

# **BOQ Group**

## Investor Information

### 2013 Interim Results

Incorporating the requirements of Appendix 4D.



## Appendix 4D

## Half-year report

## For the period ended 28th February 2013

Results for announcement to the market <sup>(1)</sup>

				\$m
Revenues from ordinary activities <sup>(2)</sup>	Up	5%	to	415.0
Profit from ordinary activities after tax attributable to members	Up	211%	to	100.5
Profit for the period attributable to members	Up	211%	to	100.5

Dividends	Amount per security
Interim ordinary dividend - fully franked (cents per share)	28
Semi-annual dividend on:	
- Perpetual Equity Preference Shares (PEPS) - fully franked (cents per share) <sup>(3)</sup>	179
- Convertible Preference Shares (CPS) - fully franked (cents per share)	177
Previous corresponding period	
Interim ordinary dividend - fully franked (cents per share)	26
Semi-annual dividend on:	
- Perpetual Equity Preference Shares (PEPS) - fully franked (cents per share)	234
Record date for determining entitlements to the:	
- Perpetual Equity Preference Shares (PEPS)	27 March 2013
- Convertible Preference Shares (CPS)	27 March 2013
- Ordinary dividend	8 May 2013

(1) Rule 4.2A.3. Refer to Appendices 9.1 for the cross reference index for ASX Appendix 4D.

(2) On prior corresponding period (six months ended 29 February 2012).

(3) PEPS holders who exchanged their securities for CPS received a pro-rata dividend of 69 cents per share.

Company Secretary  
Melissa Grundy

Date

## APPENDIX 4D

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**Disclosure Considerations****Changes to Financial Reporting**

*In previous reporting periods the Bank has included in its profit announcement to the market an Appendix 4D, a Financial Summary and a separate document referred to as Annexure A which contained various financial information. This Investor Information document incorporates and replaces those disclosures, providing further information to supplement the Consolidated Interim Financial Report.*

**Change to Cash Earnings**

*To better align with wider industry reporting terminology, the Bank has adopted the use of 'Cash Earnings' which was previously reported as 'Normalised Cash Profit'. The underlying calculations have remained consistent. The distinction between 'Cash Earnings' and 'Statutory Profit' is further explained below.*

**Change to Other Costs**

*In prior periods Other Costs were previously disclosed as Administration Costs and the composition of these costs have not changed.*

**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). The Cash Earnings provided is used by Management to present a clear view of the Bank's underlying operating results. This excludes a number of items that introduce volatility and / or one-off distortions of the Bank's current period performance, and allows for a more effective comparison of the Bank's performance across reporting periods. Refer to 9.2 of the Appendices for the reconciliation of Statutory Profit to Cash Earnings.*

*Figures disclosed in this report are on a Cash Earnings basis unless stated as Statutory basis. Unless otherwise stated, all financial comparisons in this document refer to the prior half (to 31 August 2012) as the prior comparative period (to 29 February 2012) included a number of significant items resulting in a loss.*

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

**Future performance**

*This Presentation contains certain "forward looking statements". Forward looking statements can generally be identified by the use of forward looking words such as "anticipate", "believe", "expect", "project", "forecast", "estimate", "likely", "intend", "should", "will", "could", "may", "target", "plan" and other similar expressions within the meaning of securities laws of applicable jurisdictions. The forward looking statements contained in this Presentation involve known and unknown risks and uncertainties and other factors, many of which are beyond the control of BOQ, and may involve significant elements of subjective judgement as to future events which may or may not be correct.*

*There can be no assurance that actual outcomes will not differ materially from these forward-looking statements.*

# 1. Group Highlights

\$ million	Half Year Performance			Feb 13 vs Aug 12	Feb 13 vs Feb 12
	Feb-13	Aug-12	Feb-12		
Net interest Income	334.9	330.4	326.0	1%	3%
Non-Interest Income	82.5	83.2	77.3	(1%)	7%
Total Income	417.4	413.6	403.3	1%	4%
Operating Expenses	(186.7)	(192.0)	(181.4)	(3%)	3%
Underlying Profit	230.7	221.6	221.9	4%	4%
Loan Impairment Expense	(59.5)	(73.3)	(327.7)	(19%)	(82%)
Profit / (Loss) before Tax	171.2	148.3	(105.8)	15%	n/a
Income Tax (Expense) / Benefit	(51.3)	(45.3)	33.4	13%	n/a
<b>Cash Earnings / (Loss) after Tax</b>	<b>119.9</b>	<b>103.0</b>	<b>(72.4)</b>	<b>16%</b>	<b>n/a</b>
<b>Statutory Net Profit / (Loss) after Tax</b>	<b>100.5</b>	<b>73.5</b>	<b>(90.6)</b>	<b>37%</b>	<b>n/a</b>

BOQ has delivered a solid first half performance with a strong 16% increase in Cash Earnings after Tax to \$119.9m. The return on average tangible equity increased to 11.6%.

The largest contributor to the improved result was a 19% reduction in the loan impairment expense. The Bank has been focussed on embedding improved credit management practices and a tighter risk appetite framework to further improve the credit quality of its balance sheet. In line with the revised risk appetite, a behavioural scorecard model for housing loans was introduced in the half, and a focus maintained on target segments such as SME and Agribusiness.

Despite the impaired asset run-off and the planned exit of exposures outside the Bank's revised risk appetite, lending growth of 3.1% was 1.2 times system (APRA banking statistics February 2013).

The Bank's lending growth in the half was more than fully funded by retail deposit growth, with an improvement in the retail deposit mix to 60% and a reduction in the reliance on wholesale funding.

Net Interest Margin increased 2bps from the prior period, benefiting from asset re-pricing and a focus on managing deposit spreads.

Operating Expenses have been reduced through the Bank's efficiency and effectiveness program, down 3% to \$186.7m. Back office support activities have been consolidated, minimising duplication across the Group, while there has been continued investment in improving front-line capabilities. Restructuring costs of \$16m (pre-tax) were incurred in the first half in pursuing these efficiencies, which are excluded from Cash Earnings.

The Bank maintained its focus in the half on further strengthening its balance sheet. A \$300m Convertible Preference Share ("CPS") issue was undertaken, which resulted in an increase in Total Capital to 13.1%. The Bank's Common Equity Tier 1 Ratio increased to 8.7%. The Common Equity Tier 1 Ratio is the most important measure in the new Basel III regulatory framework and the Bank's position is the highest amongst its peer group.

The Board has declared an interim dividend of 28 cents per share fully franked, an increase of 2 cents per share. The discount applied to the Dividend Reinvestment Plan is being reduced from 2.5% to 1.5%, effective immediately.

## 2. Strategy and Outlook

### Strategy

In line with being a fit, focussed and different organisation, the Bank recognises where its organisational strengths lie and how it should invest to match these capabilities. Where no competitive advantage exists, the Bank outsources to best-in-class service providers.

The Bank's four strategic pillars are multi-channel optimisation, risk/return balance, operational excellence and a focus on talent, capability and culture.

In terms of multi-channel optimisation, the Bank is expanding its source of originations through an entry into the mortgage broker market as well as improvements to mobile banking, call centre, online and social media.

For branches, a new balanced scorecard is being introduced for Owner Managed branches in coming months. The new scorecard balances lending, deposits, cross sales and compliance components and is aimed at providing greater alignment between the interests of Owner Managers and BOQ. There is also significant work underway to optimise branch mix and locations.

To achieve the right balance of return for risk taken, the Bank aims to diversify the balance sheet by pursuing higher margin and higher return on equity segments in Business Banking and Agribusiness. In Business Banking a tiered approach to execution through different segments has been developed to reflect deal complexity.

The pursuit of operational excellence has seen continued back office operations consolidation and administrative tasks removed from branches. Work continues to improve processes and systems, particularly to reduce the turnaround time on compliant retail and business lending applications. A new Customer Relationship Management system has been successfully piloted in the Retail network and has delivered expected benefits, particularly in enhancing branch efficiency. Full implementation of the system is expected by September 2013 (subject to approvals) to enable decommissioning of legacy systems.

The Bank's focus on talent, capability and culture has seen a number of selected external recruits brought in below the executive team, to complement existing talent.

A major cultural change program is underway which will be accelerated through a major brand refresh, to be launched externally in June 2013. This will help focus employees on the right behaviours and particularly collaboration, accountability and openness.

Through its four strategic pillars, the Bank aims to deliver above system growth across Retail and Business Banking and keep expense growth below inflation.

### Outlook

The instability in the global environment continues to provide challenges to confidence and sentiment in the domestic economy. On the domestic front, there is also significant uncertainty with conflicting data. The high Australian dollar has been a headwind to sectors such as mining. Many small businesses are still demonstrating signs of stress and unemployment has started to trend adversely.

On the positive side of the equation, equity markets have performed strongly in the first half and residential property clearance rates have been reducing available stock, suggesting investor confidence may be beginning to return. The risk of ongoing volatility is likely to continue to impact consumer and business confidence in the months ahead.

Recent signs of improvement in the residential property market should assist in the pace and outcome of realisation strategies in place for the Bank's impaired asset portfolio. A continuing decline in impairment expense is expected in line with previously stated management targets.

Whilst credit growth is expected to remain subdued, the benefits of sales and service initiatives in the Retail network and the introduction of the mortgage broker channel, should help deliver above-system housing growth in line with the previously stated 2015 financial year management targets.

The Business Banking and Agribusiness division is building a solid pipeline that is expected to deliver consistent lending growth in a contracting market.

Further, the post-balance date acquisition of Virgin Money Australia will extend the Bank's reach into currently untapped, complementary market segments, providing access to an iconic brand with proven capability in online customer acquisition and product distribution.

Whilst funding markets have improved, both in access and pricing, retail product pricing remains competitive. At this point, there is nothing to suggest the current industry margin profile is likely to change materially. The transition to the Basel III capital and liquidity rules will be closely monitored with any negative margin impact likely to be offset by repricing initiatives.

### 3. Key Metrics

Key Metrics	Half Year Performance			Feb 13 vs Aug 12	Feb 13 vs Feb 12	
	Feb-13	Aug-12	Feb-12			
<b>Shareholder Returns</b>						
Share Price	(\$)	9.10	7.55	7.34	21%	24%
Market Capitalisation	(\$ million)	2,847.4	2,331.4	1,685.3	22%	69%
Dividends per share (fully franked)	(cents)	28.0	26.0	26.0	8%	8%
Dividend yield	(%)	6.20	6.83	7.12	(63bps)	(92bps)
<u>Cash Earnings basis</u>						
Basic Earnings per Share ("EPS")	(cents)	37.9	37.3	(32.3)	1.6%	n/a
Diluted EPS	(cents)	36.1	37.1	(32.3)	(2.7%)	n/a
Dividend payout ratio	(%)	73	78	n/a	(5%)	n/a
<u>Statutory basis</u>						
Basic EPS	(cents)	31.7	26.1	(39.8)	21%	n/a
Diluted EPS	(cents)	30.4	26.0	(39.8)	17%	n/a
Dividend payout ratio	(%)	87	109	n/a	(22%)	n/a
<b>Profitability and efficiency measures</b>						
<u>Cash Earnings basis</u>						
Net Profit / (Loss) After Tax	(\$ million)	119.9	103.0	(72.4)	16%	n/a
Underlying Profit <sup>(1)</sup>	(\$ million)	230.7	221.6	221.9	4%	4%
Net Interest Margin	(%)	1.66	1.64	1.68	2bps	(2bps)
Cost To Income Ratio	(%)	44.7	46.4	45.0	(1.7%)	(0.3%)
Loan Impairment Expense to Gross Loan and Advances ("GLA")	(bps)	34	43	194	(9bps)	(160bps)
Return on Average Equity	(%)	9.2	8.2	(6.4)	100bps	n/a
Return on Average Tangible Equity <sup>(2)</sup>	(%)	11.6	10.6	(8.5)	100bps	n/a
<u>Statutory basis</u>						
Net Profit / (Loss) After Tax	(\$ million)	100.5	73.5	(90.6)	37%	n/a
Underlying Profit <sup>(1)</sup>	(\$ million)	205.5	182.1	199.6	13%	3%
Net Interest Margin	(%)	1.65	1.63	1.67	2bps	(2bps)
Cost To Income Ratio	(%)	50.5	55.3	49.7	(4.8%)	0.8%
Loan Impairment Expense to GLA	(bps)	34	43	194	(9bps)	(160bps)
Return on Average Equity	(%)	7.7	5.9	(8.0)	180bps	n/a
Return on Average Tangible Equity <sup>(2)</sup>	(%)	9.8	7.7	(10.7)	210bps	n/a

(1) Profit before loan impairment expense and tax.

(2) Based on Cash Earnings after tax applied to average shareholders' equity (excluding preference shares and treasury shares) less goodwill and identifiable intangible assets.

## Key Metrics – Continued

Key Metrics	Half Year Performance			Feb 13 vs Aug 12	Feb 13 vs Feb 12	
	Feb-13	Aug-12	Feb-12			
<b>Assets and Funding</b>						
Total Loans Under Management (net of specific provision)	(\$ million)	34,833.4	34,339.8	33,756.8	3% <sup>(1)</sup>	3%
Retail Deposits	(\$ million)	22,907.6	22,270.0	21,099.0	6% <sup>(1)</sup>	9%
Retail Deposits to Total Funding Ratio	(%)	60	59	57	1%	3%
<b>Asset Quality</b>						
30 days past due <sup>(2)</sup>	(\$ million)	657.5	600.7	684.7	9%	(4%)
90 Days past Due <sup>(2)</sup>	(\$ million)	354.5	346.6	391.2	2%	(9%)
Impaired Assets	(\$ million)	478.5	525.3	578.7	(9%)	(17%)
Specific Provisions to Impaired Assets	(%)	44.7	41.9	43.1	280bps	160bps
Collective Provisions to Credit Risk Weighted Assets	(%)	0.78	1.01	1.3	(23bps)	(52bps)
<b>Capital</b>						
Common Equity Tier 1	(%)	8.7	8.5	6.4	20bps	230bps
Total Capital Adequacy Ratio	(%)	13.1	12.6	10.8	50bps	230bps
Risk Weighted Assets ("RWA")	(\$ million)	21,345.7	21,098.1	20,671.4	1%	3%

(1) Measures have been annualised.

(2) February 2013 numbers include hardship accounts that are not included in the comparative numbers (refer Section 6).

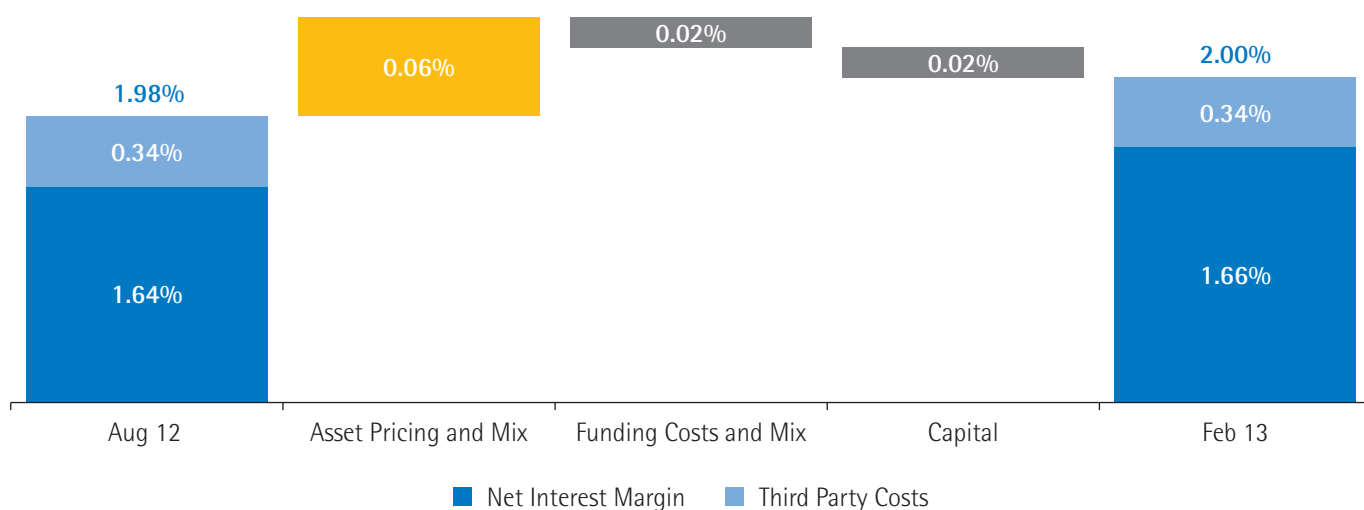
## 4. Review of Earnings Performance

### Net Interest Income

\$ million	Half Year Performance			Feb 13 vs Aug 12	Feb 13 vs Feb 12
	Feb-13	Aug-12	Feb-12		
Net Interest Income	334.9	330.4	326.0	1%	3%
Average Interest Earning Assets	40,781.6	39,940.1	38,886.6	4% <sup>(1)</sup>	5%
Net Interest Margin - Cash Earnings	1.66%	1.64%	1.68%	2bps	(2bps)
Net Interest Margin - Statutory	1.65%	1.63%	1.67%	2bps	(2bps)

(1) Measures have been annualised.

Net Interest Income increased by 1% to \$334.9m. This was a result of an annualised 4% increase in average interest earning assets, together with a 2 basis point improvement in Net Interest Margin ("NIM"). This has been offset by the impact of the shorter February half (181 days) against August half (184 days). On a day count adjusted basis, Net Interest Income increased by 3%.



Net Interest Margin increased by 2 basis points to 1.66%. This movement was attributable to a number of factors:

- Asset pricing – the Bank experienced increased asset spreads due to re-pricing to recoup increased funding costs. It also includes the full period impact of prior period repricing.
- Funding costs – competition for retail funding pushed up funding costs. Deposit spreads have been actively managed reflecting the lower lending growth profile to reduce this impact. The impact of the CPS issue also negatively impacted NIM by 1bps for the half. This was due to the combination of their classification as debt (the Perpetual Preference Shares ("PEPs") instruments they replaced were classified as equity for accounting purposes and hence were excluded from NIM); the increased cost of the instruments; and the increased volume on issue impacting funding mix adversely. On a full period basis, the impact of the CPS on NIM is slightly under 3bps with over half of that impact reflecting the reclassification impact. This is expected to be absorbed within other movements in margin. These increased costs were partially offset by the reduction in the cost of hedging basis risk.
- Capital – the return on capital has reduced as the capital investment portfolio reinvests at significantly lower rates, in line with the lower interest rate environment.



## Non-Interest Income

\$ million	Half Year Performance			Feb 13 vs Aug 12	Feb 13 vs Feb 12
	Feb-13	Aug-12	Feb-12		
Banking Income	48.6	49.9	48.7	(3%)	-
Other Income	14.3	12.2	8.4	17%	70%
Insurance Income	19.6	21.1	20.2	(7%)	(3%)
<b>Total Non Interest Income</b>	<b>82.5</b>	<b>83.2</b>	<b>77.3</b>	<b>(1%)</b>	<b>7%</b>

Non-Interest Income decreased by 1% to \$82.5m.

The subdued home lending environment is reflected in continued pressure on customer fees and lower insurance income. Improved trading and markets income, included in Other Income, was positive to the result.

## Insurance Overview

\$ million	Half Year Performance			Feb 13 vs Aug 12	Feb 13 vs Feb 12
	Feb-13	Aug-12	Feb-12		
Gross Written Premium (net of refunds)	38.3	40.4	38.2	(5%)	-
Underwriting Result	15.4	16.3	15.8	(6%)	(3%)
Other Insurance Income	4.0	4.5	4.2	(11%)	(5%)
Total Income	19.3	20.9	20.0	(8%)	(3%)
Consolidation Adjustment	0.3	0.2	0.2	50%	50%
<b>Group Insurance Result</b>	<b>19.6</b>	<b>21.1</b>	<b>20.2</b>	<b>(7%)</b>	<b>(3%)</b>

St Andrew's Insurance experienced a 5% reduction in Gross Written Premium (net of refunds), reflecting lower volumes in a slowing housing credit growth environment. This also included the impact of seasonality in home lending activity across St Andrew's corporate partners.

The underwriting result decreased by 6% due to decreased margins associated with higher acquisition costs. Other insurance income fell by 11% due to declining cash yields on the cash based investment portfolio.

## Operating Expenses

\$ million	Half Year Performance			Feb 13 vs Aug 12	Feb 13 vs Feb 12
	Feb-13	Aug-12	Feb-12		
Operating Costs	43.9	45.4	42.9	(3%)	2%
IT Costs	38.8	41.2	35.0	(6%)	11%
Occupancy Costs	15.1	15.5	15.4	(3%)	(2%)
Employee Costs	79.3	81.8	78.2	(3%)	1%
Other Costs	9.6	8.1	9.9	18%	(3%)
<b>Total Operating Expenses</b>	<b>186.7</b>	<b>192.0</b>	<b>181.4</b>	<b>(3%)</b>	<b>3%</b>
Cost to Income Ratio	44.7%	46.4%	45.0%	(170bps)	(30bps)

Total operating expenses reduced by 3%. A decrease in IT costs reflected run-off of software amortisation as a result of the Bank's investment in a Customer Relationship Management system. This was partially offset by timing of legal costs.

The Bank incurred \$16m in restructuring costs which have been excluded from Cash Earnings. These costs related to the realisation of the Bank's efficiency and effectiveness programs ("BEEP's") including the consolidation of its support activities.

BEEP's initiatives continue to make good progress with the successful implementation of a number of initiatives (shared services, back office consolidation) in the last 12 months that not only reduced costs, but improved operational effectiveness.

The result of these efficiency initiatives is also seen in the reduced staffing levels (table below), reflecting the removal of duplication from across the Group, through the use of shared service functions.

A full end to end review of loan origination and processing across the Bank to streamline the response time is also underway which will drive further efficiencies and improve the customer experience.

The Bank remains committed to achieving measured cost growth whilst continuing to invest in core system platforms and frontline capabilities.

In the next half, the Bank's brand is being refreshed and re-launched. This represents an important step to support the planned increase in new business volumes.

Staffing levels	Feb-13	Aug-12	Feb-12	Feb 13 vs Aug 12	Feb 13 vs Feb 12
Number of employees (FTE)	1,362	1,448	1,458	(6%)	(7%)

## 5. Lending

\$ million	Half Year Performance			Annualised Growth	
	Feb-13	Aug-12	Feb-12	Feb 13 vs Aug 12	Feb 13 vs Feb 12
Housing Lending	25,906.8	25,440.0	24,672.3	4%	5%
Commercial Lending	5,296.4	5,224.5	5,397.2	3%	(2%)
BOQ Finance	3,641.0	3,671.3	3,697.1	(1%)	(2%)
Consumer	203.1	224.3	239.5	(19%)	(15%)
<b>Gross Loans and Advances</b>	<b>35,047.3</b>	<b>34,560.1</b>	<b>34,006.1</b>	<b>3%</b>	<b>3%</b>
Specific and Collective Provisions	(364.2)	(412.9)	(491.4)	24%	26%
<b>Net Loans and Advances</b>	<b>34,683.1</b>	<b>34,147.2</b>	<b>33,514.7</b>	<b>3%</b>	<b>3%</b>

### Housing Lending

Housing lending assets, including securitised assets, increased by an annualised 3.7% over the past 6 months to \$25.9bn (0.8 times system growth of 4.4%). This included a deliberate reduction in the Line of Credit portfolio by \$375m over the period (15% annualised), in line with the Bank's revised risk appetite. Excluding the Line of Credit run-off, the growth rate would have been 6.6%.

The geographic mix of the business continues to improve, reducing the concentration in Queensland. In March, the Bank launched a mortgage broker originated offering with a pilot in Western Australia, and will roll this out nationally on a measured basis over time. This will enable an acceleration of further geographic diversification.

### Commercial Lending

Commercial lending assets increased by an annualised 2.8% over the past 6 months to \$5.3bn. This is despite the managed run-off in portfolios and the challenging commercial loan environment, where the system contracted by 0.6%. Active reductions in exposures deemed outside the Bank's amended risk appetite and realisation of impaired assets have totalled \$230m for the period. Excluding this, Commercial Lending growth would have been an annualised growth rate of 11.6%, demonstrating the strong success the new relationship banking team and the targeted customer acquisition strategy is delivering.

The Bank has invested in developing new frontline capability in Agribusiness and in extending capabilities in the Commercial Banking sector to support future Commercial and SME growth. Additional relationship banking capability has generated good levels of activity in recent months. The Bank has also been able to take advantage of recently built capabilities in financial markets offerings with early sales of interest rate hedging products. These products are important to the customer proposition and are expected to improve sources of fee income in future periods.

### BOQ Finance

BOQ Finance assets have decreased 1.0% over the past 6 months to \$3.6bn in line with a flat to declining market. The focus of this business continues to be in the core areas of general equipment, debtor, vendor and dealer finance. While third party broker originations remain a key introduction source for BOQ Finance, significant effort is being invested in improving cross-sales from the branch, business and corporate banking channels, this should help BOQ Finance grow at above system levels.

## 6. Asset Quality

The Bank continues to see an improvement in its Loan Impairment expense. The Asset Quality Review undertaken last year, and the actions taken as a result, have contributed to this and also delivered an improvement in the overall quality of the Commercial portfolio.

The Retail portfolio has benefited from improved risk management controls as well as the positive macro-economic factors of low interest rates and an improving property market.

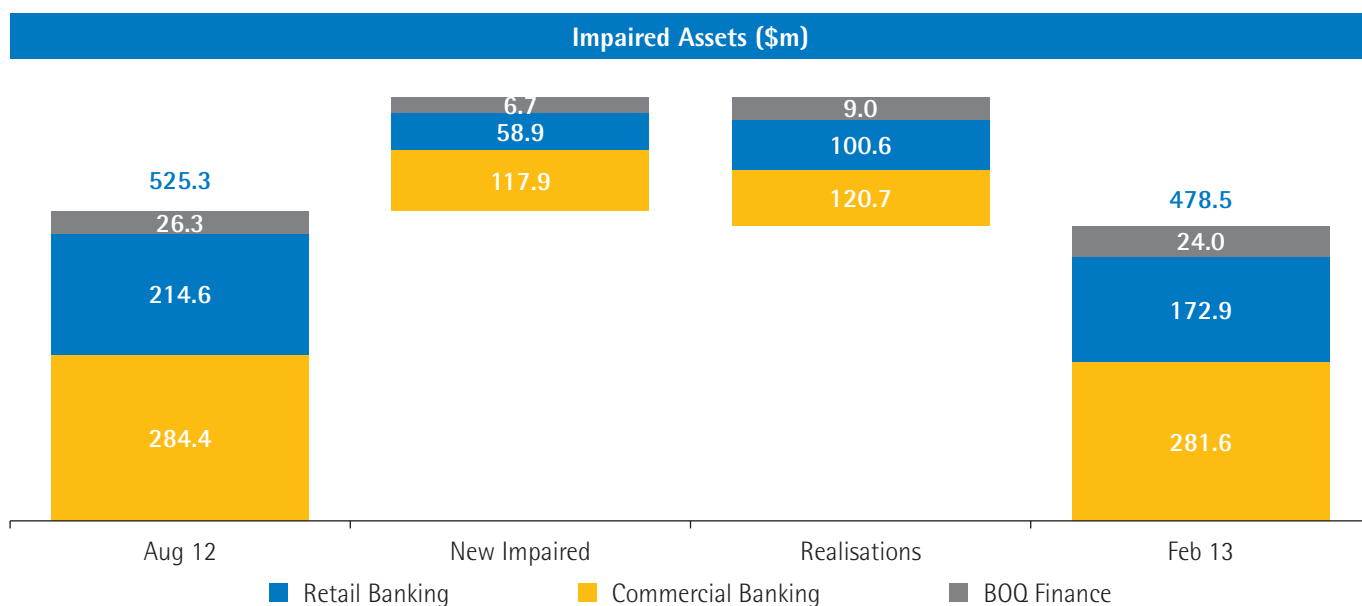
Further improvement in quality metrics should be realised as the portfolio rolls and progressively reflects the Bank's new loan origination strategies and risk appetite framework.

### Loan Impairment Expense

\$ million	Half Year Performance			Feb 13 vs Aug 12	Feb 13 vs Feb 12
	Feb-13	Aug-12	Feb-12		
New and movements in provisions	(8.0)	(52.8)	87.4	(85%)	n/a
Bad debts written off Net of Recoveries	96.0	114.9	78.3	(16%)	23%
Specific Impairment Expense	88.0	62.1	165.7	42%	(47%)
Collective Impairment Expense	(28.5)	11.2	162.0	n/a	n/a
<b>Total Loan Impairment Expense</b>	<b>59.5</b>	<b>73.3</b>	<b>327.7</b>	<b>(19%)</b>	<b>(82%)</b>
Loan Impairment Expense: Gross Loans and Advances ("GLA") (bps)	34	43	194	(9)	(160)

### Impaired Assets

\$ million	Half Year Performance			Feb 13 vs Aug 12	Feb 13 vs Feb 12
	Feb-13	Aug-12	Feb-12		
Retail Lending	172.9	214.6	134.8	(19%)	28%
Commercial Lending	281.6	284.4	424.2	(1%)	(34%)
BOQ Finance	24.0	26.3	19.7	(9%)	22%
<b>Total Impaired</b>	<b>478.5</b>	<b>525.3</b>	<b>578.7</b>	<b>(9%)</b>	<b>(17%)</b>
Impaired Assets: GLA (bps)	137	152	170	(15)	(33)

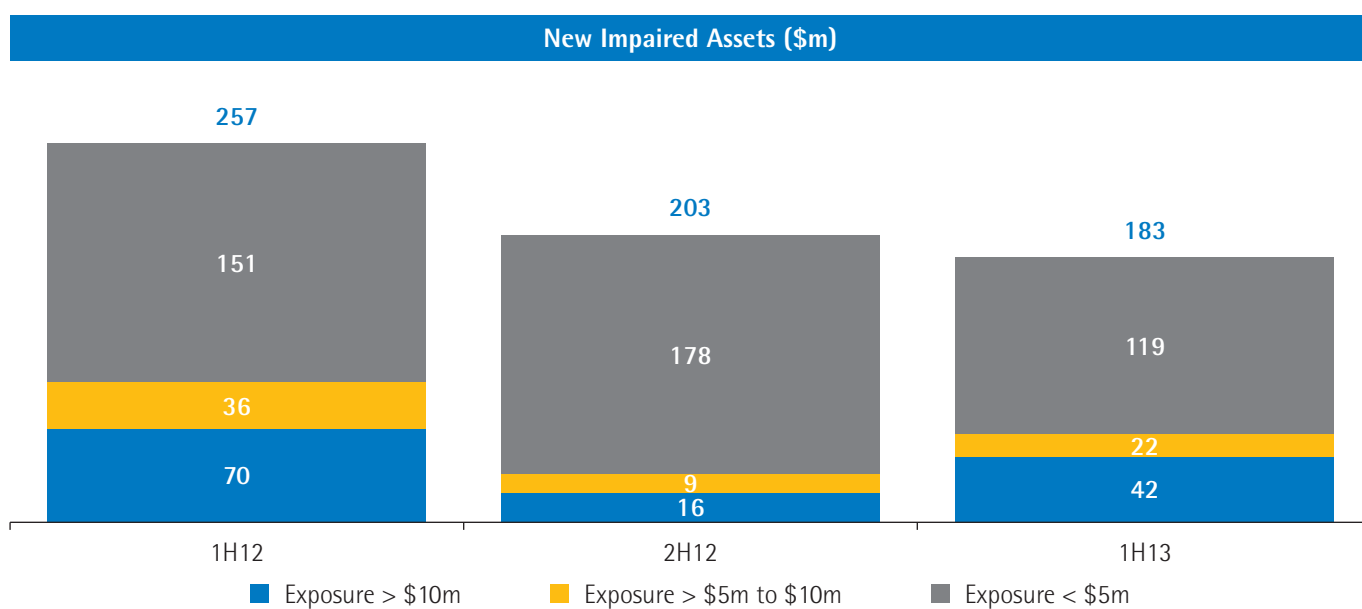


Impaired assets for the half have reduced by approximately \$47m, driven largely by the retail portfolio. This follows the detailed review conducted in the second half of 2012 for all housing loans greater than 180 days, which increased retail impaired assets substantially. The rate of new retail impaired assets has slowed and as the housing market recovers, faster realisations have been observed in the first half of 2013.

In Commercial Lending, new impaired assets during the half of \$118m included 2 large exposures totalling \$30m that were identified in last year's Asset Quality Review as problematic. These accounts were amongst a small number of accounts where an allocation of the collective provision overlay was specifically set aside at that time. All of these accounts have now been rectified or impaired, with specific provisions raised based upon detailed asset realisation plans and updated valuations. The associated allocation of the collective provision overlay relating to these accounts has been reversed.

Excluding the two Asset Quality Review accounts noted above, there was one new impaired asset greater than \$10m during the period. There was \$22m of new impaired assets greater than \$5m recognised in the period. Two of these accounts, representing just over half of the balance, were identified in the Asset Quality Review.

The remaining new commercial impairments comprised a mixture of a smaller number of lesser quality credit exposures that continued to deteriorate and better quality customers, at origination, that experienced financial distress for the first time. This is attributed to difficult trading conditions for SME and commercial businesses generally.



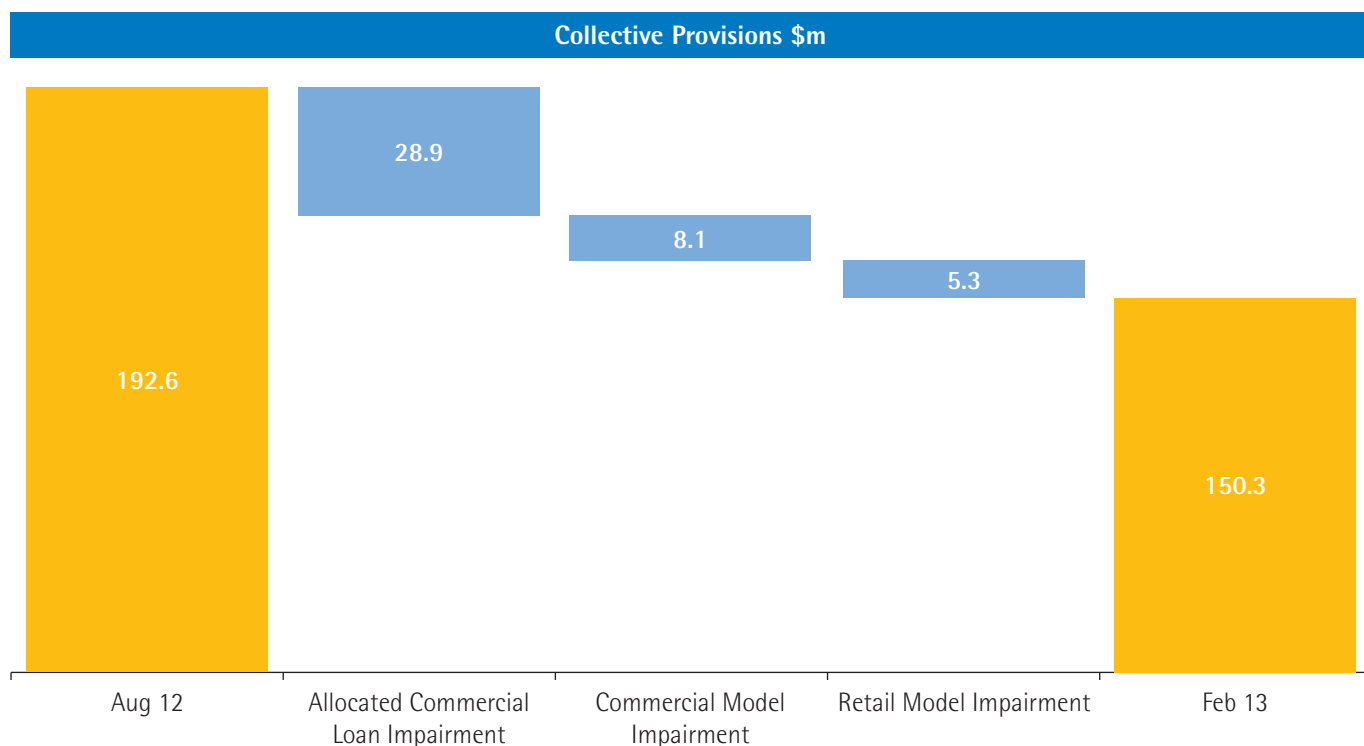
## Provision Coverage

\$ million	Half Year Performance			Feb 13 vs Aug 12	Feb 13 vs Feb 12
	Feb-13	Aug-12	Feb-12		
Specific Provision	213.9	220.3	249.3	(3%)	(14%)
Collective Provision	150.3	192.6	242.1	(22%)	(38%)
<b>Total Provision</b>	<b>364.2</b>	<b>412.9</b>	<b>491.4</b>	<b>(12%)</b>	<b>(26%)</b>
General Reserve for Credit Losses ("GRCL")	70.2	70.2	70.1	-	-
Specific Provisions to Impaired Assets	44.7%	41.9%	43.1%	280bps	160bps
Total Provisions and GRCL to Impaired Assets <sup>(1)</sup>	97.1%	97.7%	102.2%	(60bps)	(510bps)
Total Provisions and GRCL to RWA <sup>(1)</sup>	2.2%	2.4%	2.9%	(20bps)	(70bps)

(1) GRCL gross of tax effect.

Specific provisions have reduced during the period in line with the overall reduction in impaired assets. Specific provision coverage of impaired assets improved to 44.7%, up from 41.9% at the last balance date.

Since August 2012, the Bank has utilised part of the collective provision overlay set aside in 2012 (the risks that the overlays were created for have now been specifically provided for). The Bank's provisioning levels reduced by 12% over the half in line with the loan workout activity and underlying portfolio improvement. The Bank continues to maintain a high coverage level by industry standards.



The movement in Collective Provision for the period included the reversal of \$28.9m of allowances set aside for a small number of accounts identified with specific downside risk in the Asset Quality Review conducted in the first half of 2012. All of these accounts have now been either rectified, exited or impaired with specific provisions in place. Movements in the commercial collective model of \$8.1m have largely been driven by the migration of lower rated exposures to impaired status in line with workout activity.

Reduction in the retail collective provision model over the period of \$5.3m reflects the underlying improvement in the retail portfolio credit quality metrics.

## Arrears

%	Half Year Performance			Feb 13 vs Aug 12	Feb 13 vs Feb 12
	Feb-13 <sup>(1)</sup>	Aug-12	Feb-12		
<b>By Product</b>					
30 days past due: GLAs (Housing)	1.42%	1.25%	1.78%	17bps	(36bps)
90 days past due: GLAs (Housing)	0.67%	0.70%	0.93%	(3bps)	(26bps)
30 days past due: GLAs (LOC)	2.68%	2.52%	2.87%	16bps	(19bps)
90 days past due: GLAs (LOC)	1.61%	1.63%	2.35%	(2bps)	(74bps)
30 days past due: GLAs (Commercial)	3.62%	3.38%	2.46%	24bps	116bps
90 days past due: GLAs (Commercial)	2.43%	2.10%	1.26%	33bps	117bps
30 days past due: GLAs (Leasing)	0.87%	0.81%	1.17%	6bps	(30bps)
90 days past due: GLAs (Leasing)	0.12%	0.17%	0.23%	(5bps)	(11bps)
<b>Total Lending</b>					
30 days past due (\$ million)	657.5	600.7	684.7	9%	(4%)
90 days past due (\$ million)	354.5	346.6	391.2	2%	(9%)
30 days past due: GLAs	1.9%	1.7%	2.0%	20bps	(10bps)
90 days past due: GLAs	1.0%	1.0%	1.2%	-	(20bps)

(1) Includes hardship concession accounts not previously classified as arrears in prior periods.

In August 2012, APRA wrote to all Authorised Deposit-taking Institutions clarifying prudential reporting requirements in relation to loans where hardship concessions have been granted, in order to ensure consistency across the industry. For consistency with its regulatory reporting, the Bank has included loans with hardship concessions in the above arrears data in the February 2013 figures. Historical data has not been adjusted.

The impacts on the February 2013 figures for housing are \$33.8m (16bps GLAs) for 30 days past due and \$17.4m (8bps GLAs) for 90 days past due. Therefore, excluding the hardship impact, both 30 & 90 days housing loan past due arrears improved against February 2012 by 29% and 37% respectively. Whilst the lower interest rate environment and improving property market has assisted the reduction in arrears, the improved credit and collections practices that have been put in place have also delivered a large component of the improvement.

The Commercial portfolio saw a further deterioration in the period from an arrears perspective. This is attributed to difficult trading conditions for SME and smaller commercial customers, with exposures generally less than \$5m. Changes to risk management processes and practices are seeing these customers more proactively managed and receiving specialist support at an earlier stage than in prior periods.

The Commercial arrears position as at February 2012 was positively impacted by the move of exposures to impaired following the Asset Quality Review.

## 7. Funding and Liquidity

There has been significant progress made over the last 12 months in strengthening the balance sheet, ensuring a sustainable funding profile, focussing on retail funding growth and improving the capital ratios to the highest amongst the peer group.

Retail deposit growth has enabled the Bank to further reduce reliance on short term wholesale funding. The Bank has maintained high liquidity levels whilst positioning for future growth under its revised risk appetite framework.

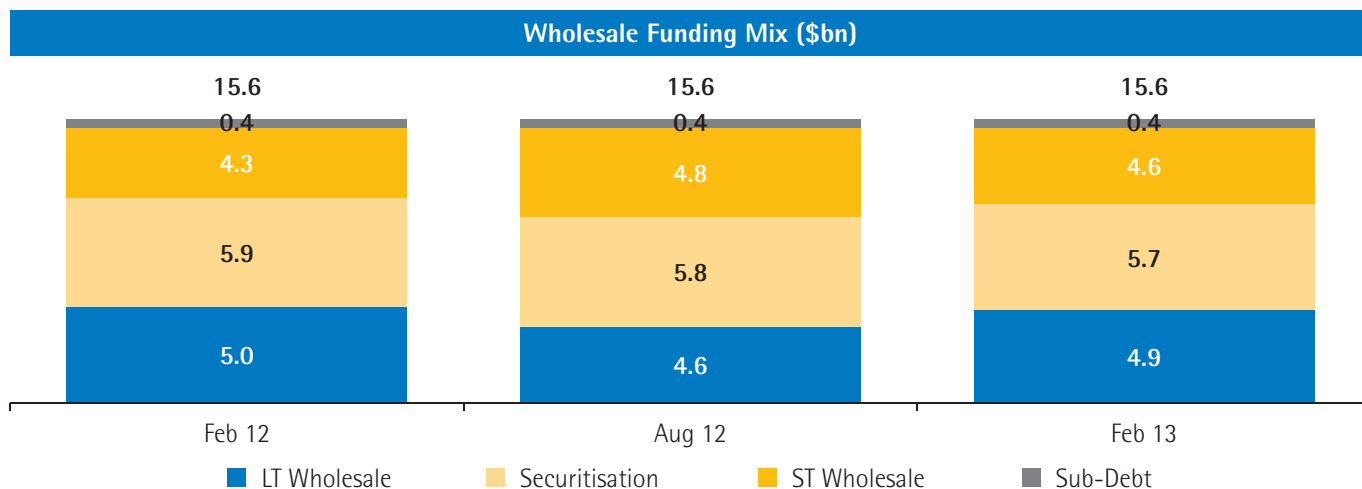
The Bank has continued to actively manage its wholesale maturity profile with approximately \$645m of Government guaranteed debt bought back in March 2013, post half year balance date.

\$ million	Half Year Performance			Annualised Growth	
	Feb 13 \$m	Aug 12 \$m	Feb 12 \$m	Feb 13 vs Aug 12	Feb 13 vs Feb 12
Retail Deposits	22,907.6	22,270.0	21,099.0	6%	9%
Wholesale Deposits	8,717.0	8,901.9	8,777.0	(4%)	(1%)
<b>Total Deposits</b>	<b>31,624.6</b>	<b>31,171.9</b>	<b>29,876.0</b>	<b>3%</b>	<b>6%</b>
Borrowings	6,850.6	6,688.1	6,845.4	5%	-
Other Liabilities	893.2	998.8	922.2	(21%)	(3%)
<b>Total Liabilities</b>	<b>39,368.4</b>	<b>38,858.8</b>	<b>37,643.6</b>	<b>3%</b>	<b>5%</b>
Shareholders' Equity	2,768.4	2,703.5	2,245.2	5%	23%
Preference Shares	15.6	195.7	195.7	(186%)	(92%)
<b>Total Equity</b>	<b>2,784.0</b>	<b>2,899.2</b>	<b>2,440.9</b>	<b>(8%)</b>	<b>14%</b>
<b>Total Liabilities and Equity</b>	<b>42,152.4</b>	<b>41,758.0</b>	<b>40,084.5</b>	<b>2%</b>	<b>5%</b>

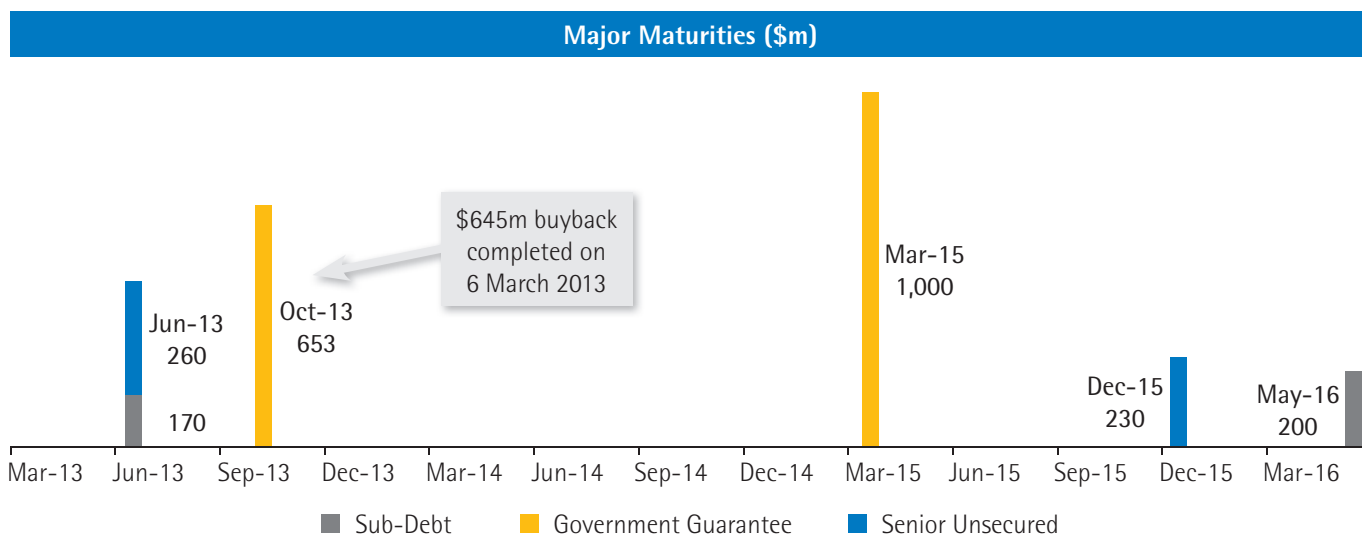
\$ million	Half Year Performance			Feb 13 vs Aug 12	Feb 13 vs Feb 12
	Feb-13	Aug-12	Feb-12		
Retail deposit funding	72%	71%	71%	1%	1%
Wholesale deposit funding	28%	29%	29%	(1%)	(1%)
Retail funding as a % of total deposits and borrowings	60%	59%	57%	1%	3%
Total Loans Under Management (net of specific provision)	34,833.4	34,339.8	33,756.8	1%	3%
Retail Deposits to Lending Ratio	66%	65%	63%	1%	3%

In the half, retail deposits increased by \$638m reflecting an annualised increase of 6% and more than fully funding loan growth for the half. Wholesale Deposits and Borrowings once again reduced decreasing by \$22m over the half. This included the \$300m CPS raising. Retail Deposits as a % of total deposits and borrowings have increased from 59% to 60%.





### Wholesale Maturity profile



With the Bank's strong capital position following the recent CPS issue and beneficial changes to Lower Tier II capital from recent changes to APRA's capital rules, the Bank has no requirement to replace the \$170m of subordinated debt maturing in June 2013.

Subsequent to the end of the reporting period, the Bank successfully completed the buy back of materially all of the October 2013 Government Guaranteed maturity. As such, there are no significant refinancing towers in the Bank's wholesale liquidity profile until March 2015.

The June 2013 maturities are expected to be repaid through operational cashflows and available liquidity.

Larger term maturities issued under the Government Guarantee have been selectively and progressively repurchased to manage the Bank's maturity profile and this is expected to continue.

### Liquidity

	Half Year Performance			Feb 13 vs Aug 12	Feb 13 vs Feb 12
	Feb-13	Aug-12	Feb-12		
High Quality Liquid Assets Ratio	15.9%	16.4%	15.1%	(50bps)	80bps

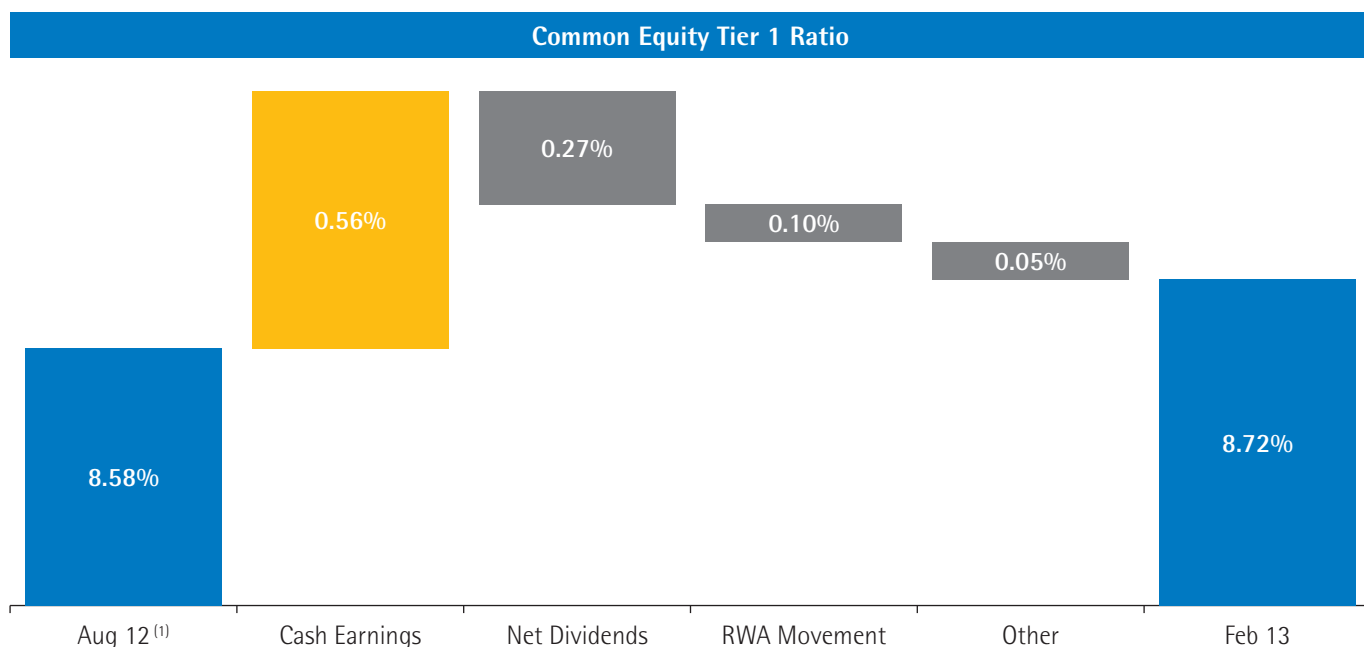
The Bank continues to maintain a strong liquidity position holding \$5.5bn of high quality liquid assets at February 2013, an increase of \$580m over the last 12 months. This represents a substantial premium over the Bank's short term funding and provides a material buffer in the event of market dislocation.

In addition to primary liquidity holdings, the Bank has significant secondary holdings through its on-balance sheet securitisation structure of more than \$2.5bn.

## 8. Capital Management

### Capital Adequacy

\$ million	Half Year Performance			Annualised Growth	
	Feb-13	Aug-12	Feb-12	Feb 13 vs Aug 12	Feb 13 vs Feb 12
Common Equity Tier 1	1,860.8	1,802.4	1,323.8	6%	41%
Additional Tier 1 Capital	314.0	195.7	195.7	120%	60%
Total Tier 2	616.5	661.1	706.0	(14%)	(13%)
<b>Total Capital Base</b>	<b>2,791.3</b>	<b>2,659.2</b>	<b>2,225.5</b>	<b>10%</b>	<b>25%</b>
Total RWA	21,345.7	21,098.1	20,671.4	1%	3%
Common Equity Tier 1 Ratio	8.72%	8.58%	6.40%	14bps	232bps
<b>Total Capital Adequacy Ratio</b>	<b>13.1%</b>	<b>12.6%</b>	<b>10.8%</b>	<b>50bps</b>	<b>230bps</b>



(1) Restated Common Equity Tier 1 Ratio

The Bank's Common Equity Tier 1 Ratio increased by 14 basis points from 8.58% at the prior half end to 8.72%. This increase largely reflected organic capital generation as Cash Earnings amply covered risk weighted asset (RWA) growth and net dividends. The Bank also redeemed \$180m of PEPS (Additional Tier 1) and \$105 million of convertible notes (Tier 2) during the period which it replaced with \$300m in Convertible Preference Shares (Additional Tier 1). The key drivers were as follows;

- First half Cash Earnings of \$119.9m (56 basis points increase).
- Dividends paid, net of Dividend Reinvestment Plan ("DRP") (27 basis points decrease).
- RWA growth of \$248m (10 basis points decrease) reflecting \$130m increase in credit risk RWA while traded market risk and operational risk increased by a combined \$118m. Credit RWA growth remained subdued due to lower loan growth (system credit growth) but also due to the impact of higher capital efficient securitised loan balances as the Bank was successful in obtaining capital relief on its REDS 2012-1E issued in November 2012.
- The acquisition of Virgin Money Australia post balance date will reduce the Common Equity Tier 1 ratio by approximately 12 basis points at completion. The present value of the minimum ongoing royalty payable to Virgin Group has been incorporated into the upfront capital impact.

## Basel III Changes

Effective 1 January 2013 the Basel III framework came into effect. The key impacts on the Bank's February 2013 capital position are as follows:

- Changes to instruments qualifying as what is now referred to as "Additional Tier 1 Equity". These changes effectively precluded Innovative Tier 1 instruments from qualifying as Common Equity Tier 1. Further conditions were implemented in determining qualification as Additional Tier 1 instruments and these included introduction of "Non-Viability" clauses. Transitional relief is available for instruments issued prior to the announcement of the proposed changes to regulations. The Bank was granted transitional relief in respect of the existing Perpetual Equity Preference shares ("PEPS"). These instruments were largely exchanged for Convertible Preference shares ("CPS"), qualifying as Additional Tier 1 capital and the residual PEPS were redeemed on 15 April 2013.
- Changes to instruments qualifying as Tier 2 Capital. These changes included introduction of "Non-Viability" clauses. Transitional relief on existing instruments has been approved by Australian Prudential Regulation Authority ("APRA") and this relief effectively provides a cap for existing issues that amortises the eligible amount over a 10 year period. Currently the Bank has a \$44m excess of Tier 2 issues relative to the cap however, upon the June subordinated debt maturity, the total of existing issues will be within the cap and hence should remain effective under the transitional relief
- Regulatory deductions previously were deducted 50% from Tier 1 capital and 50% from Tier 2 capital and are now deducted 100% from Common Equity Tier 1. The major impact on the Bank is that the deduction for investment in non-consolidated subsidiaries (i.e. subsidiaries outside the Banking regulated group, including its investment in St Andrews Insurance) is now fully deducted from Common Equity Tier 1.
- Dividends no longer need be deducted from Common Equity Tier 1 until declared. Previously they were deducted on an accrual basis net of expected dividend reinvestment.
- Asset Revaluation Reserves previously were included as Tier 2 capital though limited to 45% of those reserves. Under the new regulations, they are Common Equity Tier 1 capital to their full extent. The Bank has some credit in its Available for Sale reserve relating to Banking Book assets that qualify now as Common Equity Tier 1 though the amounts represent less than 10bps of capital.
- Changes to the General Reserve for Credit Loss ("GRCL") allow for qualifying collective provisions to be grossed up for tax whereas previously they were treated net of tax. The deferred tax asset relating to these provision must now however be deducted from Common Equity Tier 1.

## 9. Appendices

### 9.1 ASX Appendix 4D

Cross Reference Index	Page
Details of reporting period and previous period (Rule 4.2A.3 Item No. 1)	Inside front cover
Results for Announcement to the Market (Rule 4.2A.3 Item No. 2)	Inside front cover
Net tangible assets per security (Rule 4.2A.3 Item No. 3)	20
Details of entities over which control has been gained or lost (Rule 4.2A.3 Item No. 4)	Consolidated Interim Financial Report - Page 26
Dividends (Rule 4.2A.3 Item No. 5)	Consolidated Interim Financial Report - Page 17
Dividends dates (Rule 4.2A.3 Item No. 5)	Inside front cover
Dividend Reinvestment Plan (Rule 4.2A.3 Item No. 6)	Consolidated Interim Financial Report - Page 17
Details of associated and joint venture entities (Rule 4.2A.3 Item No. 7)	20
Foreign Entities (Rule 4.2A.3 Item No. 8)	Not applicable

Details of associated and joint venture entities (Rule 4.2A.3 Item No. 7) <sup>(1)</sup>	Ownership interest held (%)
Ocean Springs Pty Ltd	9.31%
Dalyellup Beach Pty Ltd	17.08%
Wanneroo North Pty Ltd	21.42%
East Busselton Estate Pty Ltd	25.00%
Coastview Nominees Pty Ltd	5.81%
Provence 2 Pty Ltd	25.00%

(1) The principal activity of the joint venture entities is land subdivision, development and sale. These investments were acquired as part of the Home Building Society acquisition in 2007.

Net tangible assets per security (Rule 4.2A.3 Item No. 3)	Half Year Performance		
	Feb-13	Aug-12	Feb-12
Net tangible assets per ordinary shares (\$) <sup>(1)</sup>	7.08	6.94	7.30

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

## 9.2 Reconciliation of Statutory Profit to Cash Earnings

\$ million	Half Year Performance			Feb 13 vs Aug 12	Feb 13 vs Feb 12
	Feb-13	Aug-12	Feb-12		
<b>Cash Earnings / (Loss) after Tax</b>	<b>119.9</b>	<b>103.0</b>	<b>(72.4)</b>	<b>16%</b>	<b>n/a</b>
Amortisation of customer contracts (acquisition)	(4.9)	(4.9)	(5.6)	-	(13%)
Amortisation of fair value adjustments (acquisition)	(1.0)	(2.0)	(1.9)	(50%)	(47%)
Hedge ineffectiveness	(0.7)	(0.3)	(3.0)	133%	(77%)
Integration / due diligence costs	(0.3)	0.1	(1.1)	n/a	(73%)
Asset impairment	-	-	(6.6)	n/a	n/a
Government guarantee break fee	-	(2.2)	-	(100%)	n/a
Legacy items	(1.5)	(14.9)	-	(90%)	n/a
Restructuring costs	(11.0)	(5.3)	-	107%	n/a
<b>Statutory Net Profit / (Loss) after Tax</b>	<b>100.5</b>	<b>73.5</b>	<b>(90.6)</b>	<b>37%</b>	<b>n/a</b>

## 9.3 Earnings Per Share ("EPS") Calculations

	Half Year Performance			Feb 13 vs Aug 12	Feb 13 vs Feb 12
	Feb-13	Aug-12	Feb-12		
<b>Reconciliation of Cash Earnings for EPS</b>					
Cash Earnings / (Loss) after Tax	119.9	103.0	(72.4)	16%	n/a
Less: PEPS Dividend <sup>(1)</sup>	(2.3)	(4.6)	(5.0)	22%	12%
Cash Earnings / (Loss) available for ordinary shareholders	117.6	98.4	(77.4)	16%	n/a
Add: PEPS Dividend	2.3				
Add: CPS Dividend	3.2	-	-	-	-
Add: Convertible Notes <sup>(2)</sup>	0.6	-	-	-	-
Cash Diluted Earnings / (Loss) available for ordinary shareholders	123.7	98.4	(77.4)	21%	n/a
<b>Weighted Average Number of Shares ("WANOS")</b>					
- Basic WANOS	310.2	263.8	239.9	18%	29%
Add: Effect of award rights	2.3	1.3	-	76%	n/a
Add: Effect of PEPS	14.7				
Add: Effect of CPS	12.9	-	-	n/a	n/a
Add: Effect of convertible notes <sup>(2)</sup>	2.8	-	-	n/a	n/a
- Diluted WANOS for Cash Earnings EPS	342.9	265.1	239.9	24%	37%

(1) PEPS are treated as equity whereas CPS are treated as debt for accounting purposes.

(2) Part period impact of Tier 2 bridge redeemed during this period.

## 9.4 Average Balance Sheet and Margin Analysis

	February 2013			August 2012		
	Average Balance \$m	Interest \$m	Average Rate %	Average Balance \$m	Interest \$m	Average Rate %
<b>Interest earning assets</b>						
Gross loans & advances at amortised cost	34,783.6	1,059.5	6.14%	34,375.5	1,151.9	6.65%
Investments & other securities	5,998.0	111.6	3.75%	5,564.6	119.7	4.27%
Total interest earning assets	40,781.6	1,171.1	5.79%	39,940.1	1,271.6	6.32%
<b>Non-interest earnings assets</b>						
Property, plant & equipment	36.7			32.3		
Other assets	1,368.5			1,198.7		
Provision for impairment	(406.3)			(473.6)		
Total non-interest earning assets	999.0			757.4		
Total assets	41,780.6			40,697.5		
<b>Interest bearing liabilities</b>						
Retail deposits	22,363.7	459.4	4.14%	21,315.7	514.4	4.79%
Wholesale deposits & Borrowings	15,833.1	376.8	4.80%	15,878.4	427.2	5.34%
Total Interest bearing liabilities	38,196.9	836.2	4.41%	37,194.1	941.6	5.02%
Non - interest bearing liabilities	726.4			748.4		
Total Liabilities	38,923.3			37,942.5		
Shareholder's funds	2,855.9			2,759.6		
Total liabilities & shareholders funds	41,779.1			40,702.1		
<b>Interest margin &amp; interest spread</b>						
Interest earning assets	40,781.6	1,171.1	5.79%	39,940.1	1,271.6	6.32%
Interest bearing liabilities	38,196.9	836.2	4.41%	37,194.1	941.6	5.02%
			1.38%			1.29%
Net interest margin - on average interest earning assets	40,781.6	334.9	1.66%	39,940.1	330.0	1.64%

## 9.5 Distribution Footprint <sup>(1)</sup>

	Half Year Performance			Feb 13 vs Aug 12	Feb 13 vs Feb 12
	Feb-13	Aug-12	Feb-12		
Corporate Branches	71	70	74	1%	(4%)
Owner managed branches - QLD	115	116	112	(1%)	3%
Owner managed branches - NSW/ACT	29	29	28	-	4%
Owner managed branches - VIC	36	36	31	-	16%
Owner managed branches - WA	13	12	12	8%	8%
Owner managed branches - NT	2	2	2	-	-
Owner managed branches - TAS	2	2	2	-	-
Owner managed branches - SA	1	1	1	-	-
Transaction Centres	8	9	10	(11%)	(20%)
	277	277	272	-	2%
BOQ ATMs	264	267	267	(1%)	(1%)
BOQ Branded ATMs	406	412	335	(1%)	21%
Redi ATMs	2,560	3,037	2,865	(16%)	(11%)
Total ATMs Fee Free for BOQ Customers	3,230	3,716	3,467	(13%)	(7%)

(1) Prior period disclosures treated branches held for intended sale to owner managers as owner managed branches. This table reflects actual ownership at balance date rather than reflecting the network intention.

## 9.6 Credit Rating

The following table outlines the Bank's current credit ratings and outlook:

Rating Agency	Short Term	Long Term	Outlook
Standard & Poor's	A2	BBB+	Stable
Fitch	F2	BBB+	Stable

Rating Agency	Short Term	Bank Deposits	Issuer Ratings	Outlook
Moody's	P2	Baa1	Baa1	Stable

