Part of the appeal of ME Bank as an investment for the Group was its cultural alignment and we are strengthened by the addition of so many dedicated and customer-centric team members.

Our people are responsible for the success to date, having delivered consistently through all stages of the M&A process, to completion on 1 July 2021 and we are now progressing well on integration. Looking ahead, the program of work required for successful integration will primarily be completed within 18 months, with the balance of the integration activities to be incorporated into the Group's broader Transformation program at that time.

As part of the capital raising for the ME Bank acquisition, employee shareholders were offered participation, consistent with all other retail shareholders. Many employees took up that offer. The equity incentive plan rules confer on the Board the power to extend eligibility to participate in an entitlement offer to employees, Senior Executives, and NEDs who hold Rights to BOQ shares. After consideration, despite the possible dilution impact on our employee rights holders, the Board determined not to extend this eligibility. The Board also determined that, although the ASX Listing Rules allow us to do so, the exercise price on the Premium Priced Options would not be reduced.

People & culture strategy

Following the FY20 launch of a cultural change program designed to ensure that we have the right organisational conditions to support the delivery of the Group strategy, we launched the Achievement Approach in FY21. The Achievement Approach brings together career planning, development, and performance. By focusing on achievement, we empower our people to pursue personal and professional success, which in turn contributes to our success as a Group.

Highlights observed during the FY21 roll-out of the Achievement Approach include a meaningful improvement to the number of our people with documented performance goals in place at the beginning of the performance period (meaning our people commenced FY21 with clarity of priorities and expectations); showcasing the diverse career paths of a broad group of BOQ employees; and the roll-out of two signature capability programs, Coaching for Achievement and Wellbeing and In the Moment Feedback.

Two Pulse surveys were conducted in FY21 and we were pleased to see improvements to employee sentiment in the areas of engagement and culture. Further detail is provided in section 3.4 (Group Scorecard).

As part of our commitment to our customers, employees, shareholders and community, each of our employees was offered two half days of paid leave for the purposes of obtaining full COVID-19 vaccination.

Key management personnel changes

Lyn McGrath, former Group Executive, Retail Banking, retired on 31 January 2021. In April 2021, we welcomed Martine Jager to the role of Group Executive, Retail Banking. On 30 September 2021, Fiamma Morton ceased as Group Executive, Business Banking and Chris Screen was appointed to the role effective 1 October 2021. Adam McAnalen will transition to a new role in the Group when David Watts commences as Group Chief Risk Officer in early 2022.

We are confident that our strength at both Senior Executive and Board levels will enable our continued success.

Conclusion

The Board remains committed to ensuring that the Group's people, culture and remuneration frameworks and practices further the interests of all stakeholders, including customers, shareholders, regulators and employees. This extends to having adequate flexibility to anticipate and respond to labour market trends as we navigate a new normal through COVID-19 recovery. It is the Board's view that the remuneration outcomes for FY21 are appropriate in light of our consistent and positive progress against our five strategic priorities and the environment in which we operate.

I welcome any feedback on the remuneration report and look forward to engaging with you again.



Warwick Negus
Chair, People, Culture & Remuneration Committee

REMUNERATION REPORT

For the year ended 31 August 2021

SECTION 1. REMUNERATION SNAPSHOT

AMBITION

We will be known as the bold challenger bank; with multi-brands that are digitally enabled with a personal touch.

OUR PURPOSE AND VALUES

Creating prosperity for our customers, shareholders and people through:



Empathy



Integrity



Making a difference

STRATEGIC PRIORITIES



Our empathetic culture sets us apart



Distinctive brands serving attractive niche customer segments



Digital Bank of the future with a personal touch



Simple and intuitive business with strong execution capability



Strong financial and risk position, with attractive returns

REMUNERATION OBJECTIVES



Reward sustainable, profitable growth as BOQ executes its strategy



Reward our people for delivering exceptional customer experiences



Align our people to long term value creation for our shareholders



Provide exceptional employee experiences, including performance and reward to attract and retain a diversity of high-quality talent



Ensure remuneration structures are consistent with our purpose-led culture, clear accountability frameworks and robust risk management framework



Take into account prudent risk management in accordance with BOQ's risk appetite

REMUNERATION REPORT

For the year ended 31 August 2021

SENIOR EXECUTIVE REMUNERATION FRAMEWORK SUMMARY

The Framework is anchored in the remuneration objectives and designed to support the Group's ambition by facilitating the successful achievement of the strategic priorities, in line with our purpose and values.

	Fixed reward	Performance Shares	Premium Priced Options
Purpose	To attract and retain talent and reflect the individual's skills, capabilities and experience.	To focus Senior Executives on delivering against the Group's strategy collaboratively and as a team.	To align Senior Executives' interests with the interests of shareholders, to achieve improved outcomes for all stakeholders and grow shareholder value.
Delivery	Cash.	Rights that convert to Restricted Shares.	Options with a premium exercise price (120% of share price at grant).
Proportion of fixed reward	N/A	MD & CEO: 88% Other Senior Executives: 78%	MD & CEO: 58% Other Senior Executives: 52%
Performance criteria	Satisfactory performance, compliance with the terms and conditions of employment including the Code Of Conduct and fulfilment of accountabilities under the Banking Executive Accountability Regime (BEAR).	Performance against the Group Scorecard over the one year performance period (the FY) modified by the Board's overall assessment of risk, performance and behaviours determines the conversion from Rights to Restricted Shares.	BOQ's share price must exceed the exercise price set for the award, and a risk assessment conducted by the Board.
Risk	N/A	Risk assessment prior to vesting. Unvested awards are subject to malus. A clawback period of two years applies to each tranche after vesting.	Risk assessment prior to vesting. Unvested awards are subject to malus. MD & CEO: Each tranche is subject to dealing restrictions for two years after vesting. Other Senior Executives: Each tranche is subject to the dealing restrictions for one year after vesting. For all participants, a clawback period of two years applies to each tranche after vesting.
Vesting profile	N/A	33% in December 2022, 33% in December 2023 and 34% in December 2024 (i.e., after two, three and four years).	50% in December 2024 and 50% in December 2025 (i.e., after four and five years).

REMUNERATION REPORT

For the year ended 31 August 2021

SECTION 2. KEY MANAGEMENT PERSONNEL

This section identifies Directors and Senior Executives who are KMP and sets out the changes that have occurred within this cohort during FY21 and up until the date of this Report.

TABLE 1 – EXECUTIVE & NON-EXECUTIVE DIRECTORS

Current Directors

Patrick Allaway	Chair (Non-executive)
Bruce Carter	Non-executive Director
George Frazis	Managing Director & Chief Executive Officer
Deborah Kiers	Non-executive Director (from 5 August 2021)
John Lorimer	Non-executive Director
Warwick Negus	Non-executive Director
Karen Penrose	Non-executive Director
Mickie Rosen	Non-executive Director (from 4 March 2021)

Former Directors

Kathleen Bailey-Lord	Non-executive Director (ceased 5 August 2021)
Michelle Tredenick	Non-executive Director (ceased 8 December 2020)

TABLE 2 – OTHER SENIOR EXECUTIVES

Current Senior Executives

Debra Eckersley	Group Executive, People and Culture
Martine Jager	Group Executive, Retail Banking (from 27 April 2021)
Adam McAnalen	Chief Risk Officer
Fiamma Morton	Group Executive, Business Banking
Craig Ryman	Chief Information Officer
Ewen Stafford	Chief Financial Officer and Chief Operating Officer

Former Senior Executives

Lyn McGrath	Group Executive, Retail Banking (ceased 31 January 2021)
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The following changes are effective during FY22:

1. Fiamma Morton ceased as Group Executive, Business Banking on 30 September 2021.
2. Chris Screen was appointed Group Executive, Business Banking on 1 October 2021.
3. Adam McAnalen will transition to a new role in the Group when David Watts commences as Group Chief Risk Officer in early 2022.

REMUNERATION REPORT

For the year ended 31 August 2021

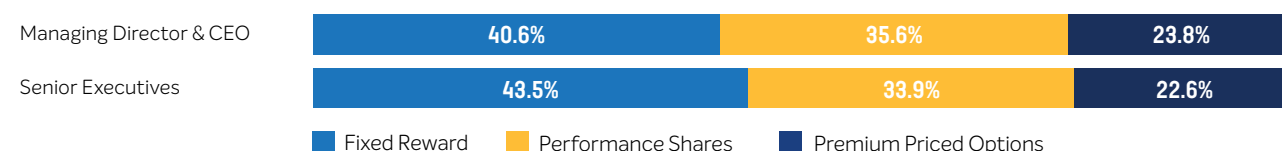
SECTION 3. REMUNERATION OUTCOMES

This section details remuneration outcomes for Senior Executives during the FY21 year.

3.1 REMUNERATION MIX

Figure 1 illustrates the mix of Fixed Reward, Performance Shares and Premium Priced Options awarded to Senior Executives in FY21.

Figure 1 - Remuneration Mix (at Target level)



3.2 FIXED REWARD

Ewen Stafford, the Chief Financial Officer & Chief Operating Officer was awarded a fixed reward increase during FY21. The increase of 14 per cent took effect 1 June 2021, and took into account Mr Stafford's contribution to Group, his capability, and market-competitive fixed reward levels for comparable roles in the financial services sector and similarly sized ASX listed companies.

Fixed remuneration at 1 September 2020 informed the face value of annual awards of Performance Shares and Premium Priced Options.

George Frazis, the MD & CEO; Debra Eckersley, Group Executive, People & Culture; and Craig Ryman, Chief Information Officer, were awarded fixed reward increases for FY22, effective 1 September 2021. The average increase awarded for FY22 was 12 per cent.

3.3 LINKING PERFORMANCE & REWARD OUTCOMES

The Group's financial performance is summarised in Table 3, together with its relationship to the aggregate value of Performance Shares granted and converted or, for one former Senior Executive, STI awarded in relation to FY21 and, for prior years, the amount of STI paid.

TABLE 3 - GROUP PERFORMANCE

5 Year Company Performance		FY21 ⁽¹⁾	FY20	FY19	FY18	FY17
Statutory net profit/(loss) after tax	(\$m)	369	115	298	336	352
Cash net profit after tax ⁽²⁾	(\$m)	412	225	320	372	378
Cash basic earnings per share ⁽²⁾⁽³⁾	(cents)	74.7	49.6	79.5	94.7	97.6
Cash cost to income ratio ⁽²⁾	(%)	54.4	54.9	51.0	47.5	46.6
Share price at balance sheet date	(\$)	9.46	6.13	9.17	11.49	12.59
Total shareholder return	(%)	63.75	(29.8)	(13.9)	(2.7)	26.5
Value of dividends paid	(\$m)	164	126	288	341	308
Senior Executive Performance Shares converted / STI awarded ⁽⁴⁾	(\$m)	3.79	1.78	-	2.73	4.02

(1) All results are inclusive of ME Bank.

(2) Non-statutory measures are not subject to audit.

(3) The basic and diluted earnings per share for all prior periods have been adjusted per ASX announcement on 20 April 2021.

(4) Performance Shares are converted based on the Board's assessment of the Group Scorecard and other considerations.

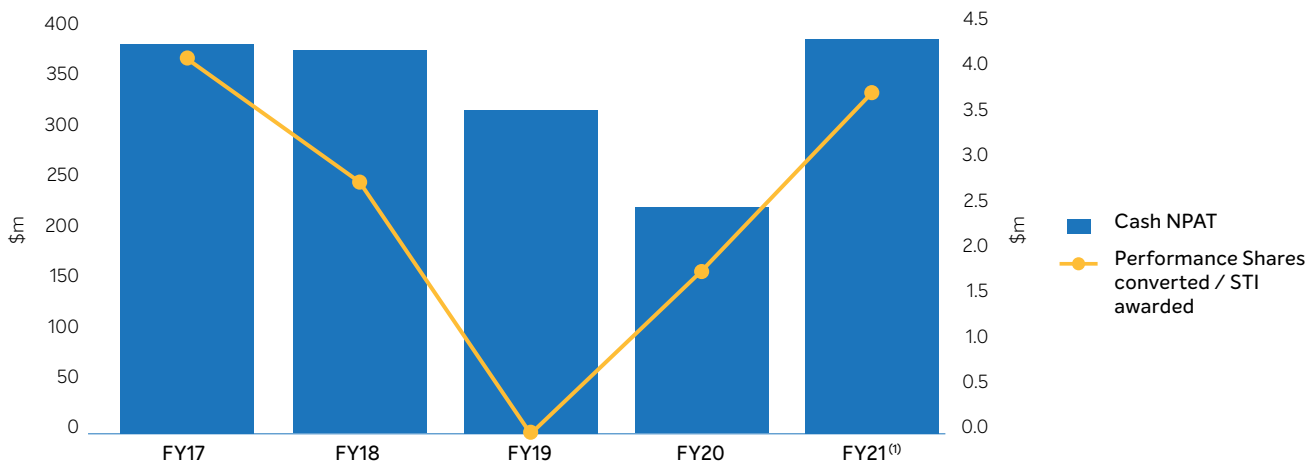
REMUNERATION REPORT

For the year ended 31 August 2021

3.3 LINKING PERFORMANCE & REWARD OUTCOMES

Figure 2 compares the total Performance Shares converted based on FY21 Group Scorecard results and STI awarded for one former Senior Executive and STI awarded to Senior Executives from FY17 to FY20 with BOQ's Cash NPAT over the past 5 years.

Figure 2: FY21 Performance Shares converted / STI awarded vs 5 year NPAT



(1) FY21 includes pro-rated STI award for Lyn McGrath, former Group Executive, Retail Banking. All current executives participated in Performance Shares.

3.4 GROUP SCORECARD

At the commencement of FY21, the Group Scorecard was approved by the Board. The Group Scorecard is based on the priorities that underpin the five-year strategy announced by the MD & CEO in 2020.

The Group Scorecard articulates the areas of focus that support the achievement of the strategy and sets the tone for how achievement is measured throughout the performance period, for Senior Executives and all other employees of the Group. It connects the Group's vision with tangible outcomes that contain an appropriate degree of stretch.

The Board's assessment of achievement against the Group Scorecard, together with holistic consideration of risk, performance or any other matters considered relevant by the Board determine the conversion of Performance Shares.

For FY21, the overall outcome against the Group Scorecard is *Exceeds*. This is based on achievement of the targets against each measure, modified by the Board's separate and explicit consideration of risk and any other relevant considerations.

Figure 3 details the FY21 Group Scorecard, including strategic priorities and weightings set by the Board, together with FY21 outcomes.

Figure 3: Assessment of FY21 Group Scorecard

Strategic Priority	Weighting	FY21 assessment
<p>Our empathetic culture sets us apart</p> <p>Delighting our Customers - Net Promoter Score:</p> <ul style="list-style-type: none"> Consumer NPS ranked 3rd Business Bank SME NPS ranked 3rd <p>Engagement, culture and leadership compared to prior year:</p> <ul style="list-style-type: none"> Engagement score increased by 5 points Culture score increased by 10 points I feel safe to speak up score increased by 13 points Senior Women in Leadership improved by 4 points Overall Women in Leadership regressed by 1 point 	10%	Achieving
<p>Distinctive brands serving attractive niche customer segments</p> <p>Demonstrated by above-system growth in mortgages and business lending:</p> <ul style="list-style-type: none"> Mortgage growth of 1.7x system Business lending growth of 0.8x system 	10%	Achieving

REMUNERATION REPORT

For the year ended 31 August 2021

3.4 GROUP SCORECARD (CONTINUED)

Strategic Priority	Weighting	FY21 assessment
<p>Digital bank of the future with a personal touch</p> <p>Delivery of Virgin Money Australia and BOQ Retail digital banks:</p> <ul style="list-style-type: none"> • Virgin Money Australia Phase 1 completed and launched, and Phase 2 now in build and delivery • Strong progress on BOQ Retail Phase 1 • Phases 1 and 2 of a new Card Management System delivered 	10%	
<p>Simple and intuitive business, with strong execution capability</p> <p>Productivity benefits; containing expense growth:</p> <ul style="list-style-type: none"> • \$30m productivity benefits • Expense growth of 3% • JAWS 2% <p>Product simplification and improved efficiency and customer experience:</p> <ul style="list-style-type: none"> • 15% of products were closed for sale during FY21, with a 26% reduction to the product register • During August we reached, time to conditional yes of 1 day for Proprietary and 3 days for our Broker channel, even as volume growth occurred⁽¹⁾ <p>Project delivery and execution:</p> <ul style="list-style-type: none"> • 20+ strategic projects delivered, with strong benefits realisation 	10%	
<p>Strong risk position</p> <p>Strengthen the bank through CET1 ratio and deposit growth:</p> <ul style="list-style-type: none"> • CET1 ratio 9.8% • Deposit to Loan Ratio 75% <p>Strong risk and compliance outcomes:</p> <ul style="list-style-type: none"> • Delivery of key regulatory compliance projects including AML and prudential reporting • A strengthened AML/CTF program • Embedding the 3 lines of defence model 	10%	
<p>Strong financial position, with attractive returns</p> <p>Profitable and sustainable growth in Cash Earnings and Earnings per Share; strong return on equity and organic capital growth:</p> <ul style="list-style-type: none"> • Cash earnings \$389m (excluding ME Bank); 73% growth • Earnings per Share 74.7c, up 51% (including ME Bank) • Return on Equity 8.2%; up 280bps (including ME Bank) • Organic Capital Generation 93bps (including ME Bank) 	50%	
<p>Overall including consideration of risk</p>		

(1) Time to conditional yes varies during the year based on volumes and customer mix

Rating scale:



REMUNERATION REPORT

For the year ended 31 August 2021

3.5 GRANT AND CONVERSION OF PERFORMANCE SHARES

Performance Shares were granted to Senior Executives in FY21. Performance Shares are intended to drive collaboration and encourage Senior Executives to achieve strong business outcomes as a team. The Board undertakes a holistic assessment of performance against the Group Scorecard and other factors including a risk assessment to determine the proportion of Performance Shares that convert on completion of the performance period. Whilst in most years it is expected that management will achieve a conversion of awarded Rights into Restricted Shares, the outcome can be varied up or down at the Board's discretion should exceptional or threshold performance, both financial and non-financial, dictate.

The face value of the MD & CEO's allocation was 88 per cent of fixed reward; for other Senior Executives, the face value of their allocation was 78 per cent of fixed reward. Annual grants were made on 6 January 2021. Martine Jager's award was granted on 9 June 2021.

The MD & CEO's grant of Performance Shares was approved by shareholders at the 2020 AGM.

The number of Performance Shares allocated as part of the annual grant was determined using the face value of the award divided by the Volume Weighted Average Price (**VWAP**) of BOQ shares over the five trading days immediately following the 2020 AGM. Intra-year awards for Senior Executives who join part way through the performance period are based on the VWAP over the five trading days immediately preceding their date of commencement with BOQ.

Based on the Board's assessment of the Group Scorecard and consideration of risk, for all continuing Senior Executives, 100 per cent of Performance Shares granted in FY21 converted on completion of the one year performance period (1 September 2020 to 31 August 2021). Post-conversion, the Restricted Shares will vest over three years, subject to service conditions, a pre-vesting assessment by the Board and all other original terms, including malus.

Performance Shares that converted to Restricted Shares will vest in three tranches, 33 per cent in December 2022, 33 per cent in December 2023, and 34 per cent in December 2024, subject to the Board's assessment of risk prior to each vesting date. Each tranche is subject to a clawback period of two years from the vesting date.

Table 4 details the grants and conversion of FY21 Performance Shares.

TABLE 4 - PERFORMANCE SHARES GRANTED AND CONVERTED

Name	Position Title	Fixed reward at time of grant	Performance Shares as % of FR	Face value of Performance Shares award	VWAP	Performance Shares granted	% of Performance Shares converted	Performance Shares lapsed
George Frazis	Managing Director & Chief Executive Officer	\$1,300,000	88%	\$1,140,000	\$7.7781	146,566	100%	-
Debra Eckersley	Group Executive, People & Culture	\$560,000	78%	\$436,800	\$7.7781	56,158	100%	-
Martine Jager ⁽¹⁾	Group Executive, Retail Banking	\$685,000	78%	\$185,907	\$9.0718	20,493	100%	-
Adam McAnalen	Chief Risk Officer	\$675,000	78%	\$526,500	\$7.7781	67,691	100%	-
Fiamma Morton ⁽²⁾	Group Executive, Business Banking	\$700,000	78%	\$546,000	\$7.7781	70,198	65%	24,568
Craig Ryman	Chief Information Officer	\$700,000	78%	\$546,000	\$7.7781	70,198	100%	-
Ewen Stafford	Chief Financial Officer & Chief Operating Officer	\$700,000	78%	\$546,000	\$7.7781	70,198	100%	-

(1) Martine Jager commenced as a KMP on 27 April 2021, therefore, her award for FY21 has been pro-rated.

(2) The portion of Performance Shares that converted for Fiamma Morton will remain on foot to vest in accordance with the original terms of the Award.

REMUNERATION REPORT

For the year ended 31 August 2021

3.6 LTI VESTED DURING FY21

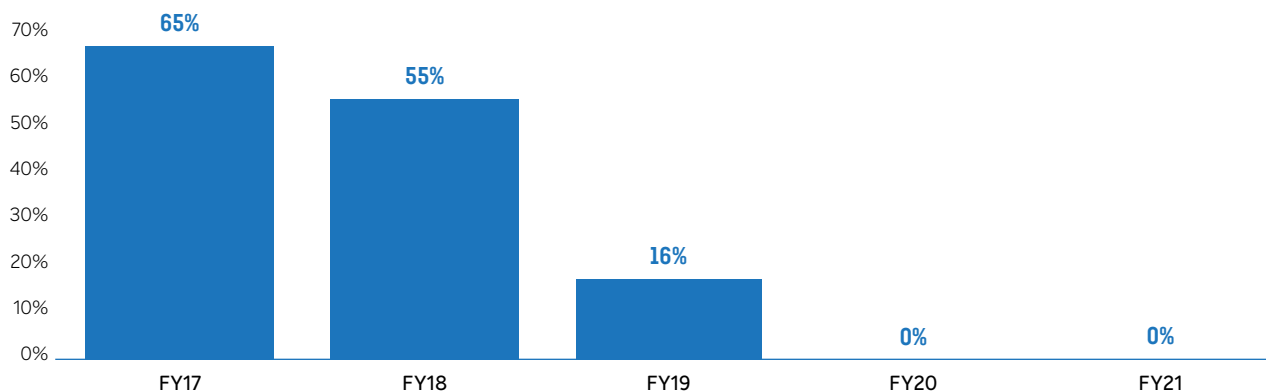
PARs granted in 2017 were tested in December 2020 consistent with plan terms. This grant was subject to two performance hurdles, being rTSR (with an 80 per cent weighting) and rEPS (with a 20 per cent weighting). None of the PARs granted in 2017 vested in FY21.

The statutory tables in Section 7 set out the detail of LTI awards forfeited by individual qualifying Senior Executives. The results of the testing are presented in Table 5 below.

TABLE 5 - LTI VESTING OUTCOMES - FY17 GRANT

Grant Date	Performance Period	Vesting Hurdle	Performance Outcome
13/12/2017	12 October 2017 to 13 October 2020	TSR ranking of at least 50 th percentile	BOQ TSR achieved ranking of 19 th percentile, resulting in 0% of the TSR tranche vesting
		Relative EPS ranking of at least 60 th percentile	BOQ EPS achieved a ranking of 45 th percentile resulting in 0% of the EPS tranche vesting

Figure 4: Percentage of LTI vesting of the last five years



BOQ no longer offers PARs.

3.7 PREMIUM PRICED OPTIONS GRANTED

Premium Priced Options were granted to Senior Executives in FY21. As approved by shareholders at the 2020 AGM, the face value of the MD & CEO’s allocation was 58 per cent of fixed reward. For other Senior Executives, the face value of their allocation was 52 per cent of fixed reward. Annual grants were made on 6 January 2021. Martine Jager’s award was granted on 9 June 2021.

To determine the number of Premium Priced Options each Senior Executive was allocated, the face value of their award was divided by the option value as determined by the Board. For the annual grant, the Board determined that the value of a Premium Priced Option was six per cent of the VWAP over the five trading days immediately following the 2020 AGM. The Exercise Price was set at 120 per cent of the same VWAP.

Intra-year awards for Senior Executives who join part way through the performance period were determined using the same methodology to derive a value that is based on the VWAP of BOQ shares over the five trading days immediately preceding their date of commencement with BOQ. This approach is adopted so that the Exercise Price for intra-year awards remains consistent with the Exercise Price for annual grants.

For Ms Jager’s award, the value of an option was nine per cent of the VWAP over the five trading days immediately preceding her commencement.

REMUNERATION REPORT

For the year ended 31 August 2021

3.7 PREMIUM PRICED OPTIONS GRANTED (CONTINUED)

Table 6 details the Premium Priced Options awarded to participants in FY21.

TABLE 6 - PREMIUM PRICED OPTIONS GRANTED

Name	Position Title	Fixed reward at time of grant	Options % of fixed reward	Options grant at Face Value	VWAP	Options value	FY21 Options granted	Exercise price
George Frazis	Managing Director & Chief Executive Officer	\$1,300,000	58%	\$760,000	\$7.7781	\$0.4667	1,628,456	\$9.3337
Debra Eckersley	Group Executive, People & Culture	\$560,000	52%	\$291,200	\$7.7781	\$0.4667	623,956	\$9.3337
Martine Jager ⁽¹⁾	Group Executive, Retail Banking	\$685,000	52%	\$123,938	\$9.0718	\$0.8165	151,792	\$9.3337
Adam McAnalen	Chief Risk Officer	\$675,000	52%	\$351,000	\$7.7781	\$0.4667	752,090	\$9.3337
Fiamma Morton ⁽²⁾	Group Executive, Business Banking	\$700,000	52%	\$364,000	\$7.7781	\$0.4667	779,945	\$9.3337
Craig Ryman	Chief Information Officer	\$700,000	52%	\$364,000	\$7.7781	\$0.4667	779,945	\$9.3337
Ewen Stafford	Chief Financial Officer & Chief Operating Officer	\$700,000	52%	\$364,000	\$7.7781	\$0.4667	779,945	\$9.3337

(1) Martine Jager commenced as a KMP on 27 April 2021, therefore, her award for FY21 has been pro-rated.

(2) Fiamma Morton's Premium Priced Options will be pro-rated to her cessation date, with the pro-rated portion to remain on foot to vest in accordance with the original terms of the Award.

Participants derive value from Premium Priced Options only if the Exercise Price is exceeded at the relevant vesting date. Premium Priced Options vest four and five years after grant.

3.8 SENIOR EXECUTIVE TOTAL REWARD OUTCOMES FOR FY21 (NON-STATUTORY DISCLOSURE)

This section provides a summary of the total benefit earned by Senior Executives with respect to performance over FY21. As in previous years, this non-statutory table shows the Senior Executives' actual remuneration in respect of FY21.

Table 7 includes a breakdown of the following components of Senior Executive remuneration:

- FY21 fixed reward (including base salary and employer superannuation contributions);
- the value of non-monetary and other short-term benefits provided in FY21; and
- the value of any variable remuneration which vested, lapsed or was forfeited during FY21.

REMUNERATION REPORT

For the year ended 31 August 2021

3.8 SENIOR EXECUTIVE TOTAL REWARD OUTCOMES FOR FY21 (NON-STATUTORY DISCLOSURE)(CONTINUED)

TABLE 7 – NON-STATUTORY DISCLOSURE

	Year	Fixed Remuneration ⁽¹⁾	STI cash ⁽²⁾	Value of Benefits ⁽³⁾	Value of Deferred Equity Vested in Period ⁽⁴⁾	Termination Benefits	Value of LTI Vested in Period ⁽⁵⁾	Total Reward Value ⁽⁶⁾	Prior Years' Equity Forfeited / Lapsed ⁽⁷⁾
Current									
George Frazis Managing Director & Chief Executive Officer	2021	1,295,212	-	111,683	-	-	-	1,406,895	-
	2020	1,280,789	-	59,289	-	-	-	1,340,078	-
Debra Eckersley Group Executive, People & Culture	2021	558,047	-	-	-	-	-	558,047	-
	2020	541,914	-	-	-	-	-	541,914	-
Martine Jager ⁽⁸⁾ Group Executive, Retail Banking	2021	237,141	-	2,971	-	-	-	240,112	-
Adam McAnalen Chief Risk Officer	2021	672,606	-	6,527	22,823	-	-	701,956	(67,943)
	2020	640,639	-	6,040	27,662	-	-	674,341	(83,235)
Fiamma Morton Group Executive, Business Banking	2021	697,511	-	15,840	-	-	-	713,351	-
	2020	169,551	-	2,237	-	-	-	171,788	-
Craig Ryman Chief Information Officer	2021	697,511	-	15,840	-	-	-	713,351	-
	2020	91,187	-	2,083	-	-	-	93,270	-
Ewen Stafford Chief Financial Officer & Chief Operating Officer	2021	721,649	-	47,004	-	-	-	768,653	-
	2020	564,762	-	32,119	-	-	-	596,881	-
Former									
Lyn McGrath ⁽⁹⁾ Group Executive, Retail Banking	2021	325,149	50,000	8,729	31,835	-	-	416,713	(965,573)
	2020	627,707	-	20,823	74,583	-	-	723,113	-

(1) Base salary and superannuation make up a Senior Executive's fixed remuneration, including annual leave paid during the year. For departing KMP this includes any leave that is paid out upon termination of employment, which is not included in Statutory Table 13 in section 7.

(2) Pro-rated FY21 STI for Lyn McGrath, former Group Executive, Retail Banking, in respect of the period 1 September 2020 - 31 January 2021; in FY20 all KMP STI was awarded in Restricted Shares

(3) Value of benefits includes both non-monetary and other short-term benefits and relates to benefits (and associated FBT) such as car parking, accommodation or relocation and travel.

(4) The value of all deferred cash and/or equity awards (using the closing share price on the vesting date) that vested during the period. It excludes deferred equity awards granted in previous years that did not vest during the period.

(5) This relates to PARs that vested during the period (using the closing share price on the vesting date).

(6) This is the total dollar value of fixed remuneration, Value of Benefits, Value of Deferred Equity Vested in Period, Termination Benefits and Value of LTI Vested in Period.

(7) This relates to PARs that lapsed during the year as a result of hurdles not being met and/or as a result of ceasing employment (closing share price on lapse date).

(8) Martine Jager commenced as Group Executive, Retail, on 27 April 2021.

(9) Lyn McGrath retired and ceased as Group Executive, Retail Banking on 31 January 2021. FY21 STI award is inclusive of superannuation and pro-rated for 5 months. The STI awarded was 25 per cent of pro-rated target STI and 14 per cent of pro-rated maximum STI. 86 per cent of pro-rated maximum STI was forfeited. Lyn elected to forfeit her 2018 PARs; a pro-rata portion of her 2019 PARs remains on foot to vest in the normal course, subject to the original terms and conditions of the award.

REMUNERATION REPORT

For the year ended 31 August 2021

SECTION 4. REMUNERATION STRATEGY AND STRUCTURE

This sections outlines the Group’s remuneration strategy and the structure of senior executive remuneration.

4.1 STRATEGY

The Group’s remuneration objectives articulate the remuneration strategy, and apply at all levels throughout the organisation. These are to:

- reward sustainable, profitable growth as BOQ executes its strategy;
- reward our people for delivering exceptional customer experiences;
- align our people to long-term value creation for our shareholders;
- provide exceptional employee experiences, including performance and reward to attract and retain a diversity of high-quality talent;
- ensure remuneration structures are consistent with our purpose-led culture, clear accountability frameworks and robust risk management framework; and
- take into account prudent risk management in accordance with BOQ’s risk appetite.

4.2 STRUCTURE

Senior Executives’ remuneration is structured in accordance with the Framework that was introduced on 1 September 2020. The particular objectives of the Framework are to:

- increase alignment with shareholder interests by delivering a sizeable proportion of total remuneration in equity;
- encourage long-term performance, with an appropriate focus on financial and non-financial metrics;
- focus senior executives on improving absolute shareholder returns;
- provide a simple and transparent executive remuneration framework; and
- attract and retain executive talent.

The features of the Framework are outlined in Table 8.

TABLE 8 - THE SENIOR EXECUTIVE REMUNERATION FRAMEWORK

	Fixed reward	Performance Shares	Premium Priced Options
Purpose	To attract and retain talent and reflect the individual’s skills, capabilities and experience.	To focus Senior Executives on delivering against the Group’s strategy collaboratively and as a team.	To align Senior Executives’ interests with the interests of shareholders, to achieve improved outcomes for all stakeholders and grow shareholder value.
Delivery	Cash.	Rights that convert to Restricted Shares.	Options with a premium exercise price (120% of share price at grant).
Opportunity	Based on capability, experience and complexity of role.	MD & CEO: 88% of FR Other Senior Executives: 78% of FR	MD & CEO: 58% of FR Other Senior Executives: 52% of FR
Eligibility	N/A	At least three months’ active employment during the performance period.	At least three months’ active employment during the performance period.
Allocated Value	Fixed reward levels are informed by benchmarking comparable roles in financial services and/or similarly sized ASX listed companies.	The face value of the Senior Executive’s opportunity is divided by the VWAP of BOQ shares. For the annual grant, the VWAP is calculated over the 5 trading days immediately following the AGM. For Senior Executives who join part-way through the performance period, the VWAP is calculated over the 5 trading days immediately preceding their commencement date.	The face value of each Senior Executive’s opportunity is divided by the value of an option, which was calculated by applying the Board approved valuation percentage of 6% to the VWAP calculated over the 5 trading days immediately following the AGM. For Senior Executives who join part-way through the performance period, a percentage of the VWAP as determined by the Board, calculated over the 5 trading days immediately preceding their commencement date.

REMUNERATION REPORT

For the year ended 31 August 2021

4.2 STRUCTURE (CONTINUED)

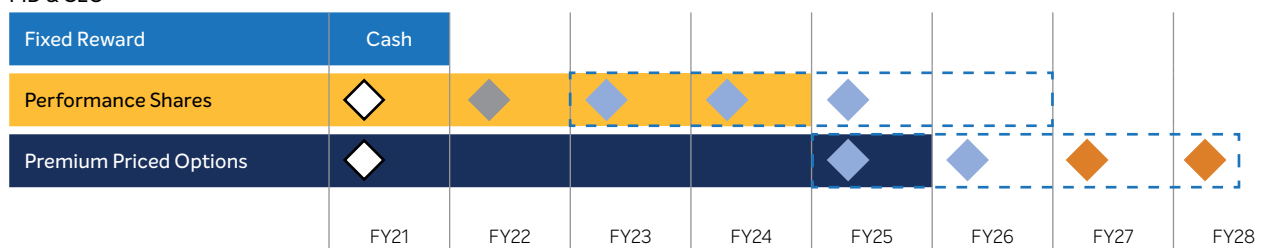
	Fixed reward	Performance Shares	Premium Priced Options
Performance criteria	Satisfactory performance, compliance with the terms and conditions of employment including the Code Of Conduct and fulfilment of accountabilities under the Banking Executive Accountability Regime (BEAR).	Performance against the Group Scorecard over the one year performance period (the FY) modified by the Board's overall assessment of risk and performance determines the conversion from Rights to Restricted Shares.	BOQ's share price must exceed the exercise price set for the award, and a risk assessment conducted by the Board. The exercise price is set at 120% of the VWAP.
Risk	N/A	Risk assessment prior to vesting. Unvested awards are subject to malus. A clawback period of two years applies to each tranche after vesting.	Risk assessment prior to vesting. Unvested awards are subject to malus. MD & CEO: Each tranche is subject to dealing restrictions for two years after vesting. Other Senior Executives: Each tranche is subject to the dealing restrictions for one year after vesting. For all participants, a clawback period of two years applies to each tranche after vesting.
Vesting profile	N/A	33% in December 2022, 33% in December 2023 and 34% in December 2024 (i.e., after two, three and four years).	50% in December 2024 and 50% in December 2025 (i.e., after four and five years).

4.3 DELIVERY AND REALISATION TIMEFRAMES

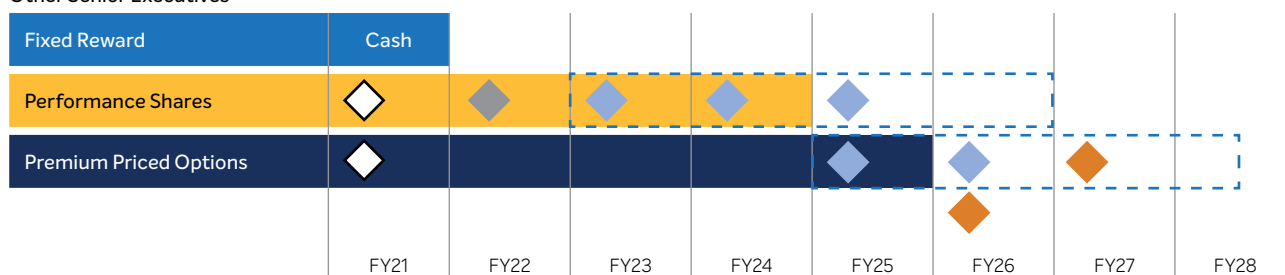
Figure 5 illustrates the delivery profile of the different components of Senior Executives' remuneration for FY21.

Figure 5: Delivery and realisation timeframes

MD & CEO



Other Senior Executives



◇ Grant
 ◆ Convert
 ◇ Vest
 ◆ Restrictions lifted
 ▭ Clawback period

REMUNERATION REPORT

For the year ended 31 August 2021

SECTION 5. REMUNERATION GOVERNANCE

5.1 GROUP REMUNERATION POLICY

The Group Remuneration Policy (the **Policy**) sets out the governance structure for oversight of BOQ's remuneration frameworks and practices and the minimum expectations for their implementation. Specifically, the Policy requires that the Group's performance and remuneration frameworks:

- align the design and management of remuneration with:
 - BOQ's strategic, customer and financial objectives; and
 - prudent risk-taking, incorporating adjustments to reflect:
 - the outcomes of business activities,
 - the risks related to those activities taking account, where relevant, the cost of the associated capital, and
 - the time necessary for the outcomes of those business activities to be reliably measured; and
- encourage behaviours that:
 - are consistent with BOQ's purpose and values;
 - align with and reward the delivery of superior customer outcomes;
 - support BOQ's Risk Management Framework (**RMF**), prudent risk-taking and long-term financial success;
 - prevent matters that may negatively impact prudential standing or reputation; and
 - comply with all relevant jurisdictional legislative and regulatory requirements.

5.2 ROLES AND RESPONSIBILITIES

5.2.1 The Board

The Board is responsible for determining BOQ's Remuneration Policy and, through the People, Culture and Remuneration Committee (**PCRC**), focuses on strategic human resources and remuneration.

The Board must, at least annually, review and approve:

- the Policy;
- individual remuneration arrangements, including but not limited to fixed remuneration levels, variable reward targets and outcomes, make-good awards, retention awards and other benefits of significant value for those employees designated as Accountable Persons and Responsible Persons;
- collectively, remuneration structures for other cohorts specified by APRA; and
- all equity plans, including the terms and conditions under which grants are offered.

5.2.2 The People, Culture & Remuneration Committee

In accordance with its Charter, the PCRC will:

- review and make recommendations to the Board on the performance objectives and individual remuneration arrangements for the MD & CEO at least annually;
- make recommendations to the Board on individual remuneration arrangements for Accountable Persons and Responsible Persons, including Senior Executives, at least annually as part of the remuneration review, and as otherwise required (e.g., on appointment, for out-of-cycle awards, and on separation if outside of policy);
- make recommendations to the Board on collective remuneration arrangements for other cohorts specified by APRA;
- at least annually, review the Policy and, where necessary, recommend amendments to the Board. The review must include an assessment of the Policy's:
 - effectiveness and compliance with prudential standards and any other relevant legal, regulatory and/or governance requirements, including an assessment of underlying procedures, controls and oversight;
 - effectiveness in supporting BOQ's purpose, strategy and objectives, including to identify material deviations from the intent of the Policy and unreasonable or undesirable outcomes that flow from existing arrangements;
 - effectiveness in protecting the interests of customers and quality outcomes for customers;
 - alignment with shareholder interests; and
 - alignment with BOQ's RMF and the protection of BOQ's long-term financial soundness.

All members of the PCRC are also members of the Board Audit Committee and the Board Risk Committee. This construct supports the alignment of audit, risk and reward matters, and facilitates the effective sharing of information between the various committees.

Where appropriate the Board Audit Committee and Board Risk Committee make recommendations to the PCRC to inform its decision-making in relation to performance and reward matters. This includes input from the Board Risk Committee as it relates to setting objectives for, and assessing the performance of, the Chief Risk Officer.

The PCRC may seek advice from external advisers to assist with the execution of its responsibilities.

REMUNERATION REPORT

For the year ended 31 August 2021

5.3 BOARD DISCRETION

Senior Executives' remuneration is determined by the remuneration strategy, Policy and the Framework. Remuneration outcomes are determined in accordance with relevant performance measures, plan design and the Equity Incentive Plan (**EIP**) rules.

The PCRC and Board recognise that there are a range of factors which are specific to current and future years, and these may be taken into account when considering the overall remuneration outcomes for each year. To account for those factors, the PCRC and Board may make discretionary adjustments to remuneration outcomes for Senior Executives and those employees classified as Accountable Persons and/or Responsible Persons. These discretionary adjustments may impact an individual's remuneration positively or negatively. In accordance with this principle, remuneration outcomes have been adjusted both positively and negatively in prior years.

The criteria used by the PCRC and the Board to recommend and approve discretionary adjustments respectively include:

- factors either not known or not relevant at the beginning of a performance period or financial year, which can impact performance positively or negatively during the course of that performance period or financial year;
- the degree of stretch implicit in the performance measures and targets, and the environment and market context in which the targets were set;
- whether the operating environment during the performance period or financial year was materially different than forecast;
- comparison of the Group's performance relative to its competitors;
- the emergence of any major positive or negative risk or reputational issues;
- the quality of financial results as shown by their composition and consistency;
- whether leadership behaviours consistent with the Group's Code of Conduct and values have been regularly demonstrated throughout the performance period or financial year; and
- any other matters that the PCRC and Board deem to be relevant and which are not outlined above.

5.4 RISK ADJUSTMENT

The Chief Risk Officer presents a report to the PCRC on a biannual basis. This report which is also reviewed by the Chair of the Board Risk Committee covers significant and thematic risk events and is used by the PCRC to inform variable reward decisions including the granting of equity to Senior Executives and other employees, and the Board's assessment of risk prior to vesting of equity awards. The findings of the CRO's Report are typically discussed at a closed PCRC session, which also provides the Chair of the Board Risk Committee an opportunity to provide input.

The PCRC and Board have at their disposal three avenues for making risk adjustments to remuneration. These include:

- in-period adjustment, where all, or a portion, of potential variable reward may be reduced, including to zero;
- malus, where the Board may determine that all, or a portion of any unvested award will be lapsed or forfeited; and
- clawback, where, subject to legal limitations, the Board may seek to recover all, or a portion of an award that has been paid and/or vested.

Circumstances in which the PCRC may recommend, and the Board may approve, to invoke in-period adjustment, malus and/or clawback provisions include where, in the opinion of the Board, a Senior Executive or other individual has:

- engaged in serious misconduct or a breach of their employment obligations (including fraud, dishonesty, gross negligence, recklessness or wilful indifference);
- failed to meet BOQ's conduct and behavioural standards, including a determination that a former employee engaged in conduct that would be considered failure of the conduct and behavioural standards if still employed;
- contributed to a material misstatement in, or omission from, BOQ's financial statements, or a misstatement of a performance condition applicable to a variable remuneration plan;
- acted, or failed to act, in a way that contributed to material reputational damage to BOQ; or
- received a variable reward where all or part of the initial award was not justified having regard to the circumstances or information which has come to light after an award was made.

REMUNERATION REPORT

For the year ended 31 August 2021

5.5 CESSATION OF EMPLOYMENT AND CHANGE OF CONTROL

The treatment of future awards and unvested deferred awards depends on the circumstances under which employment ceases. Generally:

- in the event of summary dismissal or resignation, Senior Executives are not eligible to be awarded any further grants of Performance Shares or Premium Priced Options, and any unvested equity will be lapsed or forfeited (as relevant to the particular award and/or instrument).
- in particular circumstances, referred to as Qualifying Reasons or where minimum service requirements have been met (as approved by the Board), it may be possible and permitted for a Senior Executive's unvested equity to remain on foot. Qualifying Reasons include redundancy; retirement; death; mutual agreement for cessation; and total and permanent disablement.
- where a Senior Executive ceases employment for a Qualifying Reason but is subsequently employed by a competitor of BOQ within six months of ceasing, any unvested equity will be lapsed or forfeited (as relevant to the particular award and/or instrument) as though they had resigned, unless the Board consents otherwise.
- The Policy and various plan documentation also sets out the relevant treatment on change of control.

Generally speaking, in relation to awards granted up to and including FY21, where an employee separates for a Qualifying Reason or due to a Change of Control event, unvested awards will be pro-rated to cessation date and remain on foot to vest in the normal course, subject to the original terms and conditions unless the Board determines otherwise.

5.6 MINIMUM SHAREHOLDING REQUIREMENTS

NEDs are required to hold shares equal in value to one times their base fee within three years of their appointment to the Board.

There are no minimum shareholding requirements for Senior Executives. However, the prevalence of equity and the long-dated vesting timeframes that underpin the Framework ensures that all Senior Executives will have, at a minimum, equity interests reflecting at least one times their fixed remuneration once they have been awarded an annual grant of Performance Shares and Premium Priced Options.

5.7 SECURITIES TRADING POLICY

The Group's Securities Trading Policy regulates dealings by Directors, employees and contractors in BOQ securities. Under the policy, Prescribed Persons (those employees with the authority, responsibility, participatory role in, or knowledge of the planning, directing or controlling of the activities of the Group) are prohibited from dealing in BOQ securities during certain blackout periods, including:

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

If a Director, employee or contractor has inside information about the BOQ Group, they must not deal in BOQ securities at any time, including outside of a blackout period.

5.8 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 Chair of the PCRC in order to ensure, upon engagement, that the appropriate level of independence exists from Management. Reports provided by independent consultants are submitted directly to the Chair of the PCRC. Where the consultant's engagement requires a recommendation, the recommendation is provided to and discussed directly with the PCRC Chair in accordance with the requirements of the Corporations Act.

During FY21 the PCRC did not engage independent advisors to provide remuneration recommendations.

REMUNERATION REPORT

For the year ended 31 August 2021

5.9 EXECUTIVE CONTRACTS

The remuneration and terms of Senior Executives' employment are formalised in their Executive Services Agreement (**ESA**). Each ESA provides for the payment of fixed and performance-based variable remuneration, superannuation and other benefits such as statutory leave entitlements. The employment terms of each ESA is summarised in Table 9.

TABLE 9 – SENIOR EXECUTIVE CONTRACT TERMS

	Position Title	Notice Period by Executive	Employer Notice Period	Termination Payments (includes Notice Periods)
Current Senior Executives				
George Frazis	Managing Director & Chief Executive Officer	6 months	9 months	9 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
Martine Jager	Group Executive, Retail Banking	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
Fiamma Morton	Group Executive, Business Banking	6 months	6 months	6 months' fixed remuneration in lieu of notice
Craig Ryman	Chief Information Officer	6 months	6 months	6 months' fixed remuneration in lieu of notice
Ewen Stafford	Chief Financial Officer & Chief Operating Officer	6 months	6 months	6 months' fixed remuneration in lieu of notice
Former Senior Executives				
Lyn McGrath	Group Executive, Retail Banking	3 months	3 months	3 months' fixed remuneration in lieu of notice

REMUNERATION REPORT

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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 with changes to its size and composition. The Board will not be seeking an increase to the fee pool at the 2021 AGM.

6.2 REMUNERATION FRAMEWORK

NED fees are set to attract and retain individuals of appropriate calibre to the Board and Committees. Fees are reviewed annually by the PCRC having regard for the external market of similarly sized and comparably complex organisations.

The Board Chair's fee is determined independently from the fees of other Directors and is also based on the external market. The Chair is not present at any discussions relating to the determination of his own remuneration.

In order to maintain independence and impartiality, NEDs do not receive any performance-based 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.

The BOQ Constitution allows the Company to pay Directors additional remuneration for extra or special services performed.

6.3 BOARD COMMITTEES

From 1 September 2020, all NEDs serve on the Board Audit; Nomination & Governance; People, Culture & Remuneration; Risk; and Transformation & Technology (previously Information Technology, until 26 November 2020) Committees.

6.4 ME BANK

BOQ NEDs became Directors of the ME Bank Limited Board on 1 July 2021. All NEDs assumed equivalent roles with ME Bank Limited, for example, Patrick Allaway is the Chair of the ME Bank Board and all other NEDs are members.

In accordance with APRA regulation, the Board of ME Bank Limited is required to maintain its own Board Audit and Board Risk Committees. Karen Penrose serves as the Chair of the ME Bank Board Audit Committee and Bruce Carter serves as the Chair of the ME Bank Board Risk Committee. All other NEDs are members of both committees.

No additional fees are payable for chairmanship or membership of the ME Bank Board or its Board committees.

6.5 NED FEE STRUCTURE

To reflect the revised committee composition and to provide fairness and simplicity, on 1 September 2020 BOQ moved to a flat fee structure, inclusive of superannuation which is payable up to the maximum contributions base. The only instances where additional committee fees are payable are in relation to the Due Diligence Committee and the Investment Committee, which are paid on a per-meeting basis.

During FY21, the Board approved an additional fee for three NEDs resulting from additional work undertaken in relation to the ME Bank acquisition.

A benchmarking exercise was undertaken during FY21 and, consequently, the Board approved an increase to NED fees for FY22, effective 1 September 2021.

REMUNERATION REPORT

For the year ended 31 August 2021

6.5 NED FEE STRUCTURE (CONTINUED)

The FY21 and FY22 fee structures are set out in Table 10.

TABLE 10 – FY21 AND FY22 NED FEES (INCLUSIVE OF SUPERANNUATION)

	FY21 (01/09/2020 – 31/08/2021)		FY22 (01/09/2021 – 31/08/2022)	
	Chair/Committee Chair ⁽¹⁾ \$	Directors/Committee Members \$	Chair/Committee Chair \$	Directors/Committee Members \$
Annual Fees				
Base fees	420,000	165,000	500,000	185,000
Committee fees ⁽²⁾	30,000	80,000	50,000	80,000
St Andrew's Board ⁽³⁾	-	50,000	-	50,000
Per meeting Fees				
Investment Committee	2,500	1,750	2,500	1,750
Due Diligence Committee	2,500	1,750	2,500	1,750
One-off fees				
ME Bank acquisition ⁽⁴⁾	50,000	25,000	n/a	n/a

(1) The Chair receives no additional remuneration for involvement with Committees.

(2) A flat fee applies for the following Committees: Audit; Nomination & Governance; People, Culture & Remuneration; Risk; and Transformation & Technology.

(3) Karen Penrose is also a member of the St Andrew's Board of Directors.

(4) The Board approved payment of an additional one-off fee of \$50,000 to Patrick Allaway, the Chair and \$25,000 each to NEDs Karen Penrose and Warwick Negus due to their involvement in the due diligence phase of the ME Bank acquisition. For Ms Penrose and Mr Negus, this fee was paid instead of their per-meeting Due Diligence Committee fees.

6.6 NED FEE SACRIFICE RIGHTS PLAN

At the beginning of FY21, as in prior years, offers were made under the NED Fee Sacrifice Rights Plan. Five NEDs elected to participate in the Plan, the details of which are provided in Table 11.

TABLE 11 – TERMS OF THE NED FEE SACRIFICE RIGHTS PLAN

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	At the beginning of the participation period, NEDs can nominate 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 FY21 the participation period was the twelve months from 1 September 2020 to 31 August 2021. The rights do not have any performance conditions in order to preserve the NEDs' 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 15 years from grant date).
Cessation of Directorship	If a participant ceases to be a NED prior to the Rights vesting, they will retain a pro-rata number of Rights based on the period they were a NED. If directorship ceases during the restriction period, any disposal restrictions on the shares will be lifted subject to a minimum trading restriction of 12 months.

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* (Cth), of each major element of the remuneration of each Director and Senior Executive of the Group, calculated in accordance with accounting standards.

REMUNERATION REPORT

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7.1 STATUTORY DISCLOSURES (CONTINUED)

TABLE 12 - DIRECTORS' REMUNERATION

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

		Short-Term					Long-Term					Share Based Payments		Proportion of remuneration performance related %	Value of rights as proportion of remuneration %	
		Salary and fees ⁽¹⁾ \$	Non-monetary benefits ⁽²⁾ \$	Other short term benefits ⁽³⁾ \$	Total short term benefits \$	Post employment ⁽⁴⁾ \$	Other long term ⁽⁵⁾ \$	Termination Benefits \$	Rights ⁽⁶⁾ \$	Shares and units ⁽⁷⁾ \$	Total \$					
Executive Director																
George Frazis	2021	1,262,032	15,840	95,843	1,373,715	22,163	44,575	-	545,249	219,375	2,205,077	35%	25%			
	2020	1,247,823	15,840	43,449	1,307,112	26,426	3,755	-	98,277	219,375	1,654,945	19%	6%			
Non-Executive Directors - Current⁽⁸⁾																
Patrick Alloway	2021	361,724	-	-	361,724	24,281	-	-	-	83,995	470,000	-	-			
	2020	293,201	-	-	293,201	21,990	-	-	-	78,756	393,947	-	-			
Bruce Carter	2021	23,906	-	-	23,906	2,125	-	-	-	274,998	301,029	-	-			
	2020	115	-	-	115	-	-	-	-	266,003	266,118	-	-			
Deborah Kiers⁽⁹⁾	2021	15,186	-	-	15,186	1,519	-	-	-	-	16,705	-	-			
	2020	223,575	-	-	223,575	21,425	-	-	-	-	245,000	-	-			
John Lorimer	2021	197,540	-	-	197,540	18,766	-	-	-	-	216,306	-	-			
	2020	39,275	-	-	39,275	1,477	-	-	-	274,998	315,750	-	-			
Warwick Negus	2021	22,259	-	-	22,259	-	-	-	-	208,050	230,309	-	-			
	2020	315,431	-	-	315,431	23,113	-	-	-	32,494	371,038	-	-			
Karen Penrose	2021	263,566	-	-	263,566	21,272	-	-	-	25,600	310,438	-	-			
	2020	111,771	-	-	111,771	10,566	-	-	-	-	122,337	-	-			
Mickie Rosen⁽¹⁰⁾	2021	-	-	-	-	-	-	-	-	-	-	-	-			
	2020	-	-	-	-	-	-	-	-	-	-	-	-			
Non-Executive Directors - Former⁽⁸⁾																
Kathleen Bailey - Lord⁽¹¹⁾	2021	163,016	-	-	163,016	19,935	-	-	-	45,373	228,324	-	-			
	2020	137,146	-	-	137,146	12,914	-	-	-	60,773	210,833	-	-			
Michelle Tredenick⁽¹²⁾	2021	69,150	-	-	69,150	5,895	-	-	-	-	75,045	-	-			
	2020	235,000	-	-	235,000	20,898	-	-	-	-	255,898	-	-			

(1) For George Frazis, salary and fees refers to fixed remuneration including annual leave accrued or utilised during the financial year. (7) Represents the value of restricted shares awarded through deferred STI payments or Non-Executive Director Fee Sacrifice Rights Plan.

(2) Non-monetary benefits relate to company-funded benefits such as parking, accommodation and travel. (8) 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.

(3) Other short term benefits relates to accommodation allowance. (9) Commenced as KMP on 5 August 2021.

(4) Post-employment includes superannuation benefits. (10) Commenced as KMP on 4 March 2021.

(5) Comprises long service leave accrued or utilised during the financial year. (11) Ceased as KMP on 5 August 2021.

(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. (12) Ceased as KMP on 8 December 2020.

REMUNERATION REPORT

For the year ended 31 August 2021

7.1 STATUTORY DISCLOSURES (CONTINUED)

TABLE 13 – SENIOR EXECUTIVE REMUNERATION

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

	Short-Term					Long-Term					Share Based Payments	Proportion of remuneration performance related %	Value of rights as proportion of remuneration %		
	Salary and fees ⁽¹⁾ \$	STI at risk ⁽²⁾ \$	Non-monetary benefits ⁽³⁾ \$	Other short-term benefits ⁽⁴⁾ \$	Total short-term benefits \$	Post employment ⁽⁵⁾ \$	Other long term ⁽⁶⁾ \$	Termination Benefits \$	Rights ⁽⁷⁾ \$	Shares and units ⁽⁸⁾ \$				Total \$	
Executives – Current															
Debra Eckersley	2021 549,832	-	-	-	549,832	22,163	26,215	-	275,606	94,500	968,316	38%	28%		
	2020 518,885	-	-	-	518,885	21,176	2,796	-	104,729	94,500	742,086	27%	14%		
Martine Jager⁽⁹⁾	2021 243,664	2,971	-	246,635	11,316	4,381	-	20,906	-	-	283,238	7%	7%		
Adam McAnalen	2021 682,993	5,332	1,195	689,520	22,163	7,813	-	274,244	113,906	1,107,646	33%	25%			
	2020 631,604	5,120	920	637,644	21,176	34,028	-	102,315	113,906	909,069	17%	11%			
Fiamma Morton	2021 662,212	15,840	-	678,052	22,163	15,530	-	193,132	29,531	938,408	24%	21%			
	2020 173,850	2,237	-	176,087	8,389	491	-	-	-	29,531	214,498	14%	-		
Craig Ryman	2021 703,652	15,840	-	719,492	22,163	14,309	-	193,132	15,356	964,452	22%	20%			
	2020 92,606	2,083	-	94,689	5,424	265	-	-	-	15,356	115,734	13%	-		
Ewen Stafford	2021 703,289	47,004	-	750,293	22,163	25,064	-	267,717	106,215	1,171,452	32%	23%			
	2020 548,421	32,119	-	580,540	21,176	1,623	-	52,516	106,215	762,070	21%	7%			
Executives – Former															
Lyn McGrath⁽⁹⁾	2021 278,009	50,000	8,729	336,738	10,073	-	-	(114,860)	99,844	331,795	1%	(35%)			
	2020 612,922	20,823	-	633,745	21,176	3,688	-	118,081	114,844	891,534	26%	13%			

(1) Salary and fees refers to fixed remuneration including annual leave accrued or utilised during the financial year.

(2) Pro-rated FY21 STI for Lyn McGrath, former Group Executive, Retail Banking, in respect of the period 1 September 2020 – 31 January 2021; in FY20 all KMP STI was awarded in Restricted Shares

(3) Company-funded benefits (and associated FBT) such as car parking, accommodation or relocation and travel.

(4) Benefits such as allowances.

(5) Post-employment includes superannuation benefits.

(6) Comprises long service leave accrued or utilised during the financial year.

(7) 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.

(8) Represents the value of restricted shares awarded through deferred STI payments or in lieu of forgone incentives.

(9) Martine Jager commenced as Group Executive, Retail Banking on 27 April 2021.

(10) Lyn McGrath retired and ceased as Group Executive, Retail Banking on 31 January 2021. FY21 STI award is inclusive of superannuation and was pro-rated for 5 months. The STI awarded was 25 per cent of pro-rated target STI and 14 per cent of pro-rated maximum STI. 86 per cent of pro-rated maximum STI was forfeited. Lyn elected to forfeit her 2018 PARs; a pro-rata portion of her 2019 PARs remains on foot to vest in the normal course, subject to the original terms and conditions of the award.

REMUNERATION REPORT

For the year ended 31 August 2021

7.2 EQUITY HELD BY SENIOR EXECUTIVES

TABLE 14 - MOVEMENT IN EQUITY AWARDS HELD BY SENIOR EXECUTIVES DURING THE FINANCIAL YEAR 2021

Senior ⁽¹⁾ Executive	Type	Grant Date	Share Price at Grant Date ⁽²⁾ \$	Movements during the 2021 Financial Year				Balance at 31 Aug 2021 ⁽³⁾⁽⁴⁾	Vested during the Year ⁽⁵⁾ (%)
				Balance at 1 Sep 2020	Granted ⁽³⁾	Exercised	Lapsed		
Current									
George Frazis	2019 PARs	19/12/2019	7.36	143,215	-	-	-	143,215	-
	2021 Performance Shares	6/01/2021	7.70	-	146,566	-	-	146,566	-
	2021 Premium Priced Options	6/01/2021	7.70	-	1,628,456	-	-	1,628,456	-
	Restricted Shares	6/01/2021	7.70	-	85,443	-	-	85,443	-
Debra Eckersley	2018 PARs	11/12/2018	9.74	49,450	-	-	-	49,450	-
	2019 PARs	19/12/2019	7.36	57,397	-	-	-	57,397	-
	2021 Performance Shares	6/01/2021	7.70	-	56,158	-	-	56,158	-
	2021 Premium Priced Options	6/01/2021	7.70	-	623,956	-	-	623,956	-
	Restricted Shares	6/01/2021	7.70	-	36,807	-	-	36,807	-
Martine Jager	2021 Performance Shares	30/06/2021	9.11	-	20,493	-	-	20,493	-
	2021 Premium Priced Options	30/06/2021	9.11	-	151,792	-	-	151,792	-
Adam McAnalen	2017 PARs	13/12/2017	12.71	7,634	-	-	7,634	-	-
	2017 DARs	13/12/2017	12.71	1,909	-	1,909	-	-	50%
	2018 PARs	11/12/2018	9.74	10,361	-	-	-	10,361	-
	2018 DARs	11/12/2018	9.74	3,014	-	1,130	-	1,884	30%
	2019 PARs	19/12/2019	7.36	65,597	-	-	-	65,597	-
	2021 Performance Shares	6/01/2021	7.70	-	67,691	-	-	67,691	-
	2021 Premium Priced Options	6/01/2021	7.70	-	752,090	-	-	752,090	-
	Restricted Shares	6/01/2021	7.70	-	44,365	-	-	44,365	-
Fiamma Morton	2021 Performance Shares	6/01/2021	7.70	-	70,198	-	-	70,198	-
	2021 Premium Priced Options	6/01/2021	7.70	-	779,945	-	-	779,945	-
	Restricted Shares	6/01/2021	7.70	-	11,502	-	-	11,502	-
Craig Ryman	2021 Performance Shares	6/01/2021	7.70	-	70,198	-	-	70,198	-
	2021 Premium Priced Options	6/01/2021	7.70	-	779,945	-	-	779,945	-
	Restricted Shares	6/01/2021	7.70	-	5,981	-	-	5,981	-
Ewen Stafford	2019 PARs	19/12/2019	7.36	76,529	-	-	-	76,529	-
	2021 Performance Shares	6/01/2021	7.70	-	70,198	-	-	70,198	-
	2021 Premium Priced Options	6/01/2021	7.70	-	779,945	-	-	779,945	-
	Restricted Shares	6/01/2021	7.70	-	41,369	-	-	41,369	-
Former									
Lyn McGrath	2018 PARs	11/12/2018	9.74	59,811	-	-	59,811	-	-
	Restricted Shares	11/12/2018	9.74	8,478	-	4,239	-	4,239	30%
	2019 PARs	10/02/2020	7.36	68,877	-	-	50,038	18,839	-
	Restricted Shares	6/01/2021	7.70	-	34,506	-	-	34,506	-

(1) Senior Executives with nil shareholding movements while KMP have been excluded from the table above.

(2) Restricted shares granted on 6 January 2021 are valued as at the FY20 STI allocation date rather than the grant date.

(3) This represents the maximum number of equity awards that may vest to each Executive.

(4) Balance amounts as at 31 August 2021 are unvested and not yet exercisable.

(5) Percentage of initial grant.

REMUNERATION REPORT

For the year ended 31 August 2021

7.2 EQUITY HELD BY SENIOR EXECUTIVES (CONTINUED)

TABLE 15 – VALUE OF EQUITY AWARDS HELD BY SENIOR EXECUTIVES DURING THE FINANCIAL YEAR 2021

Senior Executive	Grant	Grant Date	Fair Value per equity award at Grant Date ⁽¹⁾ \$	Value at Grant Date ⁽²⁾ \$	Exercise Date	Share Price at Exercise Date ⁽³⁾ \$	Value at Exercise Date ⁽⁴⁾ \$	Expiry / Lapsing Date	
Current									
George Frazis	2019 PARs	19/12/2019	3.61	517,006	-	-	-	19/12/2026	
	2021 Performance Shares	6/01/2021	7.49	1,097,779	-	-	-	-	
	2021 Premium Priced Options	6/01/2021	0.57	928,220	-	-	-	8/12/2027	
	Restricted Shares	6/01/2021	6.85	585,285	-	-	-	-	
Debra Eckersley	2018 PARs	11/12/2018	4.91	242,800	-	-	-	11/12/2025	
	2019 PARs	19/12/2019	3.61	207,203	-	-	-	19/12/2026	
	2021 Performance Shares	6/01/2021	7.49	420,623	-	-	-	-	
	2021 Premium Priced Options	6/01/2021	0.56	349,415	-	-	-	8/12/2026	
	Restricted Shares	6/01/2021	6.85	252,128	-	-	-	-	
Martine Jager	2021 Performance Shares	30/06/2021	8.86	181,568	-	-	-	-	
	2021 Premium Priced Options	30/06/2021	0.99	150,274	-	-	-	29/06/2026	
Adam McAnalen	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	
					23/12/2019	7.35	13,333	23/12/2021	
	2017 PARs	13/12/2017	7.14	54,507	-	-	-	08/03/2021	
					13/12/2017	11.05	42,178	13/12/2018	9.56
	2017 DARs	13/12/2017	11.05	42,178	09/12/2019	7.45	8,530	13/12/2022	
					14/12/2020	7.60	14,508	13/12/2022	
					11/12/2018	4.91	50,873	-	-
	2018 DARs	11/12/2018	8.21	30,935	09/12/2019	7.45	5,617	11/12/2025	
	2019 PARs	19/12/2019	3.61	236,805	14/12/2020	7.60	8,588	11/12/2025	
					-	-	-	19/12/2026	
	2021 Performance Shares	6/01/2021	7.49	507,006	-	-	-	-	
					6/01/2021	0.56	421,170	-	-
6/01/2021					6.85	303,900	-	-	-
Fiamma Morton	2021 Performance Shares	6/01/2021	7.49	525,783	-	-	-	-	
	2021 Premium Priced Options	6/01/2021	0.56	436,769	-	-	-	8/12/2026	
	Restricted Shares	6/01/2021	6.85	78,789	-	-	-	-	
Craig Ryman	2021 Performance Shares	6/01/2021	7.49	525,783	-	-	-	-	
	2021 Premium Priced Options	6/01/2021	0.56	436,769	-	-	-	8/12/2026	
	Restricted Shares	6/01/2021	6.85	40,970	-	-	-	-	

(1) Restricted shares granted on 6 January 2021 are valued as at the FY20 STI allocation date rather than the grant date.

(2) Represents equity awards held at 1 September 2020 or granted during FY21.

(3) Closing share price on exercise date of rights that have a nil exercise price.

(4) Closing share price on exercise date multiplied by the number of rights exercised during the year.

REMUNERATION REPORT

For the year ended 31 August 2021

7.2 EQUITY HELD BY SENIOR EXECUTIVES (CONTINUED)

TABLE 15 - VALUE OF RIGHTS HELD BY SENIOR EXECUTIVES DURING THE FINANCIAL YEAR 2021 (CONTINUED)

Senior Executive	Grant	Grant Date	Fair Value per Right at Grant Date ⁽¹⁾ \$	Value at Grant Date ⁽²⁾ \$	Exercise Date	Share Price at Exercise Date ⁽³⁾ \$	Value at Exercise Date ⁽⁴⁾ \$	Expiry / Lapsing Date
Current (continued)								
Ewen Stafford	2019 PARs	19/12/2019	3.61	276,270	-	-	-	19/12/2026
	2021 Performance Shares	6/01/2021	7.49	525,783	-	-	-	-
	2021 Premium Priced Options	6/01/2021	0.56	436,769	-	-	-	8/12/2026
	Restricted Shares	6/01/2021	6.85	283,378	-	-	-	-
Former								
Lyn McGrath	Restricted Shares	17/10/2018	10.91	611,702	30/04/2019	8.89	348,746	-
					15/08/2019	8.85	108,244	-
					11/12/2019	7.27	33,500	-
	2018 PARs	11/12/2018	4.91	293,672	-	-	-	25/02/2021
	Restricted Shares	11/12/2018	10.62	150,050	11/12/2019	7.27	41,083	-
					7/12/2020	7.65	32,428	-
	2019 PARs	10/02/2020	3.61	248,646 ⁽⁵⁾	-	-	-	19/12/2026
	Restricted Shares	6/01/2021	6.85	236,366	-	-	-	-

(1) Restricted shares granted on 6 January 2021 are valued as at the FY20 STI allocation date rather than the grant date.

(2) Represents equity awards held at 1 September 2020 or granted during FY21.

(3) Closing share price on exercise date of rights that have a nil exercise price.

(4) Closing share price on exercise date multiplied by the number of rights exercised during the year.

(5) 18,839 with a fair value of \$68,009 PARs remain as at 31 August 2021.

REMUNERATION REPORT

For the year ended 31 August 2021

7.3 OTHER EQUITY INSTRUMENTS - HOLDINGS AND MOVEMENTS

The number of other equity instruments held directly, indirectly or beneficially by each Director, Senior Executive or related party is set out in Table 16. All shares were acquired by NEDs under normal terms and conditions or through the NED Fee Sacrifice Rights Plan.

TABLE 16 - NUMBER OF OTHER EQUITY INSTRUMENTS HELD DIRECTLY, INDIRECTLY OR BENEFICIALLY

Ordinary shares ⁽¹⁾	Held at 1 September 2020	Purchases/ (Sales)	Rights granted under NED Fee Sacrifice Rights Plan	Received on Exercise of Rights / Vesting of Restricted Shares	Held at 31 August 2021
Directors - Current					
Patrick Allaway	142,737	42,737	12,268	-	197,742
Bruce Carter	75,620	22,642	40,165	-	138,427
George Frazis	50,000	40,552	-	-	90,552
John Lorimer	21,128	6,326	-	-	27,454
Warwick Negus	51,872	15,531	40,165	-	107,568
Karen Penrose	19,828	5,937	4,746	-	30,511
Director - Former					
Kathleen Bailey-Lord	13,903	4,163	6,627	-	n/a
Michelle Tredenick	19,762	-	-	-	n/a
Executives - Current					
Debra Eckersley	-	14,879	-	-	14,879
Adam McAnalen	43,614	36,791	-	3,039	83,444
Executives - Former					
Lyn McGrath	61,719	-	-	4,239	n/a

(1) Directors and Senior executives with nil shareholding balances as at 31 August 2021 have been excluded from the table above.

REMUNERATION REPORT

For the year ended 31 August 2021

7.4 TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL (DIRECTORS & SENIOR EXECUTIVES)

Loan transactions

Loans to KMP and their related parties (including close family members 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 Group. There have been no write-downs or amounts recorded as provisions during FY21.

Details of loans held by KMP and their related parties during FY21, where the individual's aggregate loan balance exceeded \$100,000 at any time in this period, are as follows:

TABLE 17 - INDIVIDUAL LOAN TRANSACTIONS WITH KMP (OVER \$100,000)

	Balance at 1 September 2020 \$	Interest charged during the year \$	Balance at 31 August 2021 \$	Highest balance during the year \$
Executives				
Debra Eckersley	350,000	11,508	350,000	351,046
Other Related Parties				
George Frazis related parties	760,430	34,998	743,279	763,433

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

TABLE 18 - AGGREGATED LOAN TRANSACTIONS WITH KMP

	Balance at 1 September 2020 \$	Interest charged during the year \$	Balance at 31 August 2021 \$	Number in group at 31 August 2021 #
Executives	350,000	11,508	350,000	1
Other Related Parties	760,430	34,998	743,279	1

DIRECTORS' REPORT

For the year ended 31 August 2021

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 relevant policy) of the Bank against certain liabilities arising in the course of their duties to the Bank and its subsidiaries, as defined in the relevant policy. 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.

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 Note 5.7 Auditor Remuneration:

	Consolidated		Bank	
	2021 \$000	2020 \$000	2021 \$000	2020 \$000
KPMG Australia				
Audit services				
- Statutory audits and reviews of the financial reports	2,172	1,857	1,826	1,437
- Regulatory audits and reviews as required by regulatory authorities	704	762	611	667
Total audit services	2,876	2,619	2,437	2,104
Audit related services				
- Other assurance services	373	402	154	143
Total audit related services	373	402	154	143
Non-audit services				
- Taxation services	116	122	116	77
- Other	250	192	250	174
Total non-audit services	366	314	366	251

Details of the amounts paid to other auditor for audit services provided during the year in respect of Members Equity Bank Limited (**ME Bank**) acquisition are set out below and in Note 5.7 Auditor Remuneration:

	Consolidated		Bank	
	2021 \$000	2020 \$000	2021 \$000	2020 \$000
Other auditor				
Audit services				
- Statutory audits and reviews of the financial reports	202	-	-	-
Total audit services	202	-	-	-

Directors' interests

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

	Ordinary shares
Patrick Allaway	197,742
George Frazis	90,552
Bruce Carter	138,427
John Lorimer	27,454
Warwick Negus	107,568
Karen Penrose	30,511
Deborah Kiers ⁽¹⁾	-
Mickie Rosen ⁽²⁾	-

(1) Deborah Kiers was appointed as a Director of the Board on 5 August 2021.

(2) Mickie Rosen was appointed as a Director of the Board on 4 March 2021.

DIRECTORS' REPORT

For the year ended 31 August 2021

Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 105 and forms part of the Directors' report for the year ended 31 August 2021.

Director and management changes

Director changes during the year:

- On 8 December 2020, Michelle Tredenick retired as Director of the Board.
- Mickie Rosen was appointed as a Director of the Board on 4 March 2021.
- Deborah Kiers was appointed as a Director of the Board on 5 August 2021.
- On 5 August 2021, Kathleen Bailey-Lord retired as Director of the Board.

Management changes during the year:

- On 31 January 2021, Lyn McGrath retired as Group Executive, Retail Banking.
- On 27 April 2021, Martine Jager commenced as Group Executive, Retail Banking.
- On 30 September 2021, Fiamma Morton retired as Group Executive, Business Banking.
- Chris Screen commenced as Group Executive, Business Banking on 1 October 2021.
- Adam McAnalen will transition to a new role in the Group when David Watts commences as Group Chief Risk Officer in early 2022.

Management attestation

The Board has been provided with a joint written statement from the Group's Managing Director & CEO and Chief Financial Officer & Chief Operating Officer confirming that, in their opinion, the financial records of the Bank and the Group have been properly maintained and the accompanying financial statements and notes are in accordance with the *Corporations Act 2001* (Cth) and comply with accounting standards and present a true and fair view in all material respects of the Bank's and Group's financial position and performance as at and for the year ended 31 August 2021.

The Directors' Declaration can be found on page 183 of the financial statements.

Environmental regulation

The Group'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 2021. The financial effect of the dividends has not been brought to account in the financial statements for the year ended 31 August 2021. 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.

The evolution of the COVID-19 pandemic remains uncertain, including the duration of the pandemic, the severity of the downturn and the speed of the economic recovery. BOQ has considered whether events subsequent to the reporting date have confirmed conditions existing as at reporting date and has not identified any COVID-19 related developments which would require adjustments to the amounts or disclosures contained in the consolidated financial statements. Future economic conditions may differ to the assumptions and scenarios used in the consolidated financial statements, the impact of which will be reflected in future reporting periods.

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.

Rounding

In accordance with applicable financial reporting regulations and current industry practices, amounts in this report have been rounded 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.

Operating and Financial Review

Our Operating and Financial Review is contained in pages 12 – 75 of this report

Signed in accordance with a resolution of the Directors:



Patrick Allaway
Chairman
12 October 2021



George Frazis
Managing Director & CEO
12 October 2021



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 2021 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

Shaun Kendrigan
Partner

Sydney
12 October 2021

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2021
FINANCIAL
STATEMENTS

INCOME STATEMENTS

For the year ended 31 August 2021

	Note	Consolidated		Bank	
		2021 \$m	2020 \$m	2021 \$m	2020 \$m
Interest income:					
Effective interest income	2.1	1,576	1,676	1,367	1,597
Other	2.1	112	120	117	134
Interest expense	2.1	(560)	(810)	(705)	(1,008)
Net interest income	2.1	1,128	986	779	723
Other operating income	2.1	118	103	228	220
Net banking operating income		1,246	1,089	1,007	943
Net insurance operating income	2.1	7	11	-	-
Total operating income before impairment and operating expenses	2.1	1,253	1,100	1,007	943
Expenses	2.2	(736)	(752)	(641)	(705)
Impairment gain/ (loss) on loans and advances	3.3	21	(175)	13	(116)
Profit before income tax		538	173	379	122
Income tax expense	2.3	(169)	(58)	(115)	(41)
Profit for the year		369	115	264	81
Profit attributable to:					
Equity holders of the parent		368	115	264	81
Other equity instruments holders		1	-	-	-
Profit for the year		369	115	264	81
Earnings per share (EPS) ⁽¹⁾					
Basic EPS – Ordinary shares (cents)	2.6	67.0	25.4		
Diluted EPS – Ordinary shares (cents)	2.6	62.6	24.4		

(1) The basic and diluted earnings per share for August 2020 have been adjusted for the effects of the Group's capital raise that occurred in March 2021. The basic and diluted earnings per share for August 2021 have been adjusted for the effects of other equity instruments assumed on ME Bank acquisition (refer Note 3.10(B)).

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

STATEMENTS OF COMPREHENSIVE INCOME

For the year ended 31 August 2021

	Consolidated		Bank	
	2021 \$m	2020 \$m	2021 \$m	2020 \$m
Profit for the year	369	115	264	81
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	53	3	53	4
Net movement transferred to profit or loss	19	20	19	20
Debt instruments at fair value through other comprehensive income (FVOCI):				
Net change in fair value	35	-	35	-
Net movement transferred to profit or loss	(12)	(12)	(12)	(12)
Other comprehensive income, net of income tax	95	11	95	12
Total comprehensive income for the year	464	126	359	93
Total comprehensive income attributable to:				
Equity holders of the parent	463	126	359	93
Other equity instruments holders	1	-	-	-
Total comprehensive income for the year	464	126	359	93

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

BALANCE SHEETS

As at 31 August 2021

	Note	Consolidated		Bank	
		2021 \$m	2020 \$m	2021 \$m	2020 \$m
ASSETS					
Cash and cash equivalents	3.1	2,563	1,353	1,373	835
Due from other financial institutions		827	860	708	826
Derivative financial assets	3.8	137	154	86	101
Financial assets at fair value through profit or loss (FVTPL)	3.2	1,087	1,854	1,087	1,854
Debt instruments at FVOCI	3.2	9,701	4,530	5,548	4,530
Equity instruments at FVOCI	3.2	9	6	6	6
Debt instruments at amortised cost	3.2	-	-	7,699	7,662
Loans and advances	3.3	75,437	46,674	44,827	41,520
Other assets		190	148	1,154	1,031
Current tax assets		-	2	-	2
Property, plant and equipment		198	148	120	142
Assets held for sale	5.5	43	-	30	-
Shares in controlled entities	5.5	-	-	1,910	552
Deferred tax assets	2.3	50	122	85	113
Intangible assets	4.1	1,180	908	915	838
Investments in joint arrangements and associates	5.6	10	13	-	-
Total assets		91,432	56,772	65,548	60,012
LIABILITIES					
Due to other financial institutions - accounts payable at call		273	296	273	296
Deposits	3.4	65,902	39,593	43,569	39,810
Derivative financial liabilities	3.8	653	803	620	799
Accounts payable and other liabilities		575	458	360	385
Current tax liabilities		28	-	24	-
Liabilities held for sale	5.5	17	-	-	-
Provisions	4.2	64	47	43	38
Amounts due to controlled entities		-	-	6,241	6,707
Insurance policy liabilities		-	5	-	-
Borrowings	3.5	17,723	11,339	8,806	7,914
Total liabilities		85,235	52,541	59,936	55,949
Net assets		6,197	4,231	5,612	4,063
EQUITY					
Issued capital		5,213	3,869	5,224	3,875
Other equity instruments	3.10	314	-	-	-
Reserves		376	184	383	194
Retained profits		294	178	5	(6)
Total equity		6,197	4,231	5,612	4,063

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

STATEMENTS OF CHANGES IN EQUITY

For the year ended 31 August 2021

CONSOLIDATED	Issued capital \$m	Other equity instruments \$m	Employee benefits reserve \$m	Share Revaluation Reserve \$m	Equity reserve for credit losses \$m	Cash flow hedge reserve \$m	FVOCI reserve \$m	Profit reserve \$m	Retained profits \$m	Total equity \$m
YEAR ENDED 31 AUGUST 2021										
Balance as at 1 September 2020	3,869	-	30	-	63	(142)	33	200	178	4,231
Acquisition of ME Bank	-	315	-	-	-	-	-	-	-	315
Total comprehensive income for the year										
Profit for the year	-	-	-	-	-	-	-	-	369	369
Transfers to profit reserve	-	-	-	-	-	-	-	264	(264)	-
Other comprehensive income, net of income tax:										
Cash flow hedges:										
Net movement to equity	-	-	-	-	-	53	-	-	-	53
Net movement transferred to profit or loss	-	-	-	-	-	19	-	-	-	19
Debt instruments at FVOCI:										
Net change in fair value	-	-	-	-	-	-	35	-	-	35
Net movement transferred to profit or loss	-	-	-	-	-	-	(12)	-	-	(12)
Transfer to equity reserve for credit losses	-	-	-	-	(11)	-	-	-	11	-
Total other comprehensive income / (expense)	-	-	-	-	(11)	72	23	-	11	95
Total comprehensive income / (expense) for the year	-	-	-	-	(11)	72	23	264	116	464
Transactions with owners, recorded directly in equity / contributions by and distributions to owners										
Institutional share placement ⁽¹⁾	350	-	-	-	-	-	-	-	-	350
Institutional entitlement offer ⁽²⁾	321	-	-	-	-	-	-	-	-	321
Retail entitlement offer ⁽³⁾	681	-	-	-	-	-	-	-	-	681
Issues of ordinary shares ⁽⁴⁾	1	-	-	-	-	-	-	-	-	1
Dividend reinvestment plan	19	-	-	-	-	-	-	-	-	19
Dividends to shareholders	-	-	-	-	-	-	-	(164)	-	(164)
Cost of capital issuance	(23)	-	-	-	-	-	-	-	-	(23)
Equity settled transactions	-	-	5	-	-	-	-	-	-	5
Treasury shares ⁽⁵⁾	(5)	-	-	3	-	-	-	-	-	(2)
Other equity instruments distributions paid	-	(1)	-	-	-	-	-	-	-	(1)
Total contributions by and distributions to owners	1,344	(1)	5	3	-	-	-	(164)	-	1,187
Balance at the end of the year	5,213	314	35	3	52	(70)	56	300	294	6,197

(1) On 23 February 2021, the Bank completed an institutional placement of new fully paid ordinary shares at the offer price of \$7.35 per share. The shares were issued on 3 March 2021.

(2) On 23 February 2021, the Bank completed an underwritten 1 for 3.34 accelerated pro-rata non-renounceable institutional entitlement offer at the offer price of \$7.35 per share. The shares were issued on 3 March 2021.

(3) On 15 March 2021, the Bank completed an underwritten 1 for 3.34 accelerated pro-rata non-renounceable retail entitlement offer at the offer price of \$7.35 per share. The shares were issued on 17 March 2021.

(4) On 9 November 2020, 130,000 ordinary shares were issued at \$6.37 to the trustee of the Bank of Queensland Limited Employee Share Plans Trust to satisfy the issue of shares under the BOQ Employee ThankQ Plan.

(5) Treasury shares represents the value of shares held by a subsidiary that the Bank is required to include in the Consolidated Entity's financial statements. The revaluation of treasury shares is netted off in equity.

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 2021

CONSOLIDATED	Issued capital \$m	Employee benefits reserve \$m	Equity reserve for credit losses \$m	Cash flow hedge reserve \$m	FVOCI reserve \$m	Profit reserve \$m	Retained profits \$m	Total equity \$m
YEAR ENDED 31 AUGUST 2020								
Balance at beginning of the year	3,497	26	62	(165)	45	245	149	3,859
Change on adoption of new accounting standards ⁽¹⁾	-	-	-	-	-	-	(4)	(4)
Restated balance at beginning of the year	3,497	26	62	(165)	45	245	145	3,855
Total comprehensive income for the year								
Profit for the year	-	-	-	-	-	-	115	115
Transfers to profit reserve	-	-	-	-	-	81	(81)	-
Other comprehensive income, net of income tax:								
Cash flow hedges:								
Net movement to equity	-	-	-	3	-	-	-	3
Net movement transferred to profit or loss	-	-	-	20	-	-	-	20
Debt instruments at FVOCI:								
Net change in fair value	-	-	-	-	-	-	-	-
Net movement transferred to profit or loss	-	-	-	-	(12)	-	-	(12)
Equity instruments at FVOCI								
Net change in fair value	-	-	-	-	-	-	-	-
Transfer to equity reserve for credit losses	-	-	1	-	-	-	(1)	-
Total other comprehensive income / (expense)	-	-	1	23	(12)	-	(1)	11
Total comprehensive income / (expense) for the year	-	-	1	23	(12)	81	33	126
Transactions with owners, recorded directly in equity / contributions by and distributions to owners								
Institutional share placement ⁽²⁾	250	-	-	-	-	-	-	250
Dividend reinvestment plan	31	-	-	-	-	-	-	31
Dividends to shareholders	-	-	-	-	-	(126)	-	(126)
Issues of ordinary shares ⁽³⁾	4	-	-	-	-	-	-	4
Cost of capital issue	(3)	-	-	-	-	-	-	(3)
Share purchase plan ⁽⁴⁾	90	-	-	-	-	-	-	90
Equity settled transactions	-	4	-	-	-	-	-	4
Total contributions by and distributions to owners	372	4	-	-	-	(126)	-	250
Balance at the end of the year	3,869	30	63	(142)	33	200	178	4,231

(1) The August 2020 financial results reflect the adoption of AASB 16 on 1 September 2019.

(2) On 26 November 2019, the Bank completed a capital raising by way of institutional share placement of new fully paid ordinary shares at an issue price of \$7.78 per share. The shares were issued on 29 November 2019.

(3) On 29 November 2019, 440,000 ordinary shares were issued at \$8.33 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 Plans and the issue of shares under the BOQ Restricted Share Plan and the BOQ Employee Share Plan.

(4) On 30 December 2019, the Bank completed the share purchase plan of new fully paid ordinary shares at an issue price of \$7.27 per share. The shares were issued on 2 January 2020.

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 2021

BANK	Issued capital \$m	Employee benefits reserve \$m	Equity reserve for credit losses \$m	Cash flow hedge reserve \$m	FVOCI reserve \$m	Profit reserve \$m	Retained profits \$m	Total equity \$m
YEAR ENDED 31 AUGUST 2021								
Balance as at 1 September 2020	3,875	30	64	(133)	33	200	(6)	4,063
Total comprehensive income for the year								
Profit for the year	-	-	-	-	-	-	264	264
Transfers to profit reserve	-	-	-	-	-	264	(264)	-
Other comprehensive income net of income tax:								
Cash flow hedges:								
Net movement to equity	-	-	-	53	-	-	-	53
Net movement transferred to profit or loss	-	-	-	19	-	-	-	19
Debt instruments at FVOCI:								
Net change in fair value	-	-	-	-	35	-	-	35
Net movement transferred to profit or loss	-	-	-	-	(12)	-	-	(12)
Transfer to equity reserve for credit losses	-	-	(11)	-	-	-	11	-
Total other comprehensive income / (expense)	-	-	(11)	72	23	-	11	95
Total comprehensive income / (expense) for the year	-	-	(11)	72	23	264	11	359
Transactions with owners, recorded directly in equity / contributions by and distributions to owners								
Institutional share placement ⁽¹⁾	350	-	-	-	-	-	-	350
Institutional entitlement offer ⁽²⁾	321	-	-	-	-	-	-	321
Retail entitlement offer ⁽³⁾	681	-	-	-	-	-	-	681
Issues of ordinary shares ⁽⁴⁾	1	-	-	-	-	-	-	1
Dividend reinvestment plan	19	-	-	-	-	-	-	19
Dividends to shareholders	-	-	-	-	-	(164)	-	(164)
Cost of capital issue	(23)	-	-	-	-	-	-	(23)
Equity settled transactions	-	5	-	-	-	-	-	5
Total contributions by and distributions to owners	1,349	5	-	-	-	(164)	-	1,190
Balance at the end of the year	5,224	35	53	(61)	56	300	5	5,612

(1) On 23 February 2021, the Bank completed an institutional placement offer at the offer price of \$7.35 per share. The shares were issued on 3 March 2021.

(2) On 23 February 2021, the Bank completed an underwritten 1 for 3.34 accelerated pro-rata non-renounceable institutional entitlement offer at the offer price of \$7.35 per share. The shares were issued on 3 March 2021.

(3) On 15 March 2021, the Bank completed an underwritten 1 for 3.34 accelerated pro-rata non-renounceable retail entitlement offer at the offer price of \$7.35 per share. The shares were issued on 17 March 2021.

(4) On 9 November 2020, 130,000 ordinary shares were issued at \$6.37 to the trustee of the Bank of Queensland Limited Employee Share Plans Trust to satisfy the issue of shares under the BOQ Employee ThankQ 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 2021

BANK	Issued capital \$m	Employee benefits reserve \$m	Equity reserve for credit losses \$m	Cash flow hedge reserve \$m	FVOCI reserve \$m	Profit reserve \$m	Retained profits \$m	Total equity \$m
YEAR ENDED 31 AUGUST 2020								
Balance at beginning of the year	3,503	26	63	(157)	45	245	(1)	3,724
Change on adoption of new accounting standards ⁽¹⁾	-	-	-	-	-	-	(4)	(4)
Restated balance at beginning of the year	3,503	26	63	(157)	45	245	(5)	3,720
Total comprehensive income for the year								
Profit for the year	-	-	-	-	-	-	81	81
Transfers to profit reserve	-	-	-	-	-	81	(81)	-
Other comprehensive income net of income tax:								
Cash flow hedges:								
Net movement to equity	-	-	-	4	-	-	-	4
Net movement transferred to profit or loss	-	-	-	20	-	-	-	20
Debt instruments at FVOCI:								
Net change in fair value	-	-	-	-	-	-	-	-
Net movement transferred to profit or loss	-	-	-	-	(12)	-	-	(12)
Equity instruments at FVOCI								
Net change in fair value	-	-	-	-	-	-	-	-
Transfer to equity reserve for credit losses	-	-	1	-	-	-	(1)	-
Total other comprehensive income / (expense)	-	-	1	24	(12)	-	(1)	12
Total comprehensive income / (expense) for the year	-	-	1	24	(12)	81	(1)	93
Transactions with owners, recorded directly in equity / contributions by and distributions to owners								
Institutional share placement ⁽²⁾	250	-	-	-	-	-	-	250
Dividend reinvestment plan	31	-	-	-	-	-	-	31
Dividends to shareholders	-	-	-	-	-	(126)	-	(126)
Issues of ordinary shares ⁽³⁾	4	-	-	-	-	-	-	4
Cost of capital issue	(3)	-	-	-	-	-	-	(3)
Share purchase plan ⁽⁴⁾	90	-	-	-	-	-	-	90
Equity settled transactions	-	4	-	-	-	-	-	4
Total contributions by and distributions to owners	372	4	-	-	-	(126)	-	250
Balance at the end of the year	3,875	30	64	(133)	33	200	(6)	4,063

(1) The August 2020 financial results reflect the adoption of AASB 16 on 1 September 2019.

(2) On 26 November 2019, the Bank completed a capital raising by way of institutional share placement of new fully paid ordinary shares at an issue price of \$7.78 per share. The shares were issued on 29 November 2019.

(3) On 29 November 2019, 440,000 ordinary shares were issued at \$8.33 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 Plans and the issue of shares under the BOQ Restricted Share Plan and the BOQ Employee Share Plan.

(4) On 30 December 2019, the Bank completed the share purchase plan of new fully paid ordinary shares at an issue price of \$7.27 per share. The shares were issued on 2 January 2020.

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 2021

	Note	Consolidated		Bank	
		2021 \$m	2020 \$m	2021 \$m	2020 \$m
CASH FLOWS FROM OPERATING ACTIVITIES					
Interest received		1,663	1,694	1,387	1,537
Fees and other income received		127	125	205	206
Interest paid		(569)	(733)	(712)	(925)
Cash paid to suppliers and employees		(622)	(577)	(531)	(508)
Income tax paid		(100)	(89)	(91)	(87)
		499	420	258	223
Increase / (decrease) in operating assets:					
Loans and advances at amortised cost		(3,070)	(874)	(3,443)	(809)
Other financial assets		(1,001)	(272)	(173)	(309)
Increase in operating liabilities:					
Deposits		3,953	1,318	3,738	1,330
Net cash inflow / (outflow) from operating activities	3.1	381	592	380	435
CASH FLOWS FROM INVESTING ACTIVITIES					
Acquisition of ME Bank, net of cash acquired	5.5	(746)	-	(1,388)	-
Payments for property, plant and equipment		(9)	(9)	(9)	(9)
Proceeds from sale of property, plant and equipment		6	6	-	1
Payments for intangible assets	4.1	(119)	(102)	(115)	(101)
Proceeds / (payments) for investments in joint arrangements		2	-	-	-
Dividends received from controlled entities		-	-	4	4
Net cash inflow / (outflow) from investing activities		(866)	(105)	(1,508)	(105)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from borrowings	3.5	3,628	2,583	1,844	2,205
Repayments of borrowings	3.5	(3,063)	(3,193)	(937)	(1,625)
Net movement in other financing activities		-	-	(378)	(962)
Proceeds for issue of ordinary shares		1,329	336	1,329	336
Payments for treasury shares		(7)	(1)	(7)	(1)
Other equity instruments distribution paid		(1)	-	-	-
Dividends paid		(145)	(95)	(145)	(95)
Payment of lease liabilities		(42)	(38)	(40)	(38)
Net cash inflow / (outflow) from financing activities		1,699	(408)	1,666	(180)
Net increase / (decrease) in cash and cash equivalents		1,214	79	538	150
Cash and cash equivalents at beginning of year		1,353	1,274	835	685
Cash and cash equivalents at end of year	3.1	2,567	1,353	1,373	835
Cash and cash equivalents included in assets held for sale	5.5	(4)	-	-	-
Cash and cash equivalents as presented in the Balance Sheets		2,563	1,353	1,373	835

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 2021

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2021

NOTE 1. BASIS OF PREPARATION

1.1 REPORTING ENTITY

The Bank of Queensland Limited (**the Bank** or **BOQ**) is a for-profit company domiciled in Australia. Its 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 2021 comprise the Consolidated Entity (or **the Group**), being the Bank and its controlled entities, and the Consolidated Entity's interest in equity accounting investments. The principal activity of the Group 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 12 October 2021.

(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 instruments at FVTPL; and
- Financial instruments at FVOCI.

(C) Functional and presentation currency

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

(D) Rounding

The Group is of a kind referred to in ASIC Corporations Instrument 2016/191 dated 24 March 2016 and in accordance with that instrument, amounts in the consolidated financial statements have been rounded 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 Group.

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 (**ECL**) – Note 3.3;
- Financial instruments – Notes 3.2 and 3.7;
- Carrying value of goodwill and other intangible assets – Note 4.1;
- Provisions – Note 4.2; and
- Business combinations – Note 5.5.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2021

1.4 COVID-19 FINANCIAL REPORTING CONSIDERATIONS

Background

The COVID-19 pandemic, together with measures implemented to contain the virus, continues to create uncertainty for the Australian economy. Although Gross Domestic Product (**GDP**), property prices and unemployment have been less severe than anticipated in FY20, we have seen on-going COVID-19 lockdowns across several states. To mitigate the economic impact of the COVID-19 pandemic, the Australian Banking Association (**ABA**) Council proposed that the banking industry offer further relief packages to small businesses and home loan customers that have been significantly impacted by current or recent lockdowns. BOQ continues to support customers by offering Business Banking repayment deferrals, Everyday Banking support and Home Loan support as proposed by the ABA.

The Group continues to carefully consider the impact of COVID-19 in preparing its financial statements for the year ended 31 August 2021, including the increased estimation uncertainty associated with:

- Disruption to businesses as a result of continuing lockdowns;
- The extent and duration of the expected economic downturn including forecasts for growth, unemployment and property prices; and
- The effect of government incentives and banking relief packages to support businesses and consumers through this economic downturn.

The key impacts on the consolidated financial statements, including the use of critical estimates and judgements, are as follows:

Provisions for impairment

In assessing forecast conditions, the Group has incorporated the effects of COVID-19 and government support measures based on reasonable and supportable information at the reporting date. Model updates, including a complete review of the overlays and adjustments in place as well as updated scenarios and scenario weightings to cater for economic uncertainties, have been implemented in 2H21. Forward looking adjustments have been determined based on a probability weighted range of plausible economic and industry stress scenarios, taking into account the mitigating impacts of government and industry assistance packages, including loan repayment deferrals. As the economy showed signs of a rebound and the economic outlook improved since the outbreak of COVID-19, this allowed for the release of some provisions raised in prior periods while maintaining a prudent provision coverage to cater for the ongoing uncertainty of the pandemic. In line with guidance from APRA, the Group has not treated the period of repayment deferrals offered as support for affected customers as a period of arrears nor an automatic significant increase in credit risk. Refer to Note 3.3.

Goodwill

The Group tested goodwill for impairment, updating the assumptions and cash flow forecasts, where necessary, to reflect the potential impact of COVID-19. No impairments were required to be recognised for goodwill held across the Group as at 31 August 2021. Management judgement is required to determine the assumptions underpinning value-in-use calculations and changes in these key assumptions could have an adverse impact on the carrying value of goodwill. Refer to Note 4.1.

Hedge Accounting

The Group has considered the continued impact of COVID-19 on its existing hedges and whether they continue to meet the criteria for Hedge Accounting. Hedged future cash flows, including forecast rollovers of variable rate assets and liabilities, remain highly probable. Refer to Note 3.8.

Borrowings

The Term Funding Facility (**TFF**) was announced by the Reserve Bank of Australia (**RBA**) in March 2020 to provide three-year funding to ADIs as part of a package of measures to support the Australian economy. The facility initially provided three-year funding to ADIs through repurchase transactions at a fixed pricing of 0.25 per cent per annum. From 4 November 2020 the interest rate on new drawings was lowered to 0.1 per cent per annum. As at 31 August 2021, \$3 billion of the group facility has been drawn.

The TFF is accounted for as borrowings with the securities pledged as collateral. There are no substantive conditions attached to the ongoing use of the TFF and it is not linked to the provision of specific loans to customers. However, as the funding is, in effect, a below market interest loan from a Government entity, the loan is classified as a Government Grant under AASB 120 *Accounting for Government grants and Disclosure of Government Assistance*. Grants related to income can be deducted in reporting the related expense and, as such, the net interest expense will reflect the TFF reduced cost of borrowing. Refer to Note 3.5.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2021

1.4 COVID-19 FINANCIAL REPORTING CONSIDERATIONS (CONTINUED)

Events subsequent to reporting date

The evolution of the COVID-19 pandemic remains uncertain, including the duration of the pandemic, the severity of the downturn and the speed of the economic recovery. BOQ has considered whether events subsequent to the reporting date have confirmed conditions existing as at reporting date and has not identified any COVID-19 related developments which would require adjustments to the amounts or disclosures contained in the consolidated financial statements. Future economic conditions may differ to the assumptions and scenarios used in the consolidated financial statements, the impact of which will be reflected in future reporting periods.

1.5 NEW AUSTRALIAN ACCOUNTING STANDARDS

International Financial Reporting Standards Interpretations Committee final agenda decisions not yet adopted

In April 2021, the IFRS Interpretations Committee (**IFRIC**) published its second agenda decision in relation to Software as a Service (**SaaS**) cloud computing arrangements. The decision discusses whether configuration or customisation expenditure relating to SaaS arrangements is able to be recognised as an intangible asset and if not, over what time period the expenditure is expensed. Specifically, IFRIC stated that in most instances, configuration and customisation costs incurred in implementing SaaS solutions will be treated as an operating expense.

The Group's accounting policy has historically been to capitalise costs related to SaaS arrangements as intangible assets. The adoption of the IFRIC decision could result in a reclassification of these intangible assets to either a prepaid asset on the Balance Sheet or recognition as an expense in the Income Statement, impacting both the current and prior periods presented. For ME Bank assets, the adoption could result in an adjustment to the fair value of assets acquired and a corresponding increase to goodwill as part of the Group's acquisition accounting (refer Note 5.5 (C)).

The Group has over 110 software assets and 40 software assets under construction (**AUC**). Both the scale and complexity of assessing such a large number of complex projects is such that BOQ has been unable to adopt this IFRIC agenda decision in advance of the year-end reporting date. As such, the existing policy of capitalising configuration and customisation costs continues to apply as at 31 August 2021.

The complexity of the assessment also means that the impact of the IFRIC decision cannot be reasonably estimated at the reporting date. At 31 August 2021, software assets with net book value of \$188 million were subject to the detailed assessment. BOQ will adopt the IFRIC decision in the HY2022 Consolidated Interim Report and restate prior period comparatives.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2021

NOTE 2. FINANCIAL PERFORMANCE

2.1 OPERATING INCOME

	Consolidated		Bank	
	2021 \$m	2020 \$m	2021 \$m	2020 \$m
INTEREST INCOME				
Effective interest income	1,576	1,676	1,367	1,597
Other: Securities at fair value	112	120	117	134
Total interest income	1,688	1,796	1,484	1,731
INTEREST EXPENSE				
Retail deposits	(206)	(388)	(192)	(388)
Wholesale deposits and borrowings	(351)	(419)	(510)	(617)
Lease liabilities	(3)	(3)	(3)	(3)
Total interest expense	(560)	(810)	(705)	(1,008)
Net interest income	1,128	986	779	723
INCOME FROM OPERATING ACTIVITIES				
Customer fees and charges ⁽¹⁾	62	61	62	63
Share of fee revenue paid to owner-managed branches	(6)	(6)	(6)	(6)
Commissions	31	34	12	12
Foreign exchange income – customer based	13	11	13	12
Net profit / (loss) on sale of property, plant and equipment	5	4	-	-
Net (loss) / income from financial instruments and derivatives at fair value	(4)	(10)	(5)	(9)
Securitisation income	-	-	111	119
Dividend income	-	-	4	4
Management fees – controlled entities	-	-	29	21
Other income	17	9	8	4
Other operating income	118	103	228	220
INCOME FROM INSURANCE ACTIVITIES				
Premiums from insurance contracts	42	50	-	-
Investment revenue	-	1	-	-
Claims and policyholder liability expense from insurance contracts	(35)	(40)	-	-
Net insurance operating income	7	11	-	-
Total operating income	1,253	1,100	1,007	943

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

Interest income and expense

Interest income and expense for all interest bearing financial instruments is 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 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 2021

2.2 EXPENSES

	Note	Consolidated		Bank	
		2021 \$m	2020 \$m	2021 \$m	2020 \$m
OPERATING EXPENSES					
Advertising		33	28	19	16
Commissions to owner-managed branches		4	5	4	4
Communications and postage		20	17	16	17
Printing and stationery		4	3	3	3
Processing costs		14	13	14	13
Impairment		-	41	-	41
Other		36	43	32	48
		111	150	88	142
ADMINISTRATIVE EXPENSES					
Professional fees		38	24	32	21
Directors' fees		2	2	2	2
Other		17	9	23	15
		57	35	57	38
IT EXPENSES					
Data processing		121	126	112	120
Amortisation – computer software	4.1	47	77	36	71
Depreciation – IT equipment		1	1	1	1
		169	204	149	192
OCCUPANCY EXPENSES					
Depreciation – ROU assets and lease expenses		29	28	26	26
Depreciation – property, plant and equipment		9	10	9	10
Other		3	2	3	2
		41	40	38	38
EMPLOYEE EXPENSES					
Salaries, wages and superannuation contributions		313	289	272	265
Payroll tax		16	14	14	12
Equity settled transactions		8	9	7	8
Other		17	6	14	6
		354	318	307	291
OTHER					
Amortisation – acquired intangibles	4.1	4	5	2	4
		4	5	2	4
Total expenses		736	752	641	705

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2021

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	
	2021 \$m	2020 \$m	2021 \$m	2020 \$m
CURRENT TAX EXPENSE				
Current year	123	103	113	83
Adjustments for prior years	(2)	(8)	(7)	(6)
	121	95	106	77
DEFERRED TAX EXPENSE				
Origination and reversal of temporary differences	48	(37)	9	(36)
	169	58	115	41
DEFERRED TAX RECOGNISED IN EQUITY				
Cash flow hedge reserve	20	6	19	7
Retained profits	-	(2)	-	(2)
Other	10	(4)	10	(4)
	30	-	29	1
Numerical reconciliations between tax expense and pre-tax profit				
Profit before tax	538	173	379	122
Income tax using the domestic corporate tax rate of 30% (2020: 30%)	161	52	114	37
Increase in income tax expense due to:				
Non-deductible expenses	10	7	9	6
Decrease in income tax expense due to:				
Other ⁽¹⁾	(2)	(1)	(8)	(2)
Income tax expense on pre-tax net profit	169	58	115	41

(1) In the Bank, this includes a prior period adjustment and the impact of dividends received from subsidiary members in the tax consolidated group which are both eliminated at a group level.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2021

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	
	2021 \$m	2020 \$m	2021 \$m	2020 \$m	2021 \$m	2020 \$m
CONSOLIDATED						
Accruals	4	3	-	-	4	3
Capitalised expenditure	-	-	(5)	(6)	(5)	(6)
Provisions for impairment	119	111	-	-	119	111
Other provisions	30	16	-	-	30	16
Equity reserves	6	36	-	-	6	36
ROU Asset and Lease Liability	41	47	(32)	(38)	9	9
Lease financing relating to lessor activities	-	-	(87)	(45)	(87)	(45)
Intangibles	4	-	(18)	(2)	(14)	(2)
Consolidation – Taxation of Financial Arrangements (TOFA) ⁽¹⁾	-	-	(22)	-	(22)	-
Other	13	2	(3)	(2)	10	-
Total tax assets / (liabilities)⁽²⁾	217	215	(167)	(93)	50	122
BANK						
Accruals	3	2	-	-	3	2
Capitalised expenditure	-	-	(1)	(2)	(1)	(2)
Provisions for impairment	66	76	-	-	66	76
Other provisions	19	14	-	-	19	14
Equity reserves	2	31	-	-	2	31
ROU Asset and Lease Liability	41	47	(32)	(38)	9	9
Lease financing relating to lessor activities	-	-	(18)	(18)	(18)	(18)
Other	8	2	(3)	(1)	5	1
Total tax assets / (liabilities)	139	172	(54)	(59)	85	113

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:

	2021 \$m	2020 \$m
Gross income tax losses ⁽³⁾	23	24
Gross capital gains tax losses	50	50

(1) The provisional business combination balances relating to the acquisition of ME Bank include a transitional deferred tax liability that will unwind equally across the current and next three years.

(2) The St. Andrew's Group is classified as held for sale at the reporting date of 31 August 2021, refer to Note 5.5(E) for further information. Net deferred tax assets of \$1 million have been reclassified as held for sale. The above table excludes these net deferred tax assets.

(3) Income tax losses are subject to utilisation over an expected 15–20 year period.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2021

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 Group 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 2021

2.4 DIVIDENDS

	Bank			
	2021		2020	
	Cents per share	\$m	Cents per share	\$m
Ordinary shares				
Final 2020 dividend paid 25 November 2020 (2019: 27 November 2019)	12	55	31	126
Interim 2021 dividend paid 26 May 2021	17	109	-	-
		164		126

All dividends paid on ordinary 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	22	141

The final ordinary share dividend will be paid on 18 November 2021 to owners of ordinary shares at the close of business on 29 October 2021 (record date). Shares will be quoted ex-dividend on 28 October 2021.

	Bank	
	2021 \$m	2020 \$m
30% franking credits available to shareholders of the Bank for subsequent financial years	507	208

The ability to utilise the franking credits is dependent upon there being sufficient available profits to pay dividends. The profits accumulated in the profit reserve are available for dividend payments in future years. All dividends paid 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 2021, is \$446 million calculated at the 30 per cent tax rate (2020: \$183 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 the Market Price less such discount (if any) as the directors may determine from time to time and notify to the ASX (rounded to the nearest cent).

Market price is 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.

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.

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

The last date for election to participate in the **DRP** for the 2021 full year dividend is 1 November 2021.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2021

2.5 OPERATING SEGMENTS

Segment information

The Group 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 Group 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 Group's other components. All operating segments' operating results are regularly reviewed by the Group'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 Group'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, Virgin Money distribution channels and ME Bank (refer to Note 5.5);

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 Group's total revenue in 2021 or 2020.

Geographic information

While the Group 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 Group'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 2021

2.5 OPERATING SEGMENTS (CONTINUED)

	Retail Banking		BOQ Business		Other		Segment Total	
	2021 ⁽¹⁾ \$m	2020 ⁽²⁾ \$m	2021 \$m	2020 \$m	2021 \$m	2020 \$m	2021 \$m	2020 \$m
INCOME								
Net interest income ⁽³⁾	570	437	555	543	3	6	1,128	986
Non-interest income	74	74	48	40	8	14	130	128
Total income	644	511	603	583	11	20	1,258	1,114
Operating expenses	(407)	(335)	(262)	(258)	(15)	(19)	(684)	(612)
Underlying profit / (loss)	237	176	341	325	(4)	1	574	502
Loan impairment gain/ (loss)	21	(56)	-	(119)	-	-	21	(175)
Cash profit / (loss) before tax	258	120	341	206	(4)	1	595	327
Income tax (expense)/ benefit	(80)	(37)	(106)	(64)	3	(1)	(183)	(102)
Segment cash profit / (loss) after tax⁽⁴⁾	178	83	235	142	(1)	-	412	225
STATUTORY BASIS ADJUSTMENTS:								
Amortisation of acquisition fair value adjustments	-	-	-	-	(3)	(4)	(3)	(4)
Hedge ineffectiveness	-	-	-	-	(3)	(10)	(3)	(10)
Transaction costs ⁽⁵⁾	-	-	-	-	(19)	-	(19)	-
Integration costs ⁽⁵⁾	-	-	-	-	(9)	-	(9)	-
Intangible asset review and restructure ⁽⁶⁾	-	-	-	-	(3)	(80)	(3)	(80)
Regulatory / compliance	-	-	-	-	-	(5)	-	(5)
Employee pay and entitlements review	-	-	-	-	(6)	(8)	(6)	(8)
Other legacy items	-	-	-	-	-	(3)	-	(3)
Statutory net profit / (loss) after tax	178	83	235	142	(44)	(110)	369	115
INCLUDED IN THE RESULTS:								
Depreciation and amortisation	(54)	(67)	(22)	(45)	(8)	(3)	(84)	(115)
Total assets	54,077	26,058	23,913	22,920	13,442	7,794	91,432	56,772
Total liabilities	37,046	17,156	10,838	9,780	37,351	25,605	85,235	52,541

(1) The August 2021 financial results includes the ME Bank contribution from 1 July 2021 until 31 August 2021.

(2) VMA operating costs have been restated from non-interest income and included in operating expenses per ASX announcement on 30 September 2021.

(3) 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.

(4) This excludes a number of items that introduce volatility and / or one-off distortions of the Group's performance.

(5) Integration and transaction costs from ME Bank acquisition completed on 1 July 2021.

(6) The August 2021 financial results include a non-recurring adjustment due to a change in the ME Bank minimum threshold for the capitalisation of intangible assets to align with BOQ.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2021

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	
	2021 \$m	2020 \$m
EARNINGS RECONCILIATION		
Profit for the year	369	115
Returns to other equity instruments ⁽¹⁾	(1)	-
Profit available for ordinary shareholders	368	115
Basic earnings		
Effect of Wholesale Capital Notes	-	4
Effect of Capital Notes	9	11
Effect of Capital Notes 2	5	-
Diluted earnings	382	130
Weighted average number of shares used as the denominator	2021 Number	2020 Number⁽²⁾
Number for basic earnings per share		
Ordinary shares	549,628,512	454,599,751
Number for diluted earnings per share		
Ordinary shares	549,628,512	454,599,751
Effect of award rights	3,248,973	1,909,302
Premium priced options ⁽³⁾	-	-
Effect of Wholesale Capital Notes	-	18,456,165
Effect of Capital Notes	37,717,103	58,658,037
Effect of Capital Notes 2	21,033,327	-
	611,627,915	533,623,255
EARNINGS PER SHARE		
Basic earnings per share – Ordinary shares (cents)	67.0	25.4
Diluted earnings per share – Ordinary shares (cents)	62.6	24.4

(1) Other equity instruments assumed on the acquisition of ME Bank. Refer to Note 3.10(B) for further information.

(2) The basic and diluted earnings per share for August 2020 have been adjusted for the effects of the Group's capital raise that occurred in March 2021.

(3) During the year ended 31 August 2021, the Group granted 8,033,732 premium priced options to eligible employees. The options were anti-dilutive during the period and therefore have not impacted the diluted weighted average number of shares (**WANOS**) during the period.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2021

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 RBA. 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	
	2021 \$m	2020 \$m	2021 \$m	2020 \$m
Notes, coins and cash at bank	2,124	983	1,135	465
Remittances in transit	238	270	238	270
Reverse repurchase agreements maturing in less than three months	201	100	-	100
Cash and cash equivalents as presented in the Balance Sheets	2,563	1,353	1,373	835
Cash and cash equivalents included in assets held for sale	4	-	-	-
Total	2,567	1,353	1,373	835

Notes to the Statements of Cash Flows

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

Profit from ordinary activities after income tax	369	115	264	81
<i>Add / (less) non-cash items or items classified as investing / financing:</i>				
Depreciation	39	35	36	35
Amortisation - acquired intangibles	4	5	2	4
Software amortisation and impairment	47	118	36	108
Profit on sale of property, plant and equipment	(5)	(4)	-	-
Equity settled transactions	8	9	7	8
Salary sacrifice reserve	(3)	-	(3)	-
Dividends received from controlled entities	-	-	(4)	(4)
<i>Add / (less) changes in operating assets and liabilities:</i>				
(Increase) / decrease in due from other financial institutions	119	(152)	118	(158)
(Increase) in financial assets	(1,120)	(120)	(292)	(120)
(Increase) in loans and advances	(3,052)	(825)	(3,439)	(772)
Increase / (decrease) in provision for impairment	(58)	136	(35)	89
(Increase) / decrease in derivatives	(19)	14	(9)	13
(Increase) / decrease in deferred tax asset	17	(40)	(1)	(31)
(Increase) / decrease in amounts due to / from controlled entities	-	-	35	(670)
(Increase) / decrease in other assets	(18)	45	(142)	548
Increase / (decrease) in due to other financial institutions	(24)	11	(24)	11
Increase in deposits	3,982	1,278	3,733	1,302
Increase / (decrease) in accounts payable and other liabilities	33	(43)	67	(24)
Increase in current tax liabilities	34	5	26	6
Increase in provisions	5	7	4	13
Increase / (decrease) in deferred tax liabilities	23	2	1	(4)
(Decrease) in insurance policy liabilities	-	(4)	-	-
Net cash (inflow) / outflow from operating activities	381	592	380	435

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2021

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.

The Bank invests in debt securities at amortised cost that are issued by 100 per cent owned securitisation vehicles within the Consolidated Group. The programs' underlying pool of financial instruments are recorded within the Bank's Loans and advances.

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 *Financial Instruments* (AASB 9).

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

Reclassification of financial instruments

The Group 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 Group does not reclassify financial liabilities.

Derecognition of financial instruments

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

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 2021

3.2 FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

Financial assets recognised and measured at fair value and debt instruments at amortised cost 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	
	2021 \$m	2020 \$m	2021 \$m	2020 \$m
DERIVATIVE FINANCIAL ASSETS				
Current	82	19	19	19
Non-current	55	135	67	82
Total derivative financial assets	137	154	86	101
FINANCIAL ASSETS AT FVTPL				
Floating rate notes and bonds	664	1,829	664	1,829
Negotiable certificates of deposit	180	25	180	25
Promissory notes	200	-	200	-
Reverse repurchase agreements	43	-	43	-
Total financial assets at FVTPL	1,087	1,854	1,087	1,854
Current	1,087	1,854	1,087	1,854
FINANCIAL ASSETS AT FVOCI				
Debt instruments	9,701	4,530	5,548	4,530
Equity instruments	9	6	6	6
Total financial assets at FVOCI	9,710	4,536	5,554	4,536
Current	3,232	80	607	80
Non-current	6,478	4,456	4,947	4,456
DEBT INSTRUMENTS AT AMORTISED COST				
Current	-	-	168	200
Non-current	-	-	7,531	7,462
	-	-	7,699	7,662

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2021

3.3 LOANS AND ADVANCES

Loans and advances at amortised cost

Loans and advances are originated by the Group 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. The method used to determine the appropriate period to amortise any upfront payments or receipts on origination of loan contracts is the weighted average life (**WAL**) of the loan category.

Finance lease receivables

Loans and advances include finance lease receivables. 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 plus the present value of a guaranteed residual value expected to accrue at the end of the lease term. Subsequently, lease repayments are apportioned between interest income and the reduction of the lease receivable over the term of the lease in order to reflect a constant periodic rate of return on the net investment outstanding in respect of the lease.

	Consolidated		Bank	
	2021 \$m	2020 ⁽¹⁾ \$m	2021 \$m	2020 ⁽¹⁾ \$m
Residential property loans	59,053	31,155	34,101	31,155
Personal loans	182	91	95	91
Overdrafts	164	209	164	209
Commercial loans	9,900	9,449	9,715	9,271
Credit cards	178	59	57	59
Asset finance and leasing	6,347	6,172	928	1,009
Gross loans and advances	75,824	47,135	45,060	41,794
Less:				
Unearned finance lease income	(76)	(92)	(14)	(20)
Specific provision for impairment	(107)	(94)	(83)	(68)
Collective provision for impairment	(204)	(275)	(136)	(186)
Total loans and advances	75,437	46,674	44,827	41,520

(1) Comparative information has been restated. To align product definitions across the Group, \$810 million of BOQ Specialist asset finance products has been reclassified from Commercial loans to Asset finance and leasing. \$124 million of BOQ Specialist consumer lending products has been reclassified from Personal loans to Commercial loans.

(A) Loans and advances - Expected Credit Losses (ECL)

In accordance with AASB 9 *Financial Instruments*, the Group utilises 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 month ECL is the portion of lifetime ECLs resulting from default events on a financial asset that are possible within the 12 months after the reporting date.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2021

3.3 LOANS AND ADVANCES (CONTINUED)

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

- **Stage 1** – For financial assets where there has not been a SICR since initial recognition and that are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default (**PD**) occurring within the next 12 months is recognised as the 12 month ECL, adjusted for forward-looking information. Stage 1 includes facilities where the credit risk has improved and the loan has been reclassified from Stage 2 or Stage 3.
- **Stage 2** – When there has been a SICR, the lifetime ECL is determined with reference to the financial asset's lifetime PD and the lifetime losses associated with that PD, adjusted for forward-looking information. The Group assesses whether there has been a SICR since initial recognition based on qualitative, quantitative, and reasonable and supportable forward-looking information that includes significant management judgement. Use of alternative criteria could result in significant changes to the timing and amount of ECL to be recognised. Lifetime ECL considers the expected behaviour of the asset as well as forward looking macro-economic forecasts. Stage 2 also includes facilities where the credit risk has improved and the loan has been reclassified from Stage 3.
- **Stage 3** – This includes financial assets that are 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.
- Purchased or originated credit-impaired (**POCI**) – POCI assets are financial assets that are purchased or originated as being credit impaired. The ECL for POCI assets is measured at an amount equal to the lifetime ECL. However, the amount recognised as a loss allowance for these assets is not the total amount of lifetime ECLs, but instead the changes in lifetime ECLs since initial recognition of the asset.

Write-offs

Financial assets are written off, either partially or in full, against the related provision when the Group 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.

Definition of default

A default is considered to have occurred when the borrower is unlikely to pay its credit obligations in full without recourse by the Group to the realisation of available security and/or the borrower is at least 90 days past due on their credit obligations. This definition is in line with the regulatory definition of default and also aligned to the definition used for internal credit risk management purposes across all portfolios.

Significant increase in credit risk

SICR for financial assets is assessed by comparing the risk of a default occurring over the expected life of a financial asset at the reporting date compared to the corresponding risk of default at origination. In determining what constitutes a significant increase in credit risk, the Group considers qualitative and quantitative information. For the majority of BOQ's portfolios, SICR is assessed using PD based triggers, by comparing the PD at the reporting date to the PD at origination. PD's are primarily assigned through either a Customer Risk Rating or statistical models, utilising account behaviours. 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 and other qualitative criteria.

Calculation of ECL

Both 12 month ECLs and lifetime ECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial assets. Where ECL is modelled collectively for portfolios of exposures, it is modelled primarily as the product of the PD, the loss given default (**LGD**) and the exposure at default (**EAD**).

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

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

Incorporation of forward-looking information

The credit risk factors described above are 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, and is an important component of the provisioning process. The Group considers four forward-looking macro-economic scenarios (base, upside, downside and severe downside) over the next three years. The scenarios are then probability weighted based on the likelihood of the scenario occurring to ensure ECL appropriately captures forward looking effects and considers the range of possible economic outcomes. 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2021

3.3 LOANS AND ADVANCES (CONTINUED)

Incorporation of forward-looking information (Continued)

The scenarios, including their underlying indicators, are developed using a combination of publicly available data and internal forecasts 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, 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.

Impact of COVID-19 on ECL

In response to the COVID-19 global pandemic, BOQ continues to offer support to its customers through a range of industry-wide financial assistance measures including temporary loan repayment deferrals. Notwithstanding these measures, together with government stimulus, there remains significant estimation uncertainty in relation to the measurement of BOQ's ECL for loans and advances. Although GDP, property prices and unemployment have been less severe than anticipated in FY20 there have been further outbreaks of infection and snap lockdowns across a large part of Australia with metropolitan cities experiencing extended lockdown periods. The true extent of the level of stress in the economy, which could result in credit losses, is still highly uncertain.

In determining the reported ECL of \$311 million, the Group has taken into account the facts, circumstances and forecasts of future economic conditions and supportable information available at the reporting date. Model updates have been implemented in 2H21 which include a complete review of the overlays and adjustments in place as well as updated scenarios and scenario weightings to cater for economic uncertainties. Observed credit deterioration, and its resultant impact on PD and LGD, incorporated in the most recent data set has translated some of the model overlay into the modelled outcome while management overlays have been refined based on industry and occupation data observed during the pandemic.

The ECL reflects an unbiased and probability-weighted amount, determined by the evaluation of a range of possible forward looking economic outcomes, rather than being based on a best or worst case scenario. The macro-economic outlook, as reflected in the base case scenario, has improved since FY20 including lower unemployment and improved property prices. The Group has introduced a new Upside scenario reflecting low unemployment and strong growth due to extensive fiscal and monetary support. However, the potential for further downside risk remains, including economic deterioration from additional lockdowns, the reduction of government support and vaccine rollout delays. The probability weighting across each scenario has therefore been updated per the table below utilising the most up to date macro-economic information available as at reporting date.

	Upside		Base		Downside		Severe	
	2021	2020	2021	2020	2021	2020	2021	2020
Weighting	5.0%	-	42.5%	75.0%	30.0%	20.0%	22.5%	5.0%

The general shape of the economic recovery varies within each scenario. The table below provides a summary of macro-economic assumptions used in the Base and Downside scenarios as at 31 August 2021.

Macro-economic assumption	Base			Downside		
	2021 (%)	2022 (%)	2023 (%)	2021 (%)	2022 (%)	2023 (%)
GDP	3.75%	4.75%	2.75%	(0.25%)	2.75%	2.00%
Unemployment rate	5.00%	4.50%	4.25%	6.75%	6.75%	6.50%
Residential property prices	17.00%	7.50%	4.00%	6.75%	(2.00%)	(0.25%)
Commercial property prices	3.25%	(0.25%)	0.75%	1.00%	(3.75%)	(2.75%)

Sensitivity of provisions for impairment

The ECL reflects an unbiased and probability-weighted amount across a range of macro-economic scenarios as described above. The following table compares the reported ECL to approximate levels of ECL under the Base and Downside scenarios assuming a 100 per cent weighting was applied to each scenario with all other assumptions held constant.

	Consolidated \$m	Bank \$m
Reported probability weighted ECL	311	219
100% base case	289	199
100% downside	331	234

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For the year ended 31 August 2021

3.3 LOANS AND ADVANCES (CONTINUED)

Governance

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

The following table discloses the reconciliation of the ECL model of the Group for the year ended 31 August 2021.

CONSOLIDATED	Collective Provision			Stage 3 – Specific provision \$m	Total \$m
	Stage 1 – 12 month ECL \$m	Stage 2 – Lifetime ECL \$m	Stage 3 – Lifetime ECL \$m		
Balance as at 1 September 2020	95	115	65	94	369
Transfers during the year to:					
Stage 1	19	(10)	(1)	(8)	-
Stage 2	(5)	10	(2)	(3)	-
Stage 3	(1)	(5)	3	3	-
New/increased provisions	36	31	53	55	175
Write-back of provisions no longer required	(56)	(91)	(52)	(1)	(200)
Amounts written off, previously provided for	-	-	-	(29)	(29)
Unwind discount	-	-	-	(4)	(4)
Balance as at 31 August 2021	88	50	66	107	311

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 Group during the year ended 31 August 2021.

CONSOLIDATED	Stage 1 – 12 month ECL \$m	Stage 2 – Lifetime ECL \$m	Stage 3 – Lifetime ECL \$m	Stage 3 – Specific provision \$m	Stage 3 – POCI Loans \$m	Total ⁽¹⁾ \$m
Gross carrying amount as at 1 September 2020	42,831	3,605	408	199	-	47,043
Transfers during the year to:						
Stage 1	1,307	(1,282)	(23)	(2)	-	-
Stage 2	(2,373)	2,436	(35)	(28)	-	-
Stage 3	(235)	(182)	321	96	-	-
New loans and advances originated or purchased ⁽²⁾	40,232	342	7	8	286	40,875
Loans and advances derecognised or repaid during the year including write-offs	(11,074)	(909)	(135)	(52)	-	(12,170)
Balance as at 31 August 2021	70,688	4,010	543	221	286	75,748
Provision for impairment	(88)	(50)	(66)	(107)	-	(311)
Net carrying amount as at 31 August 2021	70,600	3,960	477	114	286	75,437

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

(2) \$25,159 million of new loans and advances originated relates to ME Bank acquisition.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2021

3.3 LOANS AND ADVANCES (CONTINUED)

The following table discloses the reconciliation of the ECL model of the Group for the year ended 31 August 2020.

CONSOLIDATED	Collective Provision			Stage 3 – Specific provision \$m	Total \$m
	Stage 1 – 12 month ECL \$m	Stage 2 – Lifetime ECL \$m	Stage 3 – Lifetime ECL \$m		
Balance as at 1 September 2019	81	44	23	85	233
Transfers during the year to:					
Stage 1	8	(7)	(1)	-	-
Stage 2	(3)	4	(1)	-	-
Stage 3	(1)	(5)	2	4	-
New/increased provisions	47	94	50	39	230
Write-back of provisions no longer required	(37)	(15)	(8)	3	(57)
Amounts written off, previously provided for	-	-	-	(32)	(32)
Unwind discount	-	-	-	(5)	(5)
Balance as at 31 August 2020	95	115	65	94	369

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 Group during the year ended 31 August 2020.

CONSOLIDATED	Stage 1 –	Stage 2 –	Stage 3 –	Stage 3 –	Total ⁽¹⁾ \$m
	12 month ECL \$m	Lifetime ECL \$m	Lifetime ECL \$m	Specific provision \$m	
Gross carrying amount as at 1 September 2019	43,233	2,425	351	207	46,216
Transfers during the year to:					
Stage 1	682	(666)	(15)	(1)	-
Stage 2	(2,278)	2,304	(25)	(1)	-
Stage 3	(156)	(89)	195	50	-
New loans and advances originated or purchased	11,641	319	34	1	11,995
Loans and advances derecognised or repaid during the year including write-offs	(10,291)	(688)	(132)	(57)	(11,168)
Balance as at 31 August 2020	42,831	3,605	408	199	47,043
Provision for impairment	(95)	(115)	(65)	(94)	(369)
Net carrying amount as at 31 August 2020	42,736	3,490	343	105	46,674

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2021

3.3 LOANS AND ADVANCES (CONTINUED)

The following table discloses the reconciliation of the ECL model of the Bank for the year ended 31 August 2021.

BANK	Collective Provision			Stage 3 – Specific provision \$m	Total \$m
	Stage 1 – 12 month ECL \$m	Stage 2 – Lifetime ECL \$m	Stage 3 – Lifetime ECL \$m		
Balance as at 1 September 2020	57	78	51	68	254
Transfers during the year to:					
Stage 1	5	(4)	(1)	-	-
Stage 2	(3)	7	(1)	(3)	-
Stage 3	(1)	(3)	2	2	-
New/increased provisions	18	25	35	40	118
Write-back of provisions no longer required	(25)	(64)	(40)	(8)	(137)
Amounts written off, previously provided for	-	-	-	(13)	(13)
Unwind discount	-	-	-	(3)	(3)
Balance as at 31 August 2021	51	39	46	83	219

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 2021.

BANK	Stage 1 –	Stage 2 –	Stage 3 –	Stage 3 –	Total ⁽¹⁾ \$m
	12 month ECL \$m	Lifetime ECL \$m	Lifetime ECL \$m	Specific provision \$m	
Gross carrying amount as at 1 September 2020	38,270	2,934	399	171	41,774
Transfers during the year to:					
Stage 1	997	(973)	(22)	(2)	-
Stage 2	(2,133)	2,195	(34)	(28)	-
Stage 3	(203)	(168)	289	82	-
New loans and advances originated or purchased	13,008	263	14	4	13,289
Loans and advances derecognised or repaid during the year including write-offs	(9,203)	(634)	(147)	(33)	(10,017)
Balance as at 31 August 2021	40,736	3,617	499	194	45,046
Provision for impairment	(51)	(39)	(46)	(83)	(219)
Net carrying amount as at 31 August 2021	40,685	3,578	453	111	44,827

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2021

3.3 LOANS AND ADVANCES (CONTINUED)

The following table discloses the reconciliation of the ECL model of the Bank for the year ended 31 August 2020.

BANK	Collective Provision			Stage 3 – Specific provision \$m	Total \$m
	Stage 1 – 12 month ECL \$m	Stage 2 – Lifetime ECL \$m	Stage 3 – Lifetime ECL \$m		
Balance as at 1 September 2019	47	33	19	65	164
Transfers during the year to:					
Stage 1	4	(4)	-	-	-
Stage 2	(1)	2	(1)	-	-
Stage 3	-	(4)	2	2	-
New/increased provisions	26	63	37	26	152
Write-back of provisions no longer required	(19)	(12)	(6)	(2)	(39)
Amounts written off, previously provided for	-	-	-	(19)	(19)
Unwind discount	-	-	-	(4)	(4)
Balance as at 31 August 2020	57	78	51	68	254

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 2020.

BANK	Stage 1 –	Stage 2 –	Stage 3 –	Stage 3 –	Total ⁽¹⁾ \$m
	12 month ECL \$m	Lifetime ECL \$m	Lifetime ECL \$m	Specific provision \$m	
Gross carrying amount as at 1 September 2019	38,266	2,212	341	181	41,000
Transfers during the year to:					
Stage 1	640	(625)	(14)	(1)	-
Stage 2	(1,677)	1,703	(25)	(1)	-
Stage 3	(140)	(82)	190	32	-
New loans and advances originated or purchased	9,450	305	32	-	9,787
Loans and advances derecognised or repaid during the year including write-offs	(8,269)	(579)	(125)	(40)	(9,013)
Balance as at 31 August 2020	38,270	2,934	399	171	41,774
Provision for impairment	(57)	(78)	(51)	(68)	(254)
Net carrying amount as at 31 August 2020	38,213	2,856	348	103	41,520

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2021

3.3 LOANS AND ADVANCES (CONTINUED)

The table below discloses the breakdown of impairment expense on loans and advances.

	Consolidated		Bank	
	2021 \$m	2020 \$m	2021 \$m	2020 \$m
(Decrease)/ increase in collective provision for impairment	(71)	127	(50)	87
Increase in specific provision for impairment	20	14	21	7
Bad debts written off net of recoveries	30	34	16	22
Impairment (gain)/ loss on loans and advances	(21)	175	(13)	116

(B) Lease receivables

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

	Consolidated		Bank	
	2021 \$m	2020 \$m	2021 \$m	2020 \$m
Gross investment in finance lease receivables:				
Less than one year	334	335	14	20
Between one and five years	611	696	108	142
More than five years	34	58	31	37
	979	1,089	153	199
Unearned finance lease income	(76)	(92)	(14)	(20)
Net investment in finance leases	903	997	139	179
The net investment in finance leases:				
Less than one year	303	300	15	20
Between one and five years	570	645	97	128
More than five years	30	52	27	31
Net investment in finance leases	903	997	139	179

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2021

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**), Impala and SMHL Securitisation (**SMHL Trusts**) programs, the Group packages loans and advances through a series of securitisation vehicles from which debt securities are issued to investors. The Group 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 Group's Balance Sheet. The note holders have recourse only to the loan pool of assets. Refer to Note 5.9 (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. Refer to Note 5.9 (A)(iii) for further information.

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	
	2021 \$m	2020 \$m	2021 \$m	2020 \$m
TRANSFERRED FINANCIAL ASSETS				
Securitisation – Loans and advances	6,952	3,430	9,115	10,169
Covered bonds – Loans and advances	3,078	2,961	3,078	2,961
	10,030	6,391	12,193	13,130
ASSOCIATED FINANCIAL LIABILITIES				
Securitisation liabilities – external investors	7,653	3,432	-	-
Covered bonds – external investors	2,362	2,371	2,362	2,371
Amounts due to controlled entities	-	-	9,324	10,189
	10,015	5,803	11,686	12,560
FOR THOSE LIABILITIES THAT HAVE RECOURSE ONLY TO TRANSFERRED ASSETS⁽¹⁾				
Fair value of transferred assets	10,042	6,408	12,202	13,166
Fair value of associated liabilities	(10,015)	(5,803)	(11,686)	(12,560)
Net position	27	605	516	606

(1) 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 2021

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	
	2021 \$m	2020 \$m	2021 \$m	2020 \$m
Deposits at call	34,732	19,773	23,502	19,971
Term deposits	26,427	16,810	16,744	16,829
Certificates of deposit	4,743	3,010	3,323	3,010
Total deposits	65,902	39,593	43,569	39,810
CONCENTRATION OF DEPOSITS				
Customer deposits	56,469	34,762	38,180	34,960
Wholesale deposits	9,433	4,831	5,389	4,850
	65,902	39,593	43,569	39,810

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2021

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 Group recorded the following movements on borrowings:

	Securitisation liabilities ⁽¹⁾	Covered bonds liabilities ⁽²⁾	EMTN program	Term funding facility ⁽³⁾	Subordinated notes	Senior unsecured notes	Capital Notes ⁽⁴⁾	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
CONSOLIDATED								
YEAR ENDED 31 AUGUST 2021								
Balance at beginning of year	3,429	2,367	194	820	350	3,833	346	11,339
Acquisition of ME Bank	4,558	-	-	872	-	403	-	5,833
Proceeds from issues/ new funding	1,134	-	-	1,334	250	650	260	3,628
Repayments	(1,476)	-	(112)	-	(150)	(1,325)	-	(3,063)
Deferred establishment costs	(2)	-	-	-	(1)	(1)	(5)	(9)
Amortisation of deferred costs ⁽⁵⁾	2	1	-	-	-	1	1	5
Foreign exchange translation ⁽⁵⁾	-	(9)	(1)	-	-	-	-	(10)
Balance at end of year	7,645	2,359	81	3,026	449	3,561	602	17,723

	Securitisation liabilities ⁽¹⁾	Covered bonds liabilities ⁽²⁾	EMTN program	Term funding facility ⁽³⁾	Subordinated notes	Senior unsecured notes	Capital Notes ⁽⁴⁾	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
CONSOLIDATED								
YEAR ENDED 31 AUGUST 2020								
Balance at beginning of year	4,617	1,649	263	-	349	4,613	495	11,986
Proceeds from issues/ new funding	378	750	-	820	-	635	-	2,583
Repayments	(1,568)	-	(60)	-	-	(1,415)	(150)	(3,193)
Deferred establishment costs	(1)	(2)	-	-	-	(1)	-	(4)
Amortisation of deferred costs ⁽⁵⁾	3	1	-	-	1	1	1	7
Foreign exchange translation ⁽⁵⁾	-	(31)	(9)	-	-	-	-	(40)
Balance at end of year	3,429	2,367	194	820	350	3,833	346	11,339

(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) The TFF provides funding at a fixed interest rate of 25 basis points, for a maximum of 3 years and is accounted for as borrowings. From 4 November 2020 the interest rate of new borrowings was lowered to 10 basis points. The funding is a below market interest loan from a Government entity and, accordingly, classified as a Government Grant. The Group reflects a net interest expense in the Income Statement. There are no terms and conditions associated with the TFF other than pledging eligible collateral that meet the RBA's eligibility criteria. At 31 August 2021, the Group has pledged \$3.7 billion of self-securitised residential mortgage-backed securities as collateral.

(4) **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 2021, 3,500,000 Capital Notes were outstanding.

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 volume 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 Capital Notes 2 and other equal ranking instruments, but behind the claims of all senior ranking creditors, including depositors and unsubordinated and subordinated creditors.

Capital Notes 2

On 30 November 2020, the Bank issued 2,600,000 Capital Notes 2 at a price of \$100 per note. Capital Notes 2 are perpetual and convertible notes issued by BOQ, with preferred, discretionary, non-cumulative distributions. They are not guaranteed or secured. As at 31 August 2021, 2,600,000 Capital Notes 2 were outstanding. Capital Notes 2 must convert into ordinary shares on 15 May 2029 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 2 based on the volume weighted average price of ordinary shares during a specified period. Capital Notes 2 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 2 on 14 May 2027 or following a regulatory or tax event. BOQ may also elect to convert all Capital Notes 2 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 2 will rank for payment of capital ahead of ordinary shares, equally with Capital Notes (issued 28 December 2017) and other equal ranking instruments, but behind the claims of all senior ranking creditors, including depositors and unsubordinated and subordinated creditors.

(5) 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 2021

3.5 BORROWINGS (CONTINUED)

The Bank recorded the following movements on borrowings:

BANK	Covered bonds liabilities ⁽¹⁾ \$m	EMTN program \$m	Term funding facility ⁽²⁾ \$m	Subordinated notes \$m	Senior unsecured notes \$m	Capital Notes ⁽³⁾ \$m	Total \$m
YEAR ENDED 31 AUGUST 2021							
Balance at beginning of year	2,371	194	820	350	3,833	346	7,914
Proceeds from issues / new funding	-	-	1,334	250	-	260	1,844
Repayments	-	(112)	-	(150)	(675)	-	(937)
Deferred establishment costs	-	-	-	(1)	(1)	(6)	(8)
Amortisation of deferred costs ⁽⁴⁾	-	-	-	-	1	2	3
Foreign exchange translation ⁽⁴⁾	(9)	(1)	-	-	-	-	(10)
Balance at end of year	2,362	81	2,154	449	3,158	602	8,806

BANK	Covered bonds liabilities ⁽¹⁾ \$m	EMTN program \$m	Term funding facility ⁽²⁾ \$m	Subordinated notes \$m	Senior unsecured notes \$m	Capital Notes ⁽³⁾ \$m	Total \$m
YEAR ENDED 31 AUGUST 2020							
Balance at beginning of year	1,652	263	-	349	4,613	495	7,372
Proceeds from issues	750	-	820	-	635	-	2,205
Repayments	-	(60)	-	-	(1,415)	(150)	(1,625)
Deferred establishment costs	-	-	-	-	(1)	-	(1)
Amortisation of deferred costs ⁽⁴⁾	-	-	-	1	1	1	3
Foreign exchange translation ⁽⁴⁾	(31)	(9)	-	-	-	-	(40)
Balance at end of year	2,371	194	820	350	3,833	346	7,914

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

(2) The TFF provides funding at a fixed interest rate of 25 basis points, for a maximum of 3 years and is accounted for as borrowings. From 4 November 2020 the interest rate of new borrowings was lowered to 10 basis points. The funding is a below market interest loan from a Government entity and, accordingly, classified as a Government Grant. The Bank reflects a net interest expense in the Income Statement. There are no terms and conditions associated with the TFF other than pledging eligible collateral that meet the RBAs eligibility criteria. At 31 August 2021, the Bank has pledged \$2.7 billion of self-secured residential mortgage-backed securities as collateral.

(3) **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 2021, 3,500,000 Capital Notes were outstanding. 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.

Capital Notes 2

On 30 November 2020, the Bank issued 2,600,000 Capital Notes 2 at a price of \$100 per note. Capital Notes 2 are perpetual and convertible notes issued by BOQ, with preferred, discretionary, non-cumulative distributions. They are not guaranteed or secured. As at 31 August 2021, 2,600,000 Capital Notes 2 were outstanding. Capital Notes 2 must convert into ordinary shares on 15 May 2029 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 2 based on the volume weighted average price of ordinary shares during a specified period. Capital Notes 2 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 2 on 14 May 2027 or following a regulatory or tax event. BOQ may also elect to convert all Capital Notes 2 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 2 will rank for payment of capital ahead of ordinary shares, equally with Capital Notes (issued 28 December 2017) and other equal ranking instruments, but behind the claims of all senior ranking creditors, including depositors and unsubordinated and subordinated creditors.

(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 2021

3.6 RISK MANAGEMENT

The Group adopts a “managed risk” approach to its banking and insurance activities in which the articulation of a risk aware culture is prevalent throughout the Group’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 Group’s corporate objectives through the operationalisation and progressive development of the Group’s risk management function. The continued improvement of the Group’s risk management function focuses on a number of key areas, with particular emphasis on:

1. the efficiency and effectiveness of the Group’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; and
4. contributing to the Group 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 Group’s enterprise risk management framework incorporates active management and monitoring of a range of risks including (but not limited to):

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

(A) Market risk

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

(i) Interest rate risk management

The operations of the Group 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 Group’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 one per cent parallel shock increase to the yield curve.

CONSOLIDATED	2021 \$m	2020 \$m
Exposure at the end of the year	23	2
Average monthly exposure during the year	6	(2)
High month exposure during the year	23	7
Low month exposure during the year	(6)	(13)

(ii) Foreign exchange risk

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

The Bank uses cross currency swaps and forward foreign exchange contracts 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 2021

3.6 RISK MANAGEMENT (CONTINUED)

(A) Market risk (continued)

(iii) Traded market risk

Market risks attributable to trading activities are primarily measured using a historical simulation 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 one-day time horizon to a 99 per cent confidence level using two-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	2021 \$m	2020 \$m
Average	0.45	0.64
Maximum	1.13	1.25
Minimum	0.20	0.19

(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 counterparties fail to meet contractual payment obligations to the Group as they fall due.

The Board has 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 senior executives and senior risk managers, chaired by the Chief Risk Officer;
- risk grading the Bank's commercial exposures 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, counterparty concentrations, loan grades and security strength ratings.

The Group 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 Group can hold derivative financial instruments for trading purposes. Credit risk on derivative contracts used for these purposes is minimised as counterparties 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 2021

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:

	2021			2020	
	Stage 1 \$m	Stage 2 \$m	Stage 3 \$m	Total \$m	Total \$m
CONSOLIDATED					
Cash and cash equivalents	2,563	-	-	2,563	1,353
Due from other financial institutions	827	-	-	827	860
Other financial assets (including accrued interest)	10,847	-	-	10,847	6,444
Derivative financial instruments	137	-	-	137	154
Financial assets other than loans and advances	14,374	-	-	14,374	8,811
Gross loans and advances	70,688	4,010	1,050	75,748	47,135
Total financial assets	85,062	4,010	1,050	90,122	55,946
Customer commitments ⁽¹⁾	5,344	-	-	5,344	1,926
Total potential exposure to credit risk	90,406	4,010	1,050	95,466	57,872
	2021			2020	
BANK	Stage 1 \$m	Stage 2 \$m	Stage 3 \$m	Total \$m	Total \$m
Cash and cash equivalents	1,373	-	-	1,373	835
Due from other financial institutions	708	-	-	708	826
Other financial assets (including accrued interest)	14,385	-	-	14,385	14,101
Derivative financial instruments	86	-	-	86	101
Financial assets other than loans and advances	16,552	-	-	16,552	15,863
Gross loans and advances	40,736	3,617	693	45,046	41,794
Total financial assets	57,288	3,617	693	61,598	57,657
Customer commitments ⁽¹⁾	1,541	-	-	1,541	1,128
Total potential exposure to credit risk	58,829	3,617	693	63,139	58,785

(1) Refer to Note 5.2 for details of customer commitments.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2021

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		Bank	
	2021 \$m	2020 \$m	2021 \$m	2020 \$m
Neither past due or impaired				
Gross loans and advances	72,849	45,479	43,131	40,269
Stage 1	69,361	42,288	40,053	37,716
Stage 2	3,276	3,065	2,924	2,423
Stage 3	212	126	154	130
Financial assets other than loans and advances	14,374	8,811	16,552	15,863
Stage 1	14,374	8,811	16,552	15,863
Stage 2	-	-	-	-
Stage 3	-	-	-	-
Past due but not impaired				
Gross loans and advances	2,656	1,461	1,735	1,364
Stage 1	1,327	635	683	574
Stage 2	734	540	693	511
Stage 3	595	286	359	279
Impaired				
Gross loans and advances	243	195	180	161
Stage 1	-	-	-	-
Stage 2	-	-	-	-
Stage 3	243	195	180	161
Total financial assets	90,122	55,946	61,598	57,657

There is no individual exposure included in impaired assets which exceeds five per cent of shareholders' equity (2020: nil).

The Group 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 Group can take possession of, or appoint receivers and managers/administrators to, the collateral held against the loans and advances as a result of customer default. To ensure reduced exposure to losses in such scenarios, the collateral held by the Group is then realised in accordance with legal and regulatory requirements whilst also taking into consideration the individual circumstances of each matter.

Estimates of fair value are based on the value of collateral assessed at the time of borrowing, or for commercial exposures updated values as periodically obtained in accordance with the Group policy and regulatory requirements. When a loan is individually assessed as impaired, the value of collateral held is updated regularly to assess any specific provisioning requirements. An estimate of the collateral held against past due but not impaired and impaired loans and advances at amortised cost is outlined below.

	Consolidated		Bank	
	2021 \$m	2020 \$m	2021 \$m	2020 \$m
Held against past due but not impaired assets	7,387	4,204	5,983	2,721
Stage 1	3,796	2,724	2,823	1,276
Stage 2	2,118	1,002	2,078	973
Stage 3	1,473	478	1,082	472
Held against impaired assets	212	141	141	121
Stage 1	-	-	-	-
Stage 2	-	-	-	-
Stage 3	212	141	141	121

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2021

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; and
- 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								
	2021 \$m				2020 \$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	50,580	4,625	55,205	14,365	25,752	4,320	30,072	8,805
Stage 1	48,145	4,505	52,650	14,365	24,606	3,964	28,570	8,805
Stage 2	2,094	84	2,178	-	1,070	330	1,400	-
Stage 3	341	36	377	-	76	26	102	-
Satisfactory	7,731	9,447	17,178	-	5,065	8,831	13,896	-
Stage 1	7,221	8,635	15,856	-	4,840	7,935	12,775	-
Stage 2	330	730	1,060	-	199	855	1,054	-
Stage 3	180	82	262	-	26	41	67	-
Weak	946	2,036	2,982	9	612	2,365	2,977	6
Stage 1	659	1,140	1,799	9	353	1,035	1,388	6
Stage 2	105	667	772	-	106	1,045	1,151	-
Stage 3	182	229	411	-	153	285	438	-
Unrated	155	228	383	-	-	190	190	-
Stage 1	155	228	383	-	-	190	190	-
Stage 2	-	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-	-
	59,412	16,336	75,748	14,374	31,429	15,706	47,135	8,811

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2021

3.6 RISK MANAGEMENT (CONTINUED)

(B) Credit risk (continued)

(ii) Credit quality (continued)

	Bank							
	2021 \$m				2020 \$m			
	Gross loans & advances		Gross loans & advances		Gross loans & advances		Gross loans & advances	
	Retail	Commercial	Gross loans & advances	Other financial assets	Retail	Commercial	Gross loans & advances	Other financial assets
High Grade	30,739	4,087	34,826	15,449	25,752	3,770	29,522	15,017
Stage 1	28,478	4,003	32,481	15,449	24,606	3,415	28,021	15,017
Stage 2	2,094	51	2,145	-	1,070	329	1,399	-
Stage 3	167	33	200	-	76	26	102	-
Satisfactory	2,622	5,967	8,589	-	5,065	5,797	10,862	32
Stage 1	2,223	5,318	7,541	-	4,840	4,953	9,793	32
Stage 2	330	588	918	-	199	799	998	-
Stage 3	69	61	130	-	26	45	71	-
Weak	857	740	1,597	6	612	798	1,410	6
Stage 1	571	109	680	6	353	123	476	6
Stage 2	105	449	554	-	106	431	537	-
Stage 3	181	182	363	-	153	244	397	-
Unrated	34	-	34	1,097	-	-	-	808
Stage 1	34	-	34	1,097	-	-	-	808
Stage 2	-	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-	-
	34,252	10,794	45,046	16,552	31,429	10,365	41,794	15,863

(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	
		2021 \$m	2020 \$m	2021 \$m	2020 \$m
Less than 30 days	- Retail	1,184	392	635	392
	- Commercial	711	503	618	436
30 to 89 days	- Retail	349	86	105	86
	- Commercial	90	47	66	27
90 days or more	- Retail	213	305	212	305
	- Commercial	109	129	99	118
		2,656	1,462	1,735	1,364

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2021

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 counterparties 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 Group 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:

Geographical concentration of credit risk for loans and advances (before provisions and unearned income):	Consolidated		Bank	
	2021 \$m	2020 \$m	2021 \$m	2020 \$m
Queensland	24,258	19,633	18,697	17,793
New South Wales	23,058	14,543	15,076	13,205
Victoria	14,924	6,915	5,951	5,721
Northern Territory	449	253	237	234
Australian Capital Territory	1,877	340	329	314
Western Australia	7,477	3,959	3,735	3,610
South Australia	2,226	866	808	703
Tasmania	1,170	234	227	214
International (New Zealand)	385	392	-	-
	75,824	47,135	45,060	41,794

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2021

3.6 RISK MANAGEMENT (CONTINUED)

(C) Liquidity risk

Liquidity risk arises from the possibility that the Group 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 Group 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 analyses.

CONSOLIDATED 2021	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	273	273	-	-	-	-	-	273
Deposits	65,902	34,732	16,974	13,346	988	-	-	66,040
Derivative financial instruments ⁽¹⁾	28	-	5	13	11	-	-	29
Accounts payable and other liabilities	575	-	384	27	114	50	-	575
Securitisation liabilities ⁽²⁾	7,645	-	1,702	1,234	2,807	2,258	-	8,001
Borrowings ⁽³⁾	10,078	-	622	1,807	7,620	265	-	10,314
Liabilities held for sale	17	-	-	-	-	-	17	17
Total financial liabilities	84,518	35,005	19,687	16,427	11,540	2,573	17	85,249
DERIVATIVE FINANCIAL INSTRUMENTS (HEDGING RELATIONSHIP)								
Contractual amounts payable	-	-	880	1,196	1,913	168	-	4,157
Contractual amounts receivable	-	-	(809)	(1,079)	(1,574)	(131)	-	(3,593)
	519	-	71	117	339	37	-	564
OFF BALANCE SHEET POSITIONS								
Guarantees, indemnities and letters of credit	-	259	-	-	-	-	-	259
Customer funding commitments	-	5,085	-	-	-	-	-	5,085
	-	5,344	-	-	-	-	-	5,344

(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) Borrowings include the \$3 billion TFF.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2021

3.6 RISK MANAGEMENT (CONTINUED)

(C) Liquidity risk (continued)

CONSOLIDATED 2020	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	296	296	-	-	-	-	-	296
Deposits	39,593	19,773	11,778	7,264	943	-	-	39,758
Derivative financial instruments ⁽¹⁾	52	-	10	25	17	-	-	52
Accounts payable and other liabilities	458	-	310	28	98	29	-	465
Securitisation liabilities ⁽²⁾	3,429	-	255	766	1,973	551	-	3,545
Borrowings ⁽³⁾	7,910	-	647	1,016	6,461	-	-	8,124
Insurance policy liabilities	5	-	-	-	-	-	5	5
Total financial liabilities	51,743	20,069	13,000	9,099	9,492	580	5	52,245
DERIVATIVE FINANCIAL INSTRUMENTS (HEDGING RELATIONSHIP)								
Contractual amounts payable		-	775	415	2,433	139	-	3,762
Contractual amounts receivable		-	(703)	(260)	(2,041)	(66)	-	(3,070)
	643	-	72	155	392	73	-	692
OFF BALANCE SHEET POSITIONS								
Guarantees, indemnities and letters of credit	-	267	-	-	-	-	-	267
Customer funding commitments	-	1,659	-	-	-	-	-	1,659
	-	1,926	-	-	-	-	-	1,926

(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) Borrowings include the \$0.8 billion TFF.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2021

3.6 RISK MANAGEMENT (CONTINUED)

(C) Liquidity risk (continued)

BANK 2021	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	273	273	-	-	-	-	273
Deposits	43,569	23,502	10,971	8,369	806	-	43,648
Derivative financial instruments ⁽¹⁾	28	-	5	13	11	-	29
Accounts payable and other liabilities	360	-	212	28	98	29	367
Borrowings ⁽²⁾	8,806	-	621	1,404	6,745	265	9,035
Amounts due to controlled entities	6,241	6,241	-	-	-	-	6,241
Total financial liabilities	59,277	30,016	11,809	9,814	7,660	294	59,593
Derivative financial instruments (hedging relationship)							
Contractual amounts payable		-	877	451	1,095	168	2,591
Contractual amounts receivable		-	(822)	(299)	(796)	(131)	(2,048)
	537	-	55	152	299	37	543
OFF BALANCE SHEET POSITIONS							
Guarantees, indemnities and letters of credit	-	259	-	-	-	-	259
Customer funding commitments	-	1,282	-	-	-	-	1,282
	-	1,541	-	-	-	-	1,541
BANK 2020							
FINANCIAL LIABILITIES							
Due to other financial institutions	296	296	-	-	-	-	296
Deposits	39,810	19,971	11,797	7,264	943	-	39,975
Derivative financial instruments ⁽¹⁾	52	-	10	25	17	-	52
Accounts payable and other liabilities	385	-	237	28	98	29	392
Borrowings ⁽³⁾	7,914	-	647	1,016	6,461	-	8,124
Amounts due to controlled entities	6,707	6,707	-	-	-	-	6,707
Total financial liabilities	55,164	26,974	12,691	8,333	7,519	29	55,546
DERIVATIVE FINANCIAL INSTRUMENTS (HEDGING RELATIONSHIP)							
Contractual amounts payable		-	775	411	848	139	2,173
Contractual amounts receivable		-	(712)	(273)	(429)	(66)	(1,480)
	692	-	63	138	419	73	693
OFF BALANCE SHEET POSITIONS							
Guarantees, indemnities and letters of credit	-	267	-	-	-	-	267
Customer funding commitments	-	861	-	-	-	-	861
	-	1,128	-	-	-	-	1,128

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

(2) Borrowings include the \$2 billion TFF.

(3) Borrowings include the \$0.8 billion TFF.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2021

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 materially equate to their carrying value and 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 to 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 ending 31 August 2021 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 2021

3.7 FINANCIAL INSTRUMENTS (CONTINUED)

(B) Fair value hierarchy (continued)

	2021			
BANK	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
Financial instruments measured at fair value				
Derivative financial assets	-	86	-	86
Financial assets at FVTPL	43	1,044	-	1,087
Debt instruments at FVOCI	5,061	487	-	5,548
Equity instruments at FVOCI	-	-	6	6
	5,104	1,617	6	6,727
Derivative financial liabilities	-	(620)	-	(620)
	5,104	997	6	6,107
	2020			
BANK	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
Financial instruments measured at fair value				
Derivative financial assets	-	101	-	101
Financial assets at FVTPL	-	1,854	-	1,854
Debt instruments at FVOCI	4,125	405	-	4,530
Equity instruments at FVOCI	-	-	6	6
	4,125	2,360	6	6,491
Derivative financial liabilities	-	(799)	-	(799)
	4,125	1,561	6	5,692

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2021

3.8 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

(A) Fair value of derivatives

The following tables summarise the notional and fair value of the Group'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					
	2021			2020		
	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	10,232	30	(27)	13,118	44	(50)
Foreign exchange forwards	51	1	(1)	93	2	(2)
Futures	57	-	-	281	-	-
	10,340	31	(28)	13,492	46	(52)
DERIVATIVES HELD AS CASH FLOW HEDGES						
Interest rate swaps	29,971	23	(103)	15,503	26	(147)
Cross currency swaps	2,185	70	(22)	1,997	78	(8)
Foreign exchange forwards	755	11	(4)	731	4	(23)
	32,911	104	(129)	18,231	108	(178)
DERIVATIVES DESIGNATED AS FAIR VALUE HEDGES						
Interest rate swaps	4,491	2	(496)	3,597	-	(573)
DERIVATIVES DESIGNATED AS NET INVESTMENT HEDGES						
Foreign exchange forwards	27	-	-	25	-	-
	47,769	137	(653)	35,345	154	(803)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2021

3.8 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (CONTINUED)

(A) Fair value of derivatives (continued)

	Bank					
	2021			2020		
	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	8,032	30	(27)	13,118	44	(50)
Foreign exchange forwards	77	1	(1)	118	2	(2)
Futures	57	-	-	281	-	-
	8,166	31	(28)	13,517	46	(52)
DERIVATIVES HELD AS CASH FLOW HEDGES						
Interest rate swaps	22,415	35	(82)	16,171	42	(147)
Cross currency swaps	631	7	(10)	443	9	(4)
Foreign exchange forwards	755	11	(4)	731	4	(23)
	23,801	53	(96)	17,345	55	(174)
DERIVATIVES DESIGNATED AS FAIR VALUE HEDGES						
Interest rate swaps	4,491	2	(496)	3,597	-	(573)
	36,458	86	(620)	34,459	101	(799)

(B) Hedging strategy

The Group 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 Group's and Bank's risk management framework. The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operating, financing and investing activities.

The Group's hedging strategy is to protect net interest income from variability in interest rates in Australian dollars. This requires the Group 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 Group may decide not to apply hedge accounting to that risk. Instead, the Group will manage its exposure under broader risk management processes.

(C) Accounting for derivatives

In accordance with its treasury risk policies, the Group 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 Group would receive or pay to terminate the swap at the reporting date, taking into account current interest rates and current creditworthiness of the swap counterparties.

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 2021

3.8 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (CONTINUED)

(C) Accounting for derivatives (continued)

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

	2021				2020			
	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
CONSOLIDATED								
Interest rate swaps	22,725	19,819	2,150	44,694	19,734	10,490	1,994	32,218
Foreign exchange forwards	833	-	-	833	849	-	-	849
Futures	57	-	-	57	281	-	-	281
Cross currency swaps	831	1,314	40	2,185	154	1,842	1	1,997

(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 Group 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 2021

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		
	Hedging Instruments	Currency	2021	2020
Cash flow hedges	Interest rate swaps	AUD	0.010% – 3.890%	0.090% – 4.340%
Cash flow hedges	Cross currency swaps	AUD/USD	0.761 – 0.793	0.761 – 0.793
		AUD/EUR	0.617 – 0.672	0.617–0.672
		NZD/AUD	1.036 – 1.119	1.036–1.130
Net Investment hedges	Foreign exchange forwards	AUD/NZD	1.049	1.082

Fair value hedges

Fair value hedges are used by the Group to manage exposure to changes in the fair value of an asset. Changes in fair values arise from fluctuations in interest rates. The Group 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 2021

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 Group 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 Group'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 nil (2020: nil) for the Group.

	Consolidated			
	2021		2020	
	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	5,041	(194)	4,167	(303)

(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) Hedge 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					
	2021			2020		
	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						
<i>Fair value hedges</i>						
Interest rate swaps	109	(109)	-	6	(7)	(1)
<i>Cash flow hedges</i>						
Interest rate swaps	70	(67)	3	(1)	(6)	(7)
INTEREST RATE AND FOREIGN EXCHANGE RISK						
<i>Fair value and cash flow hedges</i>						
Cross currency swaps	(9)	9	-	41	(41)	-

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2021

3.8 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (CONTINUED)

(F) Master netting or similar arrangements

The Group 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 Group receives and gives collateral in the form of cash in respect of derivatives and such collateral is subject to standard industry terms. The Group has not offset these amounts in the Balance Sheet as their ISDA agreements do not meet the criteria to do so. The Group 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 Group 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.

2021						
	Gross amounts as presented in the Balance Sheet \$m	Net amounts of recognised assets and liabilities available for offset \$m	Calculated Balance \$m	Cash collateral \$m	Net amounts if offsetting applied in the Balance Sheet \$m	
CONSOLIDATED						
Derivative financial assets	137	(51)	86	-	86	
Derivative financial liabilities	(653)	51	(602)	579	(23)	

2020						
	Gross amounts as presented in the Balance Sheet \$m	Net amounts of recognised assets and liabilities available for offset \$m	Calculated Balance \$m	Cash collateral \$m	Net amounts if offsetting applied in the Balance Sheet \$m	
CONSOLIDATED						
Derivative financial assets	154	(48)	106	-	106	
Derivative financial liabilities	(803)	48	(755)	745	(10)	

2021						
	Gross amounts as presented in the Balance Sheet \$m	Net amounts of recognised assets and liabilities available for offset \$m	Calculated Balance \$m	Cash collateral \$m	Net amounts if offsetting applied in the Balance Sheet \$m	
BANK						
Derivative financial assets	86	(51)	35	-	35	
Derivative financial liabilities	(620)	51	(569)	565	(4)	

2020						
	Gross amounts as presented in the Balance Sheet \$m	Net amounts of recognised assets and liabilities available for offset \$m	Calculated Balance \$m	Cash collateral \$m	Net amounts if offsetting applied in the Balance Sheet \$m	
BANK						
Derivative financial assets	101	(48)	53	-	53	
Derivative financial liabilities	(799)	48	(751)	745	(6)	

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2021

3.9 CAPITAL MANAGEMENT

The Bank and Group'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.

BOQ intends to operate above the CET1 capital target range of between 9.0 per cent and 9.5 per cent until the final impacts of APRA's changes to risk weighted assets and capital calibration are understood. At 9.80 per cent, BOQ is operating above the top end of the target range and this includes the impact of the acquisition of ME Bank completed on 1 July 2021.

QUALIFYING CAPITAL FOR LEVEL 2 ENTITIES⁽¹⁾	2021 \$m	2020 \$m
Common Equity Tier 1 Capital		
Paid-up ordinary share capital	5,213	3,871
Reserves	346	134
Retained profits, including current year profits	277	163
Total Common Equity Tier 1 Capital	5,836	4,168
Regulatory adjustments		
Goodwill and intangibles	(1,180)	(908)
Deferred expenditure	(311)	(187)
Other deductions	(11)	16
Total regulatory adjustments	(1,502)	(1,079)
Net Common Equity Tier 1 Capital	4,334	3,089
Additional Tier 1 Capital	610	350
Net Tier 1 Capital	4,944	3,439
Tier 2 Capital		
Tier 2 Capital	450	350
General reserve for credit losses	178	230
Net Tier 2 Capital	628	580
Capital base	5,572	4,019
Risk Weighted Assets	44,229	31,576
Common Equity Tier 1 Capital	9.80%	9.78%
Net Tier 1 Capital ratio	11.18%	10.89%
Total Capital Adequacy Ratio	12.60%	12.73%

(1) APRA Prudential Standard APS 001 *Definitions* defines Level 2 as the Bank and all of its subsidiary entities other than non-consolidated subsidiaries. The non-consolidated subsidiaries excluded from Level 2 regulatory measurements at 31 August 2021 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 Ltd;
- 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;
- Series 2019-1 REDS Trust;
- SMHL Series Securitisation Fund 2015-1;
- SMHL Series Securitisation Fund 2016-1;
- SMHL Series Securitisation Fund 2017-1;
- SMHL Series Securitisation Fund 2018-2;
- SMHL Series Securitisation Fund 2019-1;
- SMHL Series Private Placement Trust 2019-1;
- SMHL Series Private Placement 2019-2; and
- SMHL Securitisation Trust 2020-1.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2021

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 Rights Plan, Equity Incentive Plan, Restricted Shares, Non-Executive Director Fee Sacrifice Rights Plan and the BOQ Employee ThankQ Plan. 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.

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 a winding up of the Bank, ordinary shareholders rank after capital note holders and creditors and are fully entitled to any residual proceeds of liquidation.

	Consolidated		Bank	
	2021 No of shares	2020 No of shares	2021 No of shares	2020 No of shares
MOVEMENTS DURING THE YEAR				
Balance at the beginning of the year – fully paid	454,335,413	405,784,809	454,335,413	405,784,809
Dividend reinvestment plan ⁽¹⁾	2,386,974	3,642,826	2,386,974	3,642,826
Issues of ordinary shares ⁽²⁾	130,000	440,000	130,000	440,000
Institutional share placement ⁽³⁾	47,619,048	32,133,677	47,619,048	32,133,677
Institutional entitlement offer ⁽⁴⁾	43,684,531	-	43,684,531	-
Retail entitlement offer ⁽⁵⁾	92,733,597	-	92,733,597	-
Share purchase plan ⁽⁶⁾	-	12,334,101	-	12,334,101
Balance at the end of the year – fully paid	640,889,563	454,335,413	640,889,563	454,335,413
Treasury shares (included in ordinary shares above):				
Balance at the beginning of the year	633,187	644,034	-	-
Net acquisitions and disposals during the year	495,484	(10,847)	-	-
Balance at the end of the year	1,128,671	633,187	-	-

(1) 11 per cent of the dividend paid on 26 May 2021 and 13 per cent of the dividend paid on 25 November 2020 were reinvested by shareholders as part of the dividend reinvestment plan. 25 per cent of the dividend paid on 27 November 2019 was reinvested by shareholders as part of the dividend reinvestment plan in prior year.

(2) On 9 November 2020, 130,000 ordinary shares were issued at \$6.37 to the trustee of the Bank of Queensland Limited Employee Share Plans Trust to satisfy the issue of shares under the BOQ Employee ThankQ Plan. On 29 November 2019, 440,000 ordinary shares were issued at \$8.33 to the trustee of the Bank of Queensland Limited Employee Share Plans Trust to satisfy the exercise of award rights and issue of shares under the Award Rights Plan, and the issue of shares under the BOQ Restricted Share Plan and the BOQ Employee Share Plan.

(3) On 23 February 2021, the Bank completed an institutional placement of new fully paid ordinary shares at the offer price of \$7.35 per share. The shares were issued on 3 March 2021. On 26 November 2019, the Bank completed an institutional share placement of new fully paid ordinary shares at an issue price of \$7.78 per share. The shares were issued on 29 November 2019.

(4) On 23 February 2021, the Bank completed an underwritten 1 for 3.34 accelerated pro-rata non-renounceable institutional entitlement offer at the offer price of \$7.35 per share. The shares were issued on 3 March 2021.

(5) On 15 March 2021, the Bank completed an underwritten 1 for 3.34 accelerated pro-rata non-renounceable retail entitlement offer at the offer price of \$7.35 per share. The shares were issued on 17 March 2021.

(6) On 30 December 2019, the Bank completed the share purchase plan of new fully paid ordinary shares at an issue price of \$7.27 per share. The shares were issued on 2 January 2020.

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For the year ended 31 August 2021

3.10 CAPITAL AND RESERVES (CONTINUED)

(B) Other equity instruments

Other equity instruments of \$314 million include Additional Tier 1 (**AT1**) securities assumed on the acquisition of ME Bank. The securities are perpetual, non-cumulative, subordinated and unsecured notes (**AT1 Capital Notes**) and are structured to constitute AT1 capital of ME Bank. The AT1 Capital Notes were recognised at fair value on acquisition, the face value of the AT1 Capital Notes on issue is \$300 million at a price of \$10,000 per note.

	Earliest redemption date	2021 No of Capital Notes	2020 No of Capital Notes
AT1 EQUITY INSTRUMENTS			
AT1 Capital Notes	28/11/2022	20,000	-
AT1 Capital Notes	5/12/2023	10,000	-
Total AT1 equity instruments		30,000	-

The principal terms of the AT1 Capital Notes are described below:

- In a winding up of ME Bank, if the AT1 Capital Notes have not been written-off on account of a non-viability trigger event, they will rank for payment:
 - Ahead of common equity;
 - Equally without any preference amongst themselves for each series and with the holders of equal ranking instruments; and
 - Behind the claims of subordinated tier 2 instruments and the senior creditors of ME Bank.
- AT1 Capital Notes are undated and, unless a tax event or regulatory event occurs, are only redeemable, at the option of ME Bank, on or after the fifth anniversary of the date of issue, subject to regulatory approval;
- AT1 Capital Notes pay quarterly floating rate non-cumulative distributions. The payment of distributions is at the discretion of ME Bank and subject to no payment condition existing at the payment date; and
- Some or all of the AT1 Capital Notes must be written-off if a non-viability trigger event, as determined by APRA, occurs.

(C) 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 5.1 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).

Share revaluation reserve

The share revaluation reserve represents the gain or loss on revaluation of the shares held within the employee share plan trust. The revaluation of treasury shares is netted off in equity.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2021

NOTE 4. OTHER ASSETS AND LIABILITIES

4.1 INTANGIBLE ASSETS

	Goodwill \$m	Customer related intangibles and brands \$m	Computer software \$m	Assets under construction \$m	Other \$m	Total \$m
CONSOLIDATED						
Balance as at 1 September 2019	682	9	115	117	1	924
Opening balance adjustment ⁽¹⁾	3	-	-	-	-	3
Additions	-	-	-	100	2	102
Transfers to asset	-	-	56	(56)	-	-
Impairment	-	-	-	(39)	-	(39)
Amortisation charge	-	(2)	(39)	-	(3)	(44)
Accelerated amortisation charge	-	-	(37)	(1)	-	(38)
Balance as at 31 August 2020	685	7	95	121	-	908
Balance as at 1 September 2020	685	7	95	121	-	908
Acquisition of ME Bank	35	57	72	40	-	204
Additions	-	-	6	113	-	119
Transfers to asset	-	-	134	(134)	-	-
Amortisation charge	-	(4)	(43)	-	-	(47)
Accelerated amortisation charge ⁽²⁾	-	-	(4)	-	-	(4)
Balance as at 31 August 2021	720	60	260	140	-	1,180

	Goodwill \$m	Customer related intangibles and brands \$m	Computer software \$m	Assets under construction \$m	Other \$m	Total \$m
BANK						
Balance as at 1 September 2019	619	8	103	117	1	848
Opening balance adjustment ⁽¹⁾	3	-	-	-	-	3
Additions	-	-	-	100	1	101
Transfers to asset	-	-	56	(56)	-	-
Impairment	-	-	-	(39)	-	(39)
Amortisation charge	-	(2)	(35)	-	(2)	(39)
Accelerated amortisation charge	-	-	(35)	(1)	-	(36)
Balance as at 31 August 2020	622	6	89	121	-	838
Balance as at 1 September 2020	622	6	89	121	-	838
Additions	-	-	6	109	-	115
Transfers to asset	-	-	132	(132)	-	-
Amortisation charge	-	(2)	(35)	-	-	(37)
Accelerated amortisation charge	-	-	(1)	-	-	(1)
Balance as at 31 August 2021	622	4	191	98	-	915

(1) The opening balance adjustment reflects the recognition of a DTL on the balance of intangible assets acquired as part of historic acquisitions. This amount is not allocated to CGUs and the DTL is expected to unwind over 3 years.

(2) The August 2021 financial results include a non-recurring adjustment due to a change in the ME Bank minimum threshold for the capitalisation of intangible assets to align with BOQ.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2021

4.1 INTANGIBLE ASSETS (CONTINUED)

Recognition and measurement

Intangible assets are measured at cost on initial recognition. Intangible assets acquired in a business combination are measured at fair value at the date of acquisition.

Following initial recognition, 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 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	3-10
Customer related intangibles and brands	3-10

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 is 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 are materially aligned with the Group's Strategic Plan as announced to market as part of the Bank's strategic review;
- Determined future lending growth and income growth in line with expected benefits from the Bank's increased capital investment and digital transformation;
- Cost growth assumptions are aligned with the Group's Strategic plan and aspirations to reduce cost to income targets;
- A terminal growth rate of 3 per cent (2020: 2.5 per cent) was used to extrapolate long-term growth; and
- A post-tax discount rate of 9.4 per cent (2020: 9.4 per cent) was used.
- Goodwill of \$35 million arising on the acquisition of ME Bank is not included for the purpose of the annual impairment testing. The goodwill has been assessed by applying the acquisition method in business combination accounting on 1 July 2021. The goodwill recognised of \$35 million represents the fair value of expected future synergies arising from the acquisition.

The key assumptions described above may change as economic and market conditions change. Management has stressed key assumptions to understand key sensitivities and impact to the value in use.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2021

4.1 INTANGIBLE ASSETS (CONTINUED)

Impairment testing of the cash generating units containing goodwill (continued)

The aggregate carrying amounts of goodwill for each CGU are:

	2021 \$m	2020 \$m
Retail Banking	288	288
BOQ Business	394	394
Total	682	682

The measurement of the CGU's recoverable amounts is most sensitive to a change in net interest income, cost of capital and cost to income ratios. BOQ has considered reasonably possible changes in key assumptions and the table below provides these assumption changes across the period of assessment that would result in impairment if all other assumptions were held constant.

Model Parameter	Retail Banking	BOQ Business
	Change from base case	
Cost of capital	0.6%	0.8%
Cost to income	3.0%	4.0%
NIM change	(5bps)	(11bps)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2021

4.2 PROVISIONS

A provision is recognised in the Balance Sheet when the Group 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	
	2021 \$m	2020 \$m	2021 \$m	2020 \$m
Employee benefits ⁽¹⁾	47	23	27	20
Provision for non-lending loss	3	13	3	13
Other ⁽²⁾	14	11	13	5
Total provisions	64	47	43	38

Pay and entitlements review

In 2020 BOQ commenced a review of payments to employees covering Superannuation guarantee compliance and whether correct payments have been made to employees under successive BOQ Enterprise Agreements, being 2010, 2014 and 2018. During the year, BOQ made remediation payments for base wage, superannuation and interest for active permanent employees. As at 31 August 2021, the remaining provision balance was \$11 million. The provision balance is based on financial modelling that has reconstructed BOQ's payroll obligations, covering Enterprise Agreement remediation, on-costs and interest and associated professional costs based on management's assessment of the facts and circumstances existing as at the reporting date. It is reasonably possible that the final outcomes may differ to those reported, the impact of which will be reflected in future reporting periods.

Movements in provisions

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

2021	Consolidated		Bank	
	Non-lending loss \$m	Other \$m	Non-lending loss \$m	Other \$m
Carrying amount at beginning of year	13	11	13	5
Additional provision recognised ⁽³⁾	1	11	1	14
Amounts utilised during the year	(1)	(8)	(1)	(7)
Release of provision	(1)	(9)	(1)	(8)
Reclassification from non-lending loss provision ⁽⁴⁾	(9)	9	(9)	9
Carrying amount at end of year	3	14	3	13
Current	3	14	3	13
Non-current	-	-	-	-

(1) Employee benefits provision consists of annual leave (represents present obligations resulting from employees' services provided up to the reporting date, calculated based on remuneration wage and salary rates that the Group 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. \$18 million of employee benefits provision relates to ME Bank acquisition. \$32 million (2020: \$18 million) of this provision balance is classified as current.

(2) Other provisions include \$11 million in relation to the Group's employee pay and leave entitlements review and a restructure provision of \$2 million.

(3) \$1 million of additional provision recognised in Other relates to ME Bank acquisition.

(4) During the year, the employee pay and leave entitlements review provision has been reclassified from Non-lending loss to Other.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2021

NOTE 5. OTHER NOTES

5.1 EMPLOYEE BENEFITS

(A) Superannuation commitments

Superannuation plan

The Group 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

The Group is required to meet the minimum legal obligations under the relevant superannuation guarantee legislation and the industrial instrument provisions.

(B) Share based payments

The Group currently operates the Equity Incentive Plan (previously the Awards Right Plan) for equity-settled compensation. The plan allows the Group'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

The Award Rights Plan was first introduced and approved by shareholders on 11 December 2008, with the subsequent changes to the Award Rights Plan approved by shareholders on 30 November 2017. It is an equity based program under which Award Rights were granted as long-term incentives. Types of award rights granted to employees under this plan were Deferred Award Rights (**DARs**), Performance Award Rights (**PARs**), BOQ Group Transformation Award (**BTAs**), BOQ Group Transformation Award - Virgin (**VTAs**) and Restricted Shares.

The Award Rights Plan was replaced by the Equity Incentive Plan on 1 September 2020. Types of award rights granted to employees under the new plan are DARs, Premium Priced Options, Performance Shares and Restricted Shares.

No amount is payable by employees for the grant or exercise of the award rights.

Equity Incentive Plan

Effective 1 September 2020, the Group made changes to the way it delivers variable remuneration, including the discontinuation of the PARs plan and the introduction of Premium Priced Options and Performance Shares.

Performance Shares

Performance Shares are delivered in rights that convert to restricted shares at the end of the financial year based on the Board's assessment of performance against the Group Scorecard, risk and conduct. Once converted, the restricted shares vest after a further one, two and three years.

Premium Priced Options

Premium Priced Options vest in two tranches with 50 per cent vesting at the end of year four and 50 per cent at the end of year five. The exercise price is set at 120 per cent of the share price based on a volume weighted average price over the five trading days following the Annual General Meeting (**AGM**). On exercise, the options can be settled in cash or an allocation of shares.

DARs

There are no market performance hurdles or other performance based vesting conditions for DARs but the holder must remain an employee of the Bank. DARs granted in December 2018 and December 2019 were issued under the Award Rights Plan and 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.

In 2021, DARs were issued under the Equity Incentive Plan and the vesting period is dependent on if a person is an Accountable Person under the Banking Executive Accountability Regime (**BEAR**). DARs issued to Accountable Persons under the BEAR were extended to vest over four years in a ratio of 20 per cent at the end of year one, 10 per cent at the end of year two, 10 per cent at the end of year three and 60 per cent at the end of year four. All other employees are unaffected by this change.

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

Restricted Shares

The Group has used shares with restrictions on disposal as a non-cash, share based component of both short term and long term incentive awards. On occasion, restricted shares are also used as make-good awards.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2021

5.1 EMPLOYEE BENEFITS (CONTINUED)

(B) Share based payments (Continued)

Award Rights Plan

PARs

For PARs granted in December 2018 and December 2019 the vesting framework is based on the relative Total Shareholder Return (**rTSR**) and relative EPS. The rTSR component makes up 80 per cent of the employee's PARs and is measured against a peer group over a four year period. That peer group consists of companies included in the S&P / ASX 200 index, 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.

The TSR component of the PARs vests in accordance with rTSR performance as follows:

rTSR performance	TSR component of PARs vesting
At or above 75th percentile	All
50th to 75th percentile	Relative proportion between 50 and 100 per cent
Below 50th percentile	None

The remaining 20 per cent of PARs vest based on the Bank's EPS performance measured against a financial services peer group over a four year period:

The Bank's cash EPS Compound Annual Growth Rate (CAGR) performance	PARs vesting
At or above 90th percentile	All
60th to 90th percentile	Relative proportion between 50 and 100 per cent
Below 60th percentile	None

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

BTAs

The performance hurdles or vesting conditions for BTAs are linked to BOQ Group meeting cash earnings excluding loan impairment expense and income tax targets. BTAs vest in two tranches in the ratio of 50 per cent in year one and 50 per cent in year two if BOQ Group meets the respective cash earnings targets. There is an opportunity for retest in year two and three. There are no market performance hurdles. BTAs may be exercised by the employee once they have vested.

VTAs

The performance hurdles or vesting conditions for VTAs are linked to the delivery of a next generation core banking platform through Virgin Money Australia (**Project de Novo**) and BOQ Group meeting cash earnings excluding loan impairment expense and income tax targets. VTAs vest in two tranches in the ratio of 50 per cent subject to the delivery of Project de Novo and 50 per cent if BOQ Group meet cash earnings targets in year two. There is an opportunity for retest in year three. There are no market performance hurdles. VTAs may be exercised by the employee once they have vested.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2021

5.1 EMPLOYEE BENEFITS (CONTINUED)

(B) Share based payments (continued)

(ii) Award rights on issue

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

	Deferred Award Rights		Performance Award Rights		Premium Priced Options		BOQ Group transformation award		BOQ Group transformation award - Virgin		Performance Shares		Restricted Shares	
	2021 '000	2020 '000	2021 '000	2020 '000	2021 '000	2020 '000	2021 '000	2020 '000	2021 '000	2020 '000	2021 '000	2020 '000	2021 '000	2020 '000
Balance at beginning of the year	1,606	1,252	1,792	1,787	-	-	431	-	66	-	-	-	73	202
Granted	1,156	837	-	1,065	8,034	-	-	435	-	66	661	-	295	-
Forfeited / expired	(170)	(139)	(593)	(1,057)	-	-	(63)	(4)	-	-	-	-	(65)	-
Exercised	(450)	(344)	(2)	(3)	-	-	(120)	-	(26)	-	-	-	(3)	(129)
Outstanding at the end of the year	2,142	1,606	1,197	1,792	8,034	-	248	431	40	66	661	-	300	73

(iii) Measurement of fair values

The Premium Priced Options have been valued using a four step methodology that uses a simulation approach to project future share prices and then the Binomial model to value the options on vesting. The fair value of PARs has been measured using a Monte Carlo simulation approach.

The fair value of DARs, BTAs, VTAs and Performance Shares have been measured using a formula based approach discounted by the assumed dividend yield.

The value of Restricted Shares is equal to the Share Price as at the grant date.

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

	Deferred Award Rights		Performance Award Rights		Premium Priced Options		BOQ Group transformation award		BOQ Group transformation award- Virgin		Performance Shares		Restricted Shares	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Fair value at grant date (\$)	6.97	6.09	-	3.61	0.67	-	-	6.12	-	6.12	7.79	-	7.04	-
Share price at grant date (\$)	7.73	7.41	-	7.42	8.02	-	-	7.41	-	7.41	7.98	-	7.83	-
Expected volatility (%)	25.1	18.0	-	18.0	25.0	-	-	18.0	-	18.0	26.4	-	25.6	-
Risk free interest rate (%)	0.2	0.8	-	0.8	0.4	-	-	0.8	-	0.8	0.2	-	0.2	-
Dividend yield (%)	5.0	8.8	-	8.8	5.0	-	-	8.8	-	8.8	5.0	-	5.0	-

(iv) Salary sacrifice arrangements

The Non-Executive Director Fee (NEDs) Sacrifice Rights Plan (NED Plan) allows 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.

(v) Other employee awards

BOQ ThankQ Plan

The ThankQ Plan replaces the previously offered salary sacrifice Employee Share Plan and is a gift of shares up to a maximum of \$1,000 per eligible employee. During the year the Group granted 235,498 shares under this plan. The shares under this plan are restricted from sale until the earlier of three years or until an employee ceases employment with the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2021

5.2 COMMITMENTS

	Consolidated		Bank	
	2021 \$m	2020 \$m	2021 \$m	2020 \$m
(A) CUSTOMER FUNDING COMMITMENTS				
Guarantees, indemnities and letters of credit	259	267	259	267
Customer funding commitments	5,085	1,659	1,282	861
	5,344	1,926	1,541	1,128

In the normal course of business the Group 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 Group 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.

The Group has lease commitments of \$103 million (2020: nil) which have not been recognised as lease liabilities on the Balance Sheets as the lease commencement dates are after the end of the financial year. Expenditure on software assets and other expenditure contracted for but not provided on the Balance Sheets is \$34 million (2020: \$8 million).

5.3 CONTINGENT LIABILITIES

As part of the St Andrew's sale agreement, BOQ will provide a capped indemnity of \$8.5 million to the buyer, Farmcove Investment Holdings, for certain pre-completion matters.

5.4 RELATED PARTIES INFORMATION

(A) Controlled entities

Details of interests in materially controlled entities are set out in Note 5.5.

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 5.5(A).

The Bank receives management fees from its operating controlled entities except ME Bank, 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 5.5(A).

The Bank has a related party relationship with equity accounted joint ventures, refer to Note 5.6.

(B) Key management personnel compensation

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

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

	2021 \$	2020 \$
Short term employee benefits	6,667,311	5,944,543
Long term employee benefits	137,887	46,646
Post employment benefits	264,703	267,565
Share based employment benefits	3,045,711	1,451,477
Termination benefits	-	686,024
	10,115,612	8,396,255

Individual Directors and Senior Executives compensation disclosures

Information regarding individual Directors and Senior 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 2021

5.4 RELATED PARTIES INFORMATION (CONTINUED)

(C) Other financial instrument transactions with key management personnel and their related parties

A number of 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 Group. 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 (2020: nil).

The transactions undertaken between the Group and KMP or their related parties up to 31 August 2021 are:

	Balance as at		For the period ⁽¹⁾		
	1 September 2020 \$	31 August 2021 \$	Total loan drawdowns / (repayments) \$	Total loan / overdraft interest \$	Total fees on loans / overdraft \$
Term products (loans / advances)					
KMP	350,000	350,000	(11,508)	11,508	-
Other related parties	760,430	743,279	(52,449)	34,998	300
Total	1,110,430	1,093,279	(63,957)	46,506	300

	Balance as at		For the period		
	1 September 2019 \$	31 August 2020 \$	Total loan drawdowns / (repayments) \$	Total loan / overdraft interest \$	Total fees on loans / overdraft \$
Term products (loans / advances)					
KMP	1,529,029	350,000	(16,441)	16,595	40
Other related parties	186,543	760,430	731,742	25,851	175
Total	1,715,572	1,110,430	715,301	42,446	215

(1) Amounts are included only for the period that the Director / Executive is classified as a member of the KMP.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2021

5.5 CONTROLLED ENTITIES

(A) Particulars in relation to materially controlled entities

The Group's controlled entities at 31 August 2021 are set out below. The country of incorporation or registration is also the principal place of business.

	Place of business/ country of incorporation	Parent entity's interest		Amount of investment		Principal activities
		2021 %	2020 %	2021 \$m	2020 \$m	
Controlled entities:						
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
Home Credit Management Pty Ltd	Australia	100%	100%	-	-	Investment holding entity
Home Financial Planning Pty Ltd	Australia	100%	100%	-	-	Dormant
Impala Trust No. 2 - Sub-Series 2	Australia	100%	100%	-	-	Securitisation
Members Equity Bank Limited	Australia	100%	-	1,388	-	Financial services
ME Portfolio Management Limited	Australia	100%	-	-	-	Dormant
SMHL Series Private Placement 2014-2	Australia	100%	-	-	-	Securitisation
SMHL Series Securitisation Fund 2015-1	Australia	100%	-	-	-	Securitisation
SMHL Series Securitisation Fund 2016-1	Australia	100%	-	-	-	Securitisation
SMHL Series Securitisation Fund 2017-1	Australia	100%	-	-	-	Securitisation
SMHL Series Private Placement Trust 2017-2	Australia	100%	-	-	-	Securitisation
SMHL Series 2018-1 Fund	Australia	100%	-	-	-	Securitisation
SMHL Series Securitisation 2018-2	Australia	100%	-	-	-	Securitisation
SMHL Series Private Placement Trust 2019-1	Australia	100%	-	-	-	Securitisation
SMHL Series Securitisation Fund 2019-1	Australia	100%	-	-	-	Securitisation
SMHL Series Private Placement 2019-2	Australia	100%	-	-	-	Securitisation
SMHL Securitisation Trust 2020-1	Australia	100%	-	-	-	Securitisation
Pioneer Permanent Pty Ltd	Australia	100%	100%	32	32	Dormant
Series 2008-1 REDS Trust	Australia	100%	100%	-	-	Securitisation
Series 2010-2 REDS Trust	Australia	-	100%	-	-	Securitisation
Series 2012-1E REDS Trust	Australia	100%	100%	-	-	Securitisation

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2021

5.5 CONTROLLED ENTITIES (CONTINUED)

(A) Particulars in relation to materially controlled entities (continued)

	Place of business/ country of incorporation	Parent entity's interest		Amount of investment		Principal activities
		2021 %	2020 %	2021 \$m	2020 \$m	
Controlled entities:						
Series 2013-1 REDS Trust	Australia	100%	100%	-	-	Securitisation
Series 2015-1 REDS Trust	Australia	100%	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%	100%	-	-	Securitisation
Series 2019-1 REDS Trust	Australia	100%	100%	-	-	Securitisation
Series 2021-1 REDS EHP Trust	Australia	100%	-	-	-	Securitisation
St Andrew's Australia Services Pty Ltd ⁽¹⁾	Australia	100%	100%	-	30	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
				1,910	552	

(1) The investment in St Andrew's Australia Services Pty Ltd has been classified as held for sale as at 31 August 2021. Refer to note 5.5(E) for further details.

(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.

The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment.

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.

Transaction Costs

Transaction costs that the Group incurs in connection with a business combination, such as a finder's fee, legal fees, due diligence fees and other professional and consulting fees are expensed as incurred. Transaction costs related to the issue of ordinary shares are recognised as a deduction from equity.

(ii) Business combinations during the year

On 1 July 2021, the Group acquired 100 per cent of the shares and voting interests in ME Bank for cash consideration of \$1.388 billion.

ME Bank engages in the provision of banking services including funding, management and servicing of residential and consumer lending portfolios and carrying out associated funding activities for off balance sheet portfolios. The addition of ME Bank to the BOQ Group will further strengthen the Group's multi-brand strategy, deliver material scale, broadly double the size of the Retail bank, provide geographic diversification and create a compelling alternative to the big banks.

In the period from 1 July 2021 to 31 August 2021, ME Bank contributed revenue of \$83 million and profit after tax of \$17 million to the Group's results. If the acquisition had occurred on 1 September 2020, BOQ estimates that consolidated revenue would have been \$499 million and consolidated profit for the year would have been \$111 million which includes amortisation of fair value adjustments between 1 July 2021 to 31 August 2021. Due to the nature of these adjustments, the full year impact has not been disclosed as it cannot be reliably measured.

BOQ incurred acquisition-related costs of \$19 million on legal fees and due diligence costs. These costs have been predominantly included in administrative expenses.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2021

5.5 CONTROLLED ENTITIES (CONTINUED)

(ii) Business combinations during the year (continued)

The fair values of the identifiable assets and liabilities of ME Bank as at the date of acquisition were:

	Fair value on acquisition \$m
Assets	
Cash and cash equivalents	642
Due from other financial institutions	124
Debt instruments at FVOCI	3,320
Equity instruments at FVOCI	3
Property, plant and equipment	73
Software intangibles	112
Brand intangibles	26
Customer relationship intangibles	31
Loans and advances	25,669
Other assets	19
Total Assets	30,019
Liabilities	
Deposits	22,302
Derivatives financial liabilities	26
Accounts payable and other liabilities	161
Provisions	18
Current tax liabilities	9
Borrowings	5,833
Deferred tax liabilities	2
Total Liabilities	28,351
Net identifiable assets and liabilities	1,668
Other equity instruments	(315)
Goodwill arising on acquisition	35
Total Purchase consideration transferred	1,388
Cash acquired	642
Net cash outflow	746

The goodwill recognised of \$35 million represents the fair value of expected future synergies arising from the acquisition.

All fair values are disclosed on a provisional basis. If new information obtained within one year of the date of acquisition about facts and circumstances that existed at the date of acquisition identifies adjustments to the above amounts, or any additional provisions that existed at the date of acquisition, then the accounting for the acquisition will be revised.

(iii) Entities established during the year

The following entities were established during the financial year:

- Series 2021-1 REDS EHP Trust was opened on 11 August 2021.

(D) Disposal of controlled entities

The following entities were closed during the financial year:

- Series 2010-2 REDS Trust was closed on 29 March 2021.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2021

5.5 CONTROLLED ENTITIES (CONTINUED)

(E) Operations classified as held for sale

On 13 October 2020, the Bank entered into an agreement to sell the Bank's controlled entities – St Andrew's Australia Services Pty Ltd and its subsidiaries, St Andrew's Insurance (Australia) Pty Ltd and St Andrew's Life Insurance Pty Ltd (the **St Andrew's Insurance Group**) for proceeds of approximately \$23 million. As at the reporting date, the St Andrew's Insurance Group remained part of the BOQ Group due to outstanding regulatory approvals.

As at 31 August 2021, the Consolidated Entity met the relevant criteria for reporting the St Andrew's Insurance Group as held for sale under AASB 5 *Non-current assets held for sale and discontinued operations* (**AASB 5**). However, as all of the assets of the disposal group are excluded from the measurement requirements of AASB 5, an impairment loss has not been recognised. As such, the indicative loss on sale after tax of \$24 to \$27 million will be reflected upon completion and will be impacted by completion adjustments, transaction costs and final taxation impacts.

The sale of the St Andrew's Group will impact the operating segment, Other.

As at 31 August 2021, the Bank had assets held for sale of \$30 million which represents the Bank's investment in the St Andrew's Group. Financial information in relation to the St Andrew's Group assets and liabilities held for sale for the year to 31 August 2021 is set out below:

	2021 ⁽¹⁾ \$m
Cash and cash equivalents	4
Due from other financial institutions – term deposits	33
Assets arising through reinsurance contracts	5
Other assets	1
Total Assets	43
Insurance policy liabilities	7
Other liabilities	10
Total Liabilities	17
Net assets	26

(1) Intragroup balances have been eliminated, however, will impact on the final loss on sale at completion.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2021

5.6 INVESTMENTS IN JOINT ARRANGEMENTS

The Group holds interests in a number of collectively and individually immaterial joint ventures that are accounted for using the equity method.

(A) Accounting for joint arrangements

The Group's investment in joint venture entities is accounted for under the equity method of accounting in the consolidated financial statements. Joint ventures are entities in which the Group has joint control over all operational decisions and activities.

(B) Details of joint ventures

Set out below are the joint ventures of the Group as at 31 August 2021 which, in the opinion of the Directors, are immaterial to the Group. Australia is the place of business and also the country of incorporation for all joint ventures.

	Ownership Interest		Carrying amount	
	2021 (%)	2020 (%)	2021 \$m	2020 \$m
Joint arrangements⁽¹⁾				
Ocean Springs Pty Ltd (Brighton)	9.31	9.31	3	6
Dalyellup Beach Pty Ltd (Dalyellup)	17.08	17.08	7	7
East Busselton Estate Pty Ltd (Provence)	25.00	25.00	-	-
Coastview Nominees Pty Ltd (Margaret River)	5.81	5.81	-	-
Provence 2 Pty Ltd (Provence 2)	25.00	25.00	-	-
Total equity accounted investments			10	13

(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.

Summary financial information for equity accounted joint ventures, adjusted for the share of ownership held by the Group, is contained below:

	2021 \$m	2020 \$m
Profit from continuing operations	1	-
Total comprehensive profit	1	-

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2021

5.7 AUDITOR'S REMUNERATION

KPMG Australia	Consolidated		Bank	
	2021 \$000	2020 \$000	2021 \$000	2020 \$000
Audit services				
- Statutory audits and reviews of the financial reports	2,172	1,857	1,826	1,437
- Regulatory audits and reviews as required by regulatory authorities	704	762	611	667
Total audit services	2,876	2,619	2,437	2,104
Audit related services				
- Other assurance services	373	402	154	143
Total audit related services	373	402	154	143
Non-audit services				
- Taxation services	116	122	116	77
- Other	250	192	250	174
Total non-audit services	366	314	366	251

Non-audit services, other, include trust assurance work coupled with capital raising in connection with the ME Bank acquisition.

Details of the amounts paid to other auditor for audit services provided during the year in respect of ME Bank acquisition:

Other auditor	Consolidated		Bank	
	2021 \$000	2020 \$000	2021 \$000	2020 \$000
Audit services				
- Statutory audits and reviews of the financial reports	202	-	-	-
Total audit services	202	-	-	-

5.8 EVENTS SUBSEQUENT TO BALANCE DATE

The evolution of the COVID-19 pandemic remains uncertain, including the duration of the pandemic, the severity of the downturn and the speed of the economic recovery. BOQ has considered whether events subsequent to the reporting date have confirmed conditions existing as at reporting date and has not identified any COVID-19 related developments which would require adjustments to the amounts or disclosures contained in the consolidated financial statements. Future economic conditions may differ to the assumptions and scenarios used in the consolidated financial statements, the impact of which will be reflected in future reporting periods.

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 Group in future financial years.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2021

5.9 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 Group.

(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 Group conducts a loan securitisation program whereby mortgage loans are packaged and sold to the REDS RMBS Trusts. The Group also securitises hire purchase, chattel mortgages and finance leases which are packaged and sold to the REDS EHP Trusts. Assets securitised to the Impala Trust are financed by the Bank through the BOQ Specialist channel and consist of medical finance equipment. The Group acquired SMHL Trusts program as part of ME Bank acquisition on 1 July 2021.

The Group

The Group receives the residual income distributed by the REDS, Impala and SMHL Trust (**Trusts**) after all payments due to investors and associated costs of the program have been met. As a result, the Group 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 Group, however, the Group does not stand behind the capital value or the performance of the securities or the assets of the Trusts. The Group 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 Group 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) Covered bond program

The Bank issues covered bonds for funding and liquidity purposes. Certain housing loans have been assigned to a bankruptcy remote structured entity to provide security for all obligations payable on the covered bonds issued by the Bank. Similar to the securitisation programs, the Bank is entitled to any residual income after all payments due to covered bond investors have been met. As the Bank retains substantially all of the risks and rewards associated with the housing loans, the Bank continues to recognise the housing loans on Balance Sheet. Investors have dual recourse to the Bank and the covered pool assets.

(iv) 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, initially, translated at the foreign exchange rate ruling at the date of the transaction. Subsequently, at reporting date, monetary assets and liabilities denominated in foreign currencies 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 remain translated using the original exchange rate at the date of the transaction. Foreign exchange differences arising on translation are recognised in 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 Group 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 2021

5.9 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(C) Operating leases

Operating leases, in which the Group 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 and residual values are reviewed at each reporting date and adjusted if appropriate.

(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 Taxation 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 measured at cost on recognition.

(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 Group 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 Group 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. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, 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 or CGU. 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 its 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 76 to 182, 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 Group as at 31 August 2021 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 Group 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 2021.
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:



Patrick Allaway
Chairman
12 October 2021



George Frazis
Managing Director & CEO
12 October 2021

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 2021 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 2021;
- 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; and
- 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.

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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
- Acquisition of ME Bank

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 to the Financial Reports

The key audit matter

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, incorporating forward-looking information to reflect current and future economic scenarios, including the potential economic impact of the COVID-19 pandemic and in determining assumptions such as defining a significant increase in credit risk (SICR).

The Consolidated Entity and Bank measure ECLs on a forward-looking basis reflecting a range of future economic conditions, including key forward-looking macroeconomic assumptions such as forecast Real-Gross Domestic Product (GDP), residential and commercial property price index and unemployment rates. Given the COVID-19 pandemic and associated economic uncertainty, significant judgement was exercised by the Consolidated Entity and Bank with developing the forward-looking macroeconomic assumptions and in the multiple forward-looking

How the matter was addressed in our audits

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 macroeconomic 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 including estimates of default on both a 12 month and lifetime basis.
- Testing the completeness and accuracy of relevant data elements used within ECL

INDEPENDENT AUDITOR'S REPORT

economic scenarios and probability weighting determined for each of these scenarios.

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 lifetime basis.

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.

We applied significant judgement to assess the impact of the forward-looking macroeconomic assumptions and economic scenarios used and the judgemental out of model adjustments applied to the ECL models.

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 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.

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 and which incorporated consideration of the impacts of COVID-19. 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.
- Challenged the Consolidated Entity's and Bank's forward-looking information and economic scenarios and their associated probability weighting. We compared the Consolidated Entity's and Bank's forecast GDP, residential and commercial property price index and unemployment rates to relevant publicly available macro-economic information and the sensitivity of the ECL to changes in such assumptions. We focused on ensuring that these key assumptions reflected the impacts of COVID-19.
- 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.

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 loans for which specific impairment provisions are held, with particular focus on the impact of COVID-19 on high-risk industries. This included:
 - Challenging the Consolidated Entity's and

INDEPENDENT AUDITOR'S REPORT

	<p>Bank's risk grading of the loans.</p> <ul style="list-style-type: none"> – 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 and consideration of COVID-19 impacts in relation to the amount and timing of recoveries. <ul style="list-style-type: none"> • 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. • 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. • 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.
Valuation of goodwill – Consolidated Entity and Bank	
<p>Refer to Note 4.1 to the Financial Reports</p>	
The key audit matter	How the matter was addressed in our audits
<p>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.</p> <p>We focused on the significant forward-looking assumptions applied in the VIU model, including:</p> <ul style="list-style-type: none"> • Forecast operating cash flows, forecast growth rates and the terminal growth rates. These conditions increase the inherent 	<p>Our procedures included:</p> <ul style="list-style-type: none"> • 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

INDEPENDENT AUDITOR'S REPORT

<p>uncertainty of the forecasts, the probability of a wider range of possible outcomes and the possibility of goodwill being impaired; and</p> <ul style="list-style-type: none"> Discount rate – this is judgemental in nature and varies according to the specific conditions and environment of the relevant cash-generating unit (CGU). <p>We involved valuation specialists to supplement our senior audit team members in assessing this key audit matter.</p>	<p>operating cash flows by comparing to actual past performance, to inform our evaluation of forecasts incorporated in the VIU model.</p> <ul style="list-style-type: none"> Challenging the key forecast cash flow assumptions used in the VIU model considering the known and anticipated COVID-19 impacts, using our knowledge of the Consolidated Entity and Bank, their past performance, and our inquiries with Management. We also checked the consistency of the key assumptions used in the VIU model to the Consolidated Entity's and Bank's Board approved cash flow forecasts. Using our industry knowledge and published studies of industry trends and expectations, assessing 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. We did this to identify those CGUs at higher risk of impairment and those assumptions at a higher risk of bias or inconsistency in application and to focus our further procedures. 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. We focussed on the adequacy of the disclosures where a reasonably possible change in key assumptions could cause the carrying amount of a CGU to exceed its recoverable amount to assess whether additional disclosures may be required.
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INDEPENDENT AUDITOR'S REPORT

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
<p>The assessment of the valuation of intangible computer software is considered a key audit matter due to the significant:</p> <ul style="list-style-type: none"> • amount of costs capitalised during the year. • judgement applied by us to assess the Consolidated Entity's and Bank's determination of: <ul style="list-style-type: none"> – 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. <p>We also focused on the analysis of impairment indicators performed by the Consolidated Entity and Bank.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> • Evaluating the Consolidated Entity's and Bank's intangible computer software capitalisation policy and its application during the year 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: <ul style="list-style-type: none"> – 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. • Considering the Consolidated Entity's and Bank's assessment of intangible computer software impairment indicators by using our knowledge of the Consolidated Entity and Bank's broader technology roadmap, results of our testing and inquiring with Project Managers. • Assessing the adequacy of the disclosures associated with impairment testing of intangible computer software in the financial report.

INDEPENDENT AUDITOR'S REPORT

Valuation of financial instruments at fair value – Consolidated Entity and Bank	
Refer to Note 3.7 to the Financial Reports	
The key audit matter	How the matter was addressed in our audits
<p>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.</p> <p>We involved valuation specialists to supplement our senior audit team members in assessing this key audit matter.</p>	<p>Working with our valuation specialists, our procedures included:</p> <ul style="list-style-type: none"> • 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
<p>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.</p> <p>Our IT specialists were used throughout the engagement as a core part of our audit team.</p>	<p>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:</p> <ul style="list-style-type: none"> ● 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.

INDEPENDENT AUDITOR'S REPORT

Acquisition of ME Bank – Consolidated Entity and Bank	
Refer to Note 5.5 (c) to the Financial Reports	
The key audit matter	How the matter was addressed in our audits
<p>On 1 July 2021, the Bank acquired 100% of ME Bank, for a total consideration of \$1.388 billion. The purchase price accounting was provisional at the date of authorisation of the financial report.</p> <p>The accounting for this business combination is a key audit matter due to the:</p> <ul style="list-style-type: none"> • Size of the acquisition having a significant impact on the Consolidated Entity's and Bank's financial report; and • Judgement and complexity relating to the Consolidated Entity's and Bank's determination of the provisional fair value of assets and liabilities acquired in the acquisition requiring significant audit effort. These included customer relationships and brand name which are inherently judgemental, driving additional audit effort specifically on the key assumptions and methodology used in the valuation of these intangible assets. The key assumptions we focussed on in the valuation of intangible assets included forecast earnings, discount rates and useful lives. <p>The Consolidated Entity and Bank engaged an external valuation expert to assess the fair value of acquired intangibles such as customer relationships and brand name.</p> <p>We involved corporate finance specialists to supplement our senior audit team members in assessing this key audit matter.</p>	<p>Working with our corporate finance specialists, our procedures included:</p> <ul style="list-style-type: none"> • We evaluated the acquisition accounting by the Consolidated Entity and Bank against the requirements of the accounting standards. • We read the underlying transaction agreement to understand the terms of the acquisition and nature of the assets and liabilities acquired. • Considered the scope, objectivity and competence of the external valuation expert engaged by the Consolidated Entity and Bank. • We evaluated the valuation methodology used by the Consolidated Entity and Bank to determine the fair value of assets and liabilities acquired, against accounting standard requirements and observed industry practices. • Examined and assessed the key assumptions in the Consolidated Entity's and Bank's external valuation expert report prepared in relation to the identification and valuation of intangible assets including: <ol style="list-style-type: none"> 1. assessing the useful life of the brand name and customer relationships by using our industry experience and against the accounting standard requirements; 2. comparing forecast earnings assumptions to growth rates from comparable company broker estimates and industry growth rates; and 3. evaluating the discount rate adopted having regard to the Internal Rate of Return of the acquisition. • Compared the provisional fair values of the acquired assets and liabilities recognised by the Consolidated Entity and Bank to the audited financial statements of ME Bank and external valuation expert report. • We recalculated the goodwill balance recognised as a result of the acquisition and compared it to the goodwill amount recorded

INDEPENDENT AUDITOR'S REPORT

	<p>by the Consolidated Entity and Bank.</p> <ul style="list-style-type: none"> Assessed the adequacy of the disclosures in the financial report using our understanding obtained from our testing and against the requirements of the accounting standards.
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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.

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.

INDEPENDENT AUDITOR'S REPORT

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: https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf. This description forms part of our 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 2021, 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 76 to 102 of the Directors' report for the year ended 31 August 2021.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.



KPMG



Shaun Kendrigan
Partner

Sydney
12 October 2021

SHAREHOLDING DETAILS

1. TWENTY LARGEST ORDINARY SHAREHOLDERS

As at Thursday 23 September 2021, the following shareholding details applied:

	Number of ordinary shares	%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	116,895,053	18.24
CITICORP NOMINEES PTY LIMITED	60,259,245	9.40
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	56,077,870	8.75
NATIONAL NOMINEES LIMITED	41,450,195	6.47
BNP PARIBAS NOMS PTY LTD	11,146,804	1.74
BNP PARIBAS NOMINEES PTY LTD	9,076,602	1.42
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	6,855,102	1.07
NATIONAL NOMINEES LIMITED	5,855,700	0.91
BNP PARIBAS NOMINEES PTY LTD SIX SIS LTD	3,709,233	0.58
WASHINGTON H SOUL PATTINSON AND COMPANY LIMITED	3,494,197	0.55
CITICORP NOMINEES PTY LIMITED	3,324,124	0.52
GOLDEN LINEAGE PTY LTD	3,110,131	0.49
NATIONAL NOMINEES LIMITED	2,636,102	0.41
CARLTON HOTEL LIMITED	1,084,037	0.17
AMP LIFE LIMITED	1,066,119	0.17
MR KIE CHIE WONG	992,908	0.15
PACIFIC CUSTODIANS PTY LIMITED	934,537	0.15
THE MANLY HOTELS PTY LIMITED	926,301	0.14
BNP PARIBAS NOMS (NZ) LTD	831,885	0.13
NATIONAL EXCHANGE PTY LTD	760,000	0.12
Total	330,486,145	51.57

The above table includes shareholders that may hold shares for the benefit of third parties.

Voting rights

On a poll every person who is a holder of ordinary shares or a duly appointed representative of a holder of ordinary shares has one vote.

SHAREHOLDING DETAILS

2. TWENTY LARGEST CAPITAL NOTE HOLDERS

As at Thursday 23 September 2021, the following holding details applied:

	Number of capital notes	%
BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD	143,575	4.10
CITICORP NOMINEES PTY LIMITED	136,325	3.90
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	117,911	3.37
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	65,465	1.87
DIOCESE DEVELOPMENT FUND – CATHOLIC DIOCESE OF PARRAMATTA	56,238	1.61
JOHN E GILL TRADING PTY LTD	54,593	1.56
NATIONAL NOMINEES LIMITED	43,234	1.24
MUTUAL TRUST PTY LTD	32,812	0.94
BOND STREET CUSTODIANS LIMITED	32,200	0.92
TRUSTEES OF CHURCH PROPERTY FOR THE DIOCESE OF NEWCASTLE	27,499	0.79
NETWEALTH INVESTMENTS LIMITED	24,713	0.71
BNP PARIBAS NOMINEES PTY LTD	23,893	0.68
BERNE NO 132 NOMINEES PTY LTD	23,705	0.68
FEDERATION UNIVERSITY AUSTRALIA	21,935	0.63
INVIA CUSTODIAN PTY LIMITED	21,310	0.61
HAVENFLASH PTY LTD	21,000	0.60
NAVIGATOR AUSTRALIA LTD	17,672	0.50
BNP PARIBAS NOMINEES PTY LTD	16,703	0.48
NAVIGATOR AUSTRALIA LTD	16,629	0.48
PACIFIC DEVELOPMENT CORPORATION PTY LTD	15,500	0.44
Total	912,912	26.08

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.

SHAREHOLDING DETAILS

3. TWENTY LARGEST CAPITAL NOTE 2 HOLDERS

As at Thursday 23 September 2021, the following holding details applied:

	Number of capital notes	%
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	200,845	7.72
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	119,965	4.61
CITICORP NOMINEES PTY LIMITED	100,482	3.86
MUTUAL TRUST PTY LTD	84,905	3.27
DIMBULU PTY LTD	75,000	2.88
DIOCESE DEVELOPMENT FUND - CATHOLIC DIOCESE OF PARRAMATTA	58,000	2.23
BERNE NO 132 NOMINEES PTY LTD	50,400	1.94
NATIONAL NOMINEES LIMITED	43,537	1.67
BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD	40,713	1.57
BERNE NO 132 NOMINEES PTY LTD	22,700	0.87
BNP PARIBAS NOMINEES PTY LTD	20,539	0.79
ALWOOD PTY LTD & ALWOOD PTY LTD	18,600	0.72
NETWEALTH INVESTMENTS LIMITED	14,021	0.54
LEOPOLD STATION PTY LIMITED	13,000	0.50
BNP PARIBAS NOMINEES PTY LTD	12,456	0.48
QM FINANCIAL SERVICES PTY LTD	12,000	0.46
MFIC SECURITIES PTY LTD	12,000	0.46
NAVIGATOR AUSTRALIA LTD	10,052	0.39
SANDHURST TRUSTEES LTD	10,000	0.38
G HARVEY INVESTMENTS PTY LIMITED	10,000	0.38
NETWEALTH INVESTMENTS LIMITED	9,004	0.35
CERTANE CT PTY LTD	8,250	0.32
Total	946,469	36.40

The above table includes shareholders that may hold shares for the benefit of third parties.

Voting rights

Capital Notes 2 do not give the holders any voting rights at any general shareholders meetings, except in certain circumstances.

SHAREHOLDING DETAILS

4. DISTRIBUTION OF SECURITY HOLDERS

Distribution of fully paid ordinary shares as at Thursday 23 September 2021:

Category	Number of shareholders	% of shareholders	Number of shares	% of issued capital
1 - 1,000	59,976	56.39	21,392,483	3.34
1,001 - 5,000	31,956	30.05	78,114,407	12.19
5,001 - 10,000	8,418	7.92	59,874,797	9.34
10,001 - 100,000	5,857	5.51	122,499,025	19.11
100,001 - and over	144	0.14	359,008,851	56.02
Total	106,351	100.00	640,889,563	100.00
Less than marketable parcel ⁽¹⁾	3,300	3.10	64,328	0.01

Distribution of Capital Notes as at Thursday 23 September 2021:

Category	Number of security holders	% of security holders	Number of securities	% of issued capital
1 - 1,000	4,750	91.49	1,522,756	43.51
1,001 - 5,000	388	7.47	754,918	21.57
5,001 - 10,000	23	0.44	160,549	4.59
10,001 - 100,000	28	0.54	663,966	18.97
100,001 - and over	3	0.06	397,811	11.37
Total	5,192	100.00	3,500,000	100.00
Less than marketable parcel ⁽²⁾	23	0.44	50	-

Distribution of Capital Notes 2 as at Thursday 23 September 2021:

Category	Number of security holders	% of security holders	Number of securities	% of issued capital
1 - 1,000	2,468	87.83	894,682	34.41
1,001 - 5,000	299	10.64	622,387	23.94
5,001 - 10,000	25	0.89	173,716	6.68
10,001 - 100,000	15	0.53	487,923	18.77
100,001 - and over	3	0.11	421,292	16.20
Total	2,810	100.00	2,600,000	100.00
Less than marketable parcel ⁽³⁾	1	0.04	1	-

(1) Based on a closing price of \$9.11 on 23 September 2021.

(2) Based on a closing price of \$103.70 on 23 September 2021.

(3) Based on a closing price of \$104.46 on 23 September 2021.

SHAREHOLDING DETAILS

5. PARTLY PAID SHARES

There are no partly paid shares.

6. 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:

	Number of ordinary shares in which interest is held (at date of notification)	Date of notification
The Vanguard Group Inc.	27,345,351	27 October 2020

7. SECURITIES EXCHANGE LISTING

The shares of Bank of Queensland Limited (**BOQ**), Capital Notes (**BOQPE**) and Capital Notes 2 (**BOQPF**) are quoted on the Australian Stock Exchange.

Notes issued under BOQ's Euro Medium Term Note Programme and covered bonds issued under BOQ's Covered Bond Programme may be listed on the London Stock Exchange.

8. UNQUOTED SECURITIES

As at 30 September 2021, the following unquoted securities were on issue:

Unquoted securities ⁽¹⁾	Number of holders in the plan	Number of unquoted securities
Deferred Award Rights	385	2,115,375
Performance Award Rights	101	1,168,938
Premium Priced Options	14	8,033,732
Performance Shares	12	661,135
Transformation Award Rights	44	280,721

9. ON MARKET BUY-BACK

There is no current on market buy-back.

10. SECURITIES PURCHASED ON MARKET

During the year ended 31 August 2021, 1,184,500 shares were purchased on market under the employee incentive scheme⁽²⁾. The average price per security was \$6.36.

11. OTHER INFORMATION

BOQ is a publicly listed company limited by shares and is incorporated and domiciled in Australia.

(1) Unquoted securities are issued under the Award Rights Plan and the Equity Incentive Plan.

(2) Inclusive of shares purchased under the NED Plan.

SHAREHOLDER INFORMATION

SHARE REGISTRY

Link Market Services Limited

Level 21, 10 Eagle Street
Brisbane Qld 4000

Australia: 1800 779 639

International: +611800 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: +617 3212 3333

Investor Relations:

InvestorRelations@boq.com.au

boq.com.au

twitter.com/boq

facebook.com.au/BOQOnline

CUSTOMER SERVICE

Australia: 1300 55 72 72

International: +617 3336 2420

Postal address:

GPO Box 898

Brisbane Qld 4001

KEY SHAREHOLDER DATES

Dividend dates for ordinary shares only are:

2021

Financial full year end	31 August 2021
Full year results and dividend announcement	13 October 2021
Full year ex-dividend date	28 October 2021
Full year dividend record date	29 October 2021
Full year dividend payment date	18 November 2021
Annual General Meeting	7 December 2021

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 Banking Association (ABA)	The trade association for the Australian banking industry
Asset backed securities (ABS)	A financial security which is pledged by a pool of assets such as but not limited to loans, leases and credit card debt.
Australian Finance Industry Association (AFIA)	AFIA is the national association for the equipment leasing and financing industry. Formerly Australian Equipment Lessors Association.
Alternative liquid assets (ALA)	Alternative liquid assets are alternative treatments for holdings in the stock of HQLA. These treatments are made available in jurisdictions where there is insufficient supply of HQLA1 (or both HQLA1 and HQLA2) in the domestic currency to meet the aggregate demand of banks with significant exposures in the domestic currency in the LCR framework. Within Australia, a locally-incorporated ADI subject to LCR requirements is able to establish a CLF with the Reserve Bank of Australia, sufficient in size to cover any shortfall in Australian dollars between the ADI's holdings of HQLA and net cash outflows.
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 And Investments Commission (ASIC)	ASIC is Australia's corporate, markets and financial services regulator.
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 <i>Banking Act 1959</i> 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 and business banking, leasing finance and insurance products to its customers.
Banking Relief Package (BRP)	A for of Government assistance that gives eligible clients the option of deferring loan repayments for a period of time
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).
Banking Executive Accountability Regime (BEAR)	The Banking Executive Accountability Regime (BEAR), set out in Part IIAA of the Banking Act 1959, establishes accountability obligations for authorised deposit-taking institutions (ADIs) and their senior executives and directors.
Bonus Interest savings Account (BISA)	BOQ's Bonus Interest Savings Account is a savings account with a variable base interest rate and a bonus interest rate calculated on a tiered basis.
BOQ Blue	BOQ Blue refers to the original BOQ brand and excludes new brands such as Virgin Money, BOQ Specialist and BOQ Finance. It is predominantly represented as transactions and products serviced through our branch network, business bank relationship managers and financial markets.
BOQ Group Transformation Award (BTA)	BOQ Group Transformation Award is a type of incentive award granted to select employees. BTAs vest subject to the achievement of a core earnings hurdle.
Capital Notes (BOQPE) & Capital Notes 2 (BOQPF)	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
Corporations Act 2001	The <i>Corporations Act 2001</i> (Cth)

GLOSSARY

TERM	DESCRIPTION
Corporation Regulations 2001	The <i>Corporations Regulations 2001</i> made under the <i>Corporations Act 2001</i> (Cth)
Cost to income ratio (CTI)	Operating expenses divided by net operating income.
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).
Deferred Award Rights (DARs)	Deferred Award Rights (DARs) are a type of long-term incentive award rights granted to employees below Senior Executive Level. DARs vest subject to service conditions and a risk assessment.
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 <i>Earnings per share</i> .
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 Medium Term Note (EMTN)	EMTN is an offshore medium term note program.
Expected Credit Loss (ECL)	Estimated credit losses using a forward looking impairment methodology accounted for in accordance with AASB 9 <i>Financial Instruments</i> .
Full time equivalent (FTE)	A calculation based on number of hours worked by full and part time employees as part of their normal duties.
General reserve for credit losses (GRCL)	An additional reserve for future unidentified credit losses, in line with APS 220 <i>Credit Risk Management</i> , not reflected as part of existing ECL provisions.
Gross Domestic Product (GDP)	Monetary measure of the market value of all the final goods and services produced in a specific time period.
Gross loans and advances (GLA)	Gross loans and advances is the principal amount of loans and advances provided, gross of provisions and deferred fee income and including any accrued interest.
High Quality Liquid Assets (HQLA1)	Comprises 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 Accounting Standards Board (IASB)	Independent, private-sector body that develops and approves International Financial Reports Standards.
International Financial Reporting Standards (IFRS)	A series of globally accepted accounting standards for accounting for particular types of transactions and events.
International Panel on Climate Change (IPCC)	IPCC is the United Nations body charged with overseeing climate change and publishing the global climate models' (including RCP's).
Issued capital	Value of securities allotted in a company to its shareholders.
Know Your Client (KYC) Regulatory compliance costs	The KYC guidelines in financial services require professionals to verify the identity, suitability, and risks involved with maintaining a business relationship. The procedures fit within the broader scope of the Bank's anti-money laundering (AML) policy.
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.
Members Equity Bank Limited (ME Bank or ME)	ME Bank is a for profit entity that operates in the retail segment of the domestic market offering primarily home loan products and everyday transaction and online savings accounts.
Mortgage Net Promoter Score (NPS)	The Net Promoter Score is an index that measures the willingness of customers to recommend a company's products or services to others. It is used as a proxy for gauging the customer's overall satisfaction with a company's product or service and the customer's loyalty to the brand.

GLOSSARY

TERM	DESCRIPTION
Net capitalised investment (CAPEX)	Net capitalised investment is the amount spent on purchasing or improving capital assets less their cost of the depreciation and amortisation.
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. 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-Executive Director Fee Sacrifice Rights Plan (NED Plan)	The Non-Executive Director Fee (NEDs) Sacrifice Rights Plan (NED Plan) allows NEDs to sacrifice a portion of their Board fees to acquire BOQ shares.
Non-interest earning assets	The Bank's assets that do not accrue interest income.
Novel coronavirus disease (COVID-19)	The Novel Coronavirus disease that was declared as a global pandemic on 11 March 2020.
Owner-managed Branch (OMB)	A branch which is run by a franchisee.
Performance Award Rights (PARs)	Performance Award Rights (PARs) are a type of long-term incentive award rights which were granted to senior employees, including executives, until 2019. PARs vest subject to two performance hurdles; relative total shareholder return (RTSR) and relative earnings per share (EPS).
REDS	Term to describe the BOQ securitisation programmes.
Representative Concentration Pathway (RCP)	RCP are physical climate scenarios set by the IPCC (with the assistance of the global scientific community).
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.
Reserve Bank of Australia (RBA)	Australia's central bank and drives its functions and powers from the <i>Reserve Bank Act 1959</i> .
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.
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.
Right-of-use (ROU) asset	The right-of-use asset is a lessee's right to use an asset over the life of a lease.
Risk weighted assets (RWA)	A quantitative measure of various risks including credit, operational, market and securitisation as defined by APS.
Significant Increase in Credit Risk (SICR)	SICR is a significant change in the estimated risk of default over the remaining expected life of the financial asset. SICR is 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.
Small and Medium Enterprises (SME)	SME are businesses whose personnel numbers fall below certain limits.
Term Funding Facility (TFF)	Funding Facility for authorised deposit-taking institutions established by the RBA to support the Australian economy.
Total capital adequacy ratio	Total capital divided by total RWA calculated in accordance with relevant APS.
Total Shareholder Return (TSR)	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.
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 BOQ Group Transformation Award (VTAs)	Virgin BOQ Group Transformation Award is a type of incentive award granted to select employees. VTAs vest subject to the achievement of two hurdles: core earnings and the delivery of the Virgin Money digital bank.
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 on behalf of business partners, including BOQ.
Weighted average life (WAL)	Is the average length of time for the principal on a loan to be paid in full.
Weighted average number of shares (WANOS)	Calculated in accordance with AASB 133 <i>Earnings per share</i> .
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.

