

BOQ COVERED BOND TRUST

ABN 29 218 800 859

2018 ANNUAL FINANCIAL REPORT

FOR THE PERIOD 6 JUNE 2017 TO 31 AUGUST 2018

**BOQ COVERED BOND TRUST
2018 ANNUAL FINANCIAL REPORT**

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**BOQ COVERED BOND TRUST
STATEMENT BY TRUST MANAGER
FOR THE PERIOD ENDED 31 AUGUST 2018**

In the opinion of the Manager:

- (a) the financial report set out on pages 3 to 14 is drawn up so as to present fairly in accordance with notes 1 (a) and (b) the results and cash flows for the period ended 31 August 2018, and the state of affairs at 31 August 2018 of the BOQ Covered Bond Trust.
- (b) the Trust has operated during the period ended 31 August 2018 in accordance with the provisions of the BOQ Covered Bond Trust Deed ('Trust Deed') dated 4 May 2017.
- (c) at the date of this statement, there are reasonable grounds to believe that the Trust will be able to pay its debts as and when they become due and payable.

Dated in Brisbane this 14th day of November 2018.

Signed on behalf of the Manager, B.Q.L. Management Pty Ltd,



Jon Sutton
Chairman

**BOQ COVERED BOND TRUST
TRUSTEE'S REPORT
FOR THE PERIOD ENDED 31 AUGUST 2018**

The financial statements for the financial period ended 31 August 2018 have been prepared by the Trust Manager, B.Q.L. Management Pty Ltd, as required by the Covered Bond Trust Establishment Deed ('Establishment Deed') dated 24 April 2017.

The auditors of the Trust, KPMG, who have been appointed by us in accordance with the Establishment Deed, have conducted an audit of the financial statements.

Based on our ongoing program of monitoring the Trust, we believe that:

- (a) the Trust has been conducted in accordance with the Trust Deed and the Establishment Deed.
- (b) the Financial Report has been appropriately prepared and contains all relevant and required disclosures.

In making this statement, the Trustee has relied upon information, representations and warranties provided by the Trust Manager.

We are not aware of any material matters or significant changes in the state of affairs of the Trust occurring up to the date of this report that require disclosure in the financial statements and the notes thereto that have not already been disclosed.

Signed for and on behalf of
Perpetual Corporate Trust Limited



Nathan Gale
Senior Client Service Manager

Dated in Sydney this 14th day of November 2018.

**BOQ COVERED BOND TRUST
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE PERIOD ENDED 31 AUGUST 2018**

**6 June 2017 to
31 August 2018
\$'000**

Revenue	
Interest income on demand note loan	50,099
Interest income on cash and cash equivalents	616
Other income	500
	<hr/>
Total income	51,215
	<hr/>
Expenses	
Interest expense	32,960
Servicing fee	2,650
Management fee	1,060
Guarantor fee	204
Other expenses	241
	<hr/>
Total Expenses before distribution expense to unitholders	37,115
	<hr/>
Profit from operating activities	14,100
Distribution expense and net assets attributable to unitholders	(14,100)
	<hr/>
Changes in net assets attributable to unit holders / total comprehensive income	-
	<hr/>
Other Comprehensive Income	
Items that may be reclassified subsequently to profit or loss:	
Unrealised gain/(loss) on derivatives	(6,074)
	<hr/>
Total comprehensive profit/(loss) for the period	(6,074)
	<hr/>

The statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

**BOQ COVERED BOND TRUST
STATEMENT OF FINANCIAL POSITION
AS AT 31 AUGUST 2018**

	Note	2018 \$'000
Assets		
Cash and cash equivalents	11(a)	43,537
Receivables	3	8,828
Derivative Financial Assets	4	55,946
Demand note loan	5	1,381,647
Total assets		1,489,958
Liabilities		
Payables	6	10,612
Interest bearing liabilities	7	1,484,510
Reserve fund	8	910
Total liabilities (excluding net assets attributable to unitholders)		1,496,032
Represented by:		
Units on issue	9	-
Reserves	10	(6,074)
Total unitholders' funds		(6,074)

The statement of financial position should be read in conjunction with the accompanying notes.

**BOQ COVERED BOND TRUST
STATEMENT OF CHANGES IN UNITHOLDERS' FUNDS
AS AT 31 AUGUST 2018**

	Note	Units on Issue \$'000	Reserves \$'000	Total \$'000
Balance as at 6 June 2017		-	-	-
Issue of Units	9	-	-	-
Other comprehensive income for the period		-	(6,074)	(6,074)
Balance at 31 August 2018		-	(6,074)	(6,074)

The statement of changes in unitholders' funds should be read in conjunction with the accompanying notes.

**BOQ COVERED BOND TRUST
STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 31 AUGUST 2018**

	Note	6 June 2017 to 31 August 2018 \$'000
Cash flows from operating activities		
Interest and fees received		44,310
Interest and fees paid		(36,169)
Principal repayment of demand note liability		(305,692)
Principal repayment of demand note loan		348,268
Net cash inflow from operating activities	11(b)	<u>50,717</u>
Cash flows from investing activities		
Payment for demand note loan		<u>(743,580)</u>
Net cash outflow from investing activities		<u>(743,580)</u>
Cash flows from financing activities		
Cash received from funding of interest bearing liabilities		743,580
Cash withheld in Reserve Fund		910
Distribution paid to income unit holder		<u>(8,090)</u>
Net cash inflow from financing activities		<u>736,400</u>
Net increase in cash and cash equivalents		43,537
Cash and cash equivalents at the beginning of the financial period		-
Cash and cash equivalents at the end of the financial period	11(a)	<u>43,537</u>

The statement of cash flows should be read in conjunction with the accompanying notes.

**BOQ COVERED BOND TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 AUGUST 2018**

1. Significant accounting policies

The financial report was authorised for issue by the Manager on 14 November 2018.

The registered office of the Manager, B.Q.L. Management Pty Ltd, is Level 6, BOQ Village, 100 Skyring Terrace, Newstead Queensland, 4006.

The significant policies which have been adopted in the preparation of these financial reports are set out below:

(a) Statement of compliance

In the opinion of the Trust Manager, the Trust is not a reporting entity. The financial report of the Trust has been drawn up as special purpose financial report to satisfy the requirements of the Establishment deed.

The special purpose financial report has been prepared in accordance with Australian Accounting Standards ('AASB's') adopted by the Australian Accounting Standards Board ('AASB'), subject to the exceptions noted below, and the requirements of the Establishment Deed.

The financial report does not include the disclosure requirements of all AASBs except for the following minimum requirements:

AASB101	Presentation of financial statements
AASB107	Statement of cash flows
AASB108	Accounting policies, Changes in Accounting Estimates and Errors
AASB1048	Interpretation and Application Standards
AASB1054	Australian Additional Disclosures

The financial report does not include all of the disclosure, measurement and recognition requirements of AASB 139 *Financial Instruments: Recognition and Measurement* (refer to note 1 (b)).

(b) Basis of preparation

The BOQ Covered Bond Trust (The Trust) is a Trust domiciled in Australia.

The Trust was established with the purpose of carrying on a business to provide funds for the purchase of a cover pool of assets by equitable assignment and to guarantee the covered bonds issued by Bank of Queensland Limited (BOQ). The Trust funded the purchase of the cover pool of assets through the issue of a Covered Bond Issuance and an Intercompany Demand Note which represent the debt of the Trust.

The Trust was established by the Establishment Deed between the Trust Manager (B.Q.L. Management Pty Ltd), Issuer, Seller and Servicer (Bank of Queensland Limited – "the Bank"), the Covered Bond Guarantor (Perpetual Corporate Trust Limited) and the Security Trustee (P.T Limited) and the Trust Deed between the Issuer (Bank of Queensland Limited – "the Bank"), the Trust Manager (B.Q.L. Management Pty Ltd), the Covered Bond Guarantor (Perpetual Corporate Trust Limited) and the Bond Trustee (BNY trust Company of Australia Limited).

In accordance with the Establishment deed, the trust was constituted on 24 April 2017.

The Trust entered into an Intercompany Note Subscription Agreement dated 4 May 2017 with BOQ to fund the purchase of the Demand Note by equitable assignment. The Covered Bond Issuance and an Intercompany Demand Note loan collectively represent the debt of the Trust.

The financial report has been presented in Australian dollars and prepared on the historical cost basis. No comparatives are available for prior years as the Trust was established in the current financial year.

The preparation of a financial report in conformity with AASB's requires the Manager to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses.

**BOQ COVERED BOND TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 AUGUST 2018**

1. Significant accounting policies (continued)

(b) Basis of preparation (continued)

The 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.

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

New standards and interpretations not yet adopted

The following are the amendments to standards and interpretations applicable for the first time to the current year, and the impact of these on the Trust.

- AASB 2016-1 *Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses*;
- AASB 2016-2 *Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 107*; and
- AASB 1048 *Interpretation of Standards*.

The Trust has reviewed the impact of the above and determined there to be no material impact.

The following standards and amendments have been identified as those which may impact the Trust and the majority were available for early adoption at 31 August 2018 but have not been applied in these financial statements.

- *AASB 9 Financial Instruments (AASB 9)* - The standard introduces changes in the classification and measurement of financial assets and liabilities, a new expected credit loss model for impairment and simplifications to hedge accounting. The standard became mandatory for the Trust in the financial year commencing 1 September 2018 and will replace the guidance under AASB 139 *Financial Instruments: Recognition and Measurement (AASB 139)*.

Impairment

The Trust has developed AASB 9 expected credit loss (**ECL**) models which replaces the previous incurred loss approach under AASB 139. The new models are forward looking, resulting in an acceleration of impairment recognition.

The Trust applies a three-stage approach to measuring the ECL based on credit risk since origination as they transition between the three stages. The Trust estimates ECL through modelling the probability of default, loss given default and exposure at default.

- Stage 1 - Performing - This includes financial assets that have not experienced a significant increase in credit risk since their origination. For these financial assets an allowance equivalent to 12 month's ECL is recognised. This represents the credit losses expected to arise from defaults occurring over the next 12 months.
- Stage 2 - Under-performing - This includes financial assets that have experienced a significant increase in credit risk since their origination and not credit impaired. For these financial assets an allowance equivalent to lifetime ECL is recognised. Lifetime ECL is the credit losses expected to arise from defaults occurring over the remaining life of financial assets.
- Stage 3 - Non-performing (impaired) - This includes financial assets that are credit impaired. The provision is also equivalent to the lifetime ECL. Financial instruments in Stage 3 are subject to either collective or individual impairment assessment.

Key management judgements and assumptions are as follows.

Significant increase in credit risk (SICR)

Significant increase in credit risk for financial assets are assessed by comparing the risk of a default occurring over the expected life of a financial asset at the reporting date compared to the corresponding risk of default at origination. In determining what constitutes a significant increase in credit risk, the Trust considers qualitative and quantitative information.

**BOQ COVERED BOND TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 AUGUST 2018**

1. Significant accounting policies (continued)

(b) Basis of preparation (continued)

ECL measurement and forward-looking information

ECL is a probability weighted credit loss estimated by evaluating a range of possible outcomes and taking into account the time value of money and current conditions.

To calculate ECL, the models multiply the following credit risk factors:

- Probability of default (PD): The likelihood that a debtor fails to meet an obligation or contractual commitment;
- Exposure at default (EAD): Expected balance sheet exposure at default; and
- Loss given default (LGD): The percentage that is not expected to be recovered following default.

These credit risk factors are at a point in time estimates.

Classification and measurement

AASB 9 introduces new classification requirements, which determine how financial assets are categorised and measured. Financial assets are classified according to the Trust's business model in place for managing the financial assets and the contractual cash flow characteristics of the financial assets. AASB 9 largely retains the existing classification and measurement requirements of AASB 139 for financial liabilities.

Transition to AASB 9 and impacts

The classification and measurement, and impairment requirements is applied retrospectively by adjusting opening retained earnings at 1 September 2018. The Trust does not intend to restate comparatives. Transitional disclosures will be included in the Trust's 2019 Annual Financial Report.

Impairment

Based on the financial assets held as at 31 August 2018, economic conditions prevailing at the time and management's judgements and estimates, transition to the AASB 9 impairment requirements is not expected to result in a material change to the Trust's total collective provision levels.

Classification and measurement

From assessment undertaken to date, no material impacts on the classification and measurement of the Trust's financial assets have been identified. There are no expected material changes to the classification and measurement of financial liabilities as a result of the adoption of AASB 9.

(c) Demand Note Loan

The Demand Note Loan represents the Trust's interest in the cover pool assets purchased from BOQ by equitable assignment. The sale of the cover pool assets from BOQ to the Trust does not qualify for derecognition in accordance with AASB 139 *Financial Instruments: Recognition and Measurement* because the sale is deemed to have failed to transfer substantially all the risks and rewards of ownership. Consequently, BOQ continues to recognise the covered pool assets and recognise a corresponding financial liability to the Trust on its statement of financial position. In turn, the Trust recognises a financial asset due from BOQ, comprising of interest in the residential mortgages and a corresponding financial liability to BOQ under the Intercompany Note Subscription Agreement.

The transfer of substantially all the risks and rewards of ownership is evaluated by comparing the entity's exposure, before and after the transfer, with the variability in the amounts and timing of the net cash flows of the transferred asset. An entity has retained substantially all the risks and rewards of ownership of a financial asset if its exposure to the variability of the future net cash flows from the financial asset does not change significantly as a result of the transfer.

Under the sale agreement, the Trust assumes any variability of principal cash flows from the cover pool, while the variability of the revenue cash flows, as a result of the interest rate swap agreement (refer note 1(d)) and the ownership of the income unit (refer note 9), remains with BOQ.

**BOQ COVERED BOND TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 AUGUST 2018**

1. Significant accounting policies (continued)

(c) Demand Note Loan (continued)

As a result, after considering all reasonably possible variability in net cash flows, with greater weight being given to those outcomes that are more likely to occur, BOQ is deemed to have failed to transfer substantially all of the risk and rewards. The Covered Bond has a Pass Through structure which has the feature of "Dual Recourse", meaning that in the event of a default of the bank, an investor has recourse on the bank and on the underlying mortgages.

(d) Derivative financial instruments

The Trust enters into cross currency swaps to manage its exposure to interest rate and currency risk. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Trust designates certain derivatives as either hedges of the fair value of recognized assets, or liabilities or firm commitments (fair value hedges), or hedges of highly probable forecast transactions (cashflows).

Hedge Accounting

The Trust designates certain hedging instruments, which include derivatives, in respect of interest rate risk, as cash flow hedges. At the inception of the hedge relationship, the Trust documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an on-going basis, the Trust documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income and accumulated under the heading of 'cash flow hedging reserve'. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss, and is included in the 'other gains and losses' line item.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognized in profit or loss, in the same line of the statement of profit or loss and other comprehensive income as the recognised hedged item. However, when the hedged forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognized in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Trust revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognized in other comprehensive income and accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

(e) Income tax

Under current legislation the Trust is not subject to income tax as the taxable income, including the assessable realised capital gains, is distributed in full to the unitholder. The Trust fully distributes its distributable income, calculated in accordance with the Establishment Deed (as amended) and applicable taxation legislation, to the unitholder who is presently entitled to the income.

(f) Cash and cash equivalents

Cash and cash equivalents include deposits held at call with a bank or financial institution and highly liquid investments with short periods to maturity which are readily convertible to cash at the Trust Manager's option and are subject to insignificant risk of changes in value.

(g) Income and expenses

Income and expenses are brought to account on an accruals basis.

The Trust Manager and the Covered Bond Guarantor are entitled under the Bond Trust Deed, to be paid for certain expenses incurred in administering the Trust. The basis on which the expenses are paid is defined in the Establishment Deed. The amount paid is disclosed in the statement of profit or loss and other comprehensive income and was calculated in accordance with the Establishment Deed.

**BOQ COVERED BOND TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 AUGUST 2018**

1. Significant accounting policies (continued)

(h) Revenue recognition

Interest revenue

Interest income is recognised using effective interest rate on the financial asset. The effective interest rate is the rate that discounts estimated future receipts through the expected life of the financial asset or, where appropriate, a shorter period, to the net carrying amount of the financial asset. When calculating the effective interest rate, the Trust estimates cash flows considering all contractual terms of the financial instrument but not future credit losses. The calculation includes all amounts paid or received by the Trust that are an integral part of the effective interest rate, including transaction costs and all other premiums or discounts. Transaction costs include mortgage loan acquisition costs such as commissions paid to intermediaries.

(i) Receivables

Receivables are carried at their amortised cost.

(j) Payables

Liabilities are recognised for amounts to be paid in the future for services received. Accounts payable are non-interest bearing, stated at amortised cost and are normally settled within 30 days.

(k) Interest bearing liabilities

Interest bearing liabilities are initially recognised at fair value. Subsequent measurement is at amortised cost using the effective interest rate method.

(l) 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 (or portion of GST incurred) is not recoverable from the Australian Taxation Office ('ATO'). In these circumstances the irrecoverable 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 liability in the statement of financial position.

Cash flows are included in the statement 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.

(m) Rounding

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

**BOQ COVERED BOND TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 AUGUST 2018**

**6 June 2017 to
31 August 2018
\$'000**

2. Auditor's remuneration

The auditor's remuneration for the Trust is paid by the parent entity, the Bank. The following amounts were attributable to the Trust in relation to the audit, transaction testing and the securitisation set up fees for the Trust.

Fees paid to the Auditor of the Company, KPMG Australia:

Audit services	<u>26</u>
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3. Receivables

Interest receivable from mortgagors	2,417
Interest collections receivable from servicer	127
Principal collections receivable from servicer	6,252
GST recoverable	32
	<u>8,828</u>

4. Derivative Financial Assets

Cross currency swap	<u>55,946</u>
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5. Demand note loan

Demand note loan	<u>1,381,647</u>
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The balance of the demand note loan represents the outstanding balance of the mortgage loans in the cover pool. The collateral against the cover pool held by BOQ is in the form of mortgage interests over Australian residential property. Estimates of fair value are based on the value of collateral assessed at the time of origination, and generally are not updated except when a loan is individually assessed as impaired.

The potential for impairment of the secured loan reflects the potential impairment of the underlying cover pool assets managed by BOQ. Given the credit quality of the mortgage loans including the current level of collateral held against the cover pool, no assets are deemed impaired for the Trust as at balance date. No allowance for impairment is currently deemed necessary for the Trust. Interest on all loans continues to be taken to income, including those which are past due but not impaired.

6. Payables

Distribution payable to income unitholder	6,010
Interest payable to noteholders	3,373
Interest rate swap payable	858
Other	371
	<u>10,612</u>

7. Interest bearing liabilities

Covered bond liability	805,600
Demand note liability (Intercompany)	678,910
	<u>1,484,510</u>

**BOQ COVERED BOND TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 AUGUST 2018**

**6 June 2017 to
31 August 2018
\$'000**

8. Reserve fund

Reserve Fund	910
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A Reserve Fund has been established to trap a specified amount of available income for so long as BOQ's credit ratings are below the Moody's and/or Fitch Specified Ratings.

9. Units on issue

	No. of units	6 June 2017 to 31 August 2018 \$
Income Unit	1	10
Capital Unit	10	100

Interest of Income unitholder

The interest of the Income Unitholder in the Trust comprises its entitlement to the net trust income in respect of a financial year under Clause 10.6.

Interest of Capital Unitholders

The interest of a Capital unitholder in the Trust comprises an interest in its proportion (being the proportion the number of capital units in respect of which it is capital unitholder bears to the total number of capital units in the Trust) of any assets of the trust remaining after payment of any amount due to the income unitholder in satisfaction of the income unitholder's entitlement under Clause 5.3.

10. Reserves

The hedging reserve records the revaluation of derivative financial instruments designated as cash flow hedges. The hedging reserve is used to record gains and losses on a hedging instrument in a cash flow hedge that are recognised directly in unitholder funds. Amounts are recognised in the statement of profit or loss and other comprehensive income when the associated hedge transaction affects profit and loss.

	6 June 2017 to 31 August 2018 \$'000
Hedging Reserve	
Opening Balance	-
Net fair value loss on derivatives in a cash flow hedge relationship recognised directly in unitholders' funds	(6,074)
Closing balance	(6,074)

**BOQ COVERED BOND TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 AUGUST 2018**

**6 June 2017 to
31 August 2018
\$'000**

11. Notes to statement of cash flows

(a) Reconciliation of cash

For the purposes of the statement of cash flows, cash includes cash on hand and at bank. Cash at the end of the financial period as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

Cash and cash equivalents	<u>43,537</u>
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(b) Reconciliation of net operating income to net cash inflow from operating activities

Profit from operating activities	<u>14,100</u>
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Change in operating assets and liabilities during the financial period:

Increase in receivable	(8,828)
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Increase in derivatives	(62,020)
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Increase in financial assets	(1,381,647)
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Increase in payables	4,602
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Increase in interest bearing liabilities	<u>1,484,510</u>
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Net cash from operating activities	<u>50,717</u>
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12. Segment reporting

The Trust operates in the covered bond market.

13. Contingencies and commitments

The Trust has no material contingent liabilities or commitments as at 31 August 2018.

14. Events subsequent to reporting date

There has not arisen, in the interval between the end of the year and the date of this report, any item, transaction or event of a material and unusual nature, likely, in the opinion of the Trustee, to affect significantly the operations of the Trust, the results of those operations, or the state of affairs of the Trust in future financial years.

15. Going Concern

The Trust has recorded a deficiency in net liabilities attributable to unitholders of \$6,074,000. This deficiency is solely due to the recognition of fair value movements on derivatives which did not involve the outflow of cash. The net unrealised losses are expected to reverse over the life of the derivative instruments and on this basis the financial statements have been prepared on a going concern basis. The current period unrealised loss was \$6,074,000.



Independent Auditor's Report

To the investors of BOQ Covered Bond Trust

Opinion

We have audited the **Financial Report** of BOQ Covered Bond Trust (the Trust).

In our opinion, the accompanying Financial Report of the Trust is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Trust's financial position as at 31 August 2018 and of its financial performance for the period ended on that date; and
- complying with Australian Accounting Standards – Reduced Disclosure Requirements and the Corporations Regulations 2001.

The **Financial Report** comprises:

- Statement of financial position as at 31 August 2018;
- Statement of profit or loss and other comprehensive income, Statement of changes in equity, and Statement of cash flows for the period then ended; and
- Notes including a summary of significant accounting policies

Basis for opinion

We conducted our audit 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 opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Trust 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 audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Emphasis of matter – basis of preparation and restriction on use

We draw attention to Note 1 to the Financial Report, which describes the basis of preparation.

The Financial Report has been prepared to assist the Trust Manager of BOQ Covered Bonds Trust in meeting the financial reporting requirements of the Trust Deed. As a result, the Financial Report and this Auditor's Report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Our report is intended solely for the investors of BOQ Covered Bonds Trust and should not be used by parties other than the investors of BOQ Covered Bonds Trust. We disclaim any assumption of responsibility for any reliance on this report, or on the Financial Report to which it relates, to any

person other than the investors of BOQ Covered Bonds or for any other purpose than that for which it was prepared.

Responsibilities of the Trust Manager for the Financial Report

The Trust Manager is responsible for:

- preparing the Financial Report in accordance with the financial reporting requirements of the Trust Deed and determining that the basis of preparation described in Note 1 to the Financial Report is appropriate to meet the needs of the investors;
- implementing necessary internal control to enable the preparation of a Financial Report that is free from material misstatement, whether due to fraud or error; and
- assessing the Trust'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 Trust or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

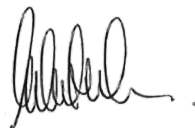
Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

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 Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf. This description forms part of our Auditor's Report.



KPMG



Robert Warren

Partner

Brisbane

14 November 2018



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of B.Q.L. Management Pty Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit of BOQ Covered Bond Trust for the financial period ended 31 August 2018 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

Rob Warren
Partner
Brisbane
14 November 2018