BOQ COVERED BOND TRUST

ABN 29 218 800 859

2019 ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED 31 AUGUST 2019

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Contents	**Page**

BOQ COVERED BOND TRUST
STATEMENT BY TRUST MANAGER
FOR THE YEAR ENDED 31 AUGUST 2019

In the opinion of the Manager:

(a) the financial report set out on pages 3 to 15 is drawn up so as to present a true and fair view in all material respects in accordance with notes 1 (a) and (b) the results and cash flows for the year ended 31 August 2019, and the state of affairs at 31 August 2019 of the BOQ Covered Bond Trust.

(b) the Trust has operated during the year ended 31 August 2019 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 ('the Trust') will be able to pay its debts as and when they become due and payable.

Dated in Brisbane this 15th day of November 2019.

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

Anthony Rose
Executive

BOQ COVERED BOND TRUST
TRUSTEE'S REPORT
FOR THE YEAR ENDED 31 AUGUST 2019

The financial statements for the financial year ended 31 August 2019 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 15th day of November 2019.

BOQ COVERED BOND TRUST
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 AUGUST 2019

	2019 [1] $'000	6 June 2017 to 31 August 2018 $'000
Revenue		
Interest income on demand note loan	**64,136**	50,099
Interest income on cash and cash equivalents	**732**	616
Other income	**681**	500
Total income	**65,549**	51,215
Expenses		
Interest expense	**39,623**	32,960
Servicing fee	**3,772**	2,650
Management fee	**1,513**	1,060
Guarantor fee	**284**	204
Other expenses	**295**	241
Total Expenses before distribution expense to unitholders	**45,487**	37,115
Profit from operating activities	**20,062**	14,100
Distribution expense and net assets attributable to unitholders	**(20,062)**	(14,100)
Changes in net assets attributable to unit holders / total comprehensive income	**-**	-
Other Comprehensive Income		
Items that may be reclassified subsequently to profit or loss:		
Unrealised gain/(loss) on derivatives	**18,203**	(6,074)
Total comprehensive profit/(loss) for the year	**18,203**	(6,074)

[1] The August 2019 financial results reflect the adoption of AASB 9 Financial Instruments (**AASB 9**) and AASB 15 *Revenue from Contracts with Customers* (**AASB 15**) on 1 September 2018. Refer to Note 1(c) for the impact from the initial adoption of AASB 9 and AASB 15.

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 2019

	Note	**2019[1]** **$'000**	2018 $'000
Assets			
Cash and cash equivalents	11(a)	**80,012**	43,537
Receivables	3	**11,078**	8,828
Derivative Financial Assets	4	**102,879**	55,946
Demand note loan	5	**2,775,660**	1,381,647
Total assets		**2,969,629**	1,489,958
Liabilities			
Payables	6	**19,345**	10,612
Interest bearing liabilities	7	**2,938,155**	1,484,510
Reserve fund	8	**-**	910
Total liabilities (excluding net assets attributable to unitholders)		**2,957,500**	1,496,032
Represented by:			
Units on issue	9	**-**	-
Reserves	10	**12,129**	(6,074)
Total unitholders' funds		**12,129**	(6,074)

[1] The August 2019 financial results reflect the adoption of AASB 9 Financial Instruments (**AASB 9**) and AASB 15 *Revenue from Contracts with Customers* (**AASB 15**) on 1 September 2018. Refer to Note 1(c) for the impact from the initial adoption of AASB 9 and AASB 15.

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 2019

	Note	Units on Issue $'000	Reserves $'000	Total [1] $'000
Balance at 31 August 2018		-	(6,074)	(6,074)
Issue of Units	9	-	-	-
Other comprehensive income for the year		-	18,203	18,203
Balance at 31 August 2019		**-**	**12,129**	**12,129**

[1] The August 2019 financial results reflect the adoption of AASB 9 Financial Instruments (**AASB 9**) and AASB 15 *Revenue from Contracts with Customers* (**AASB 15**) on 1 September 2018. Refer to Note 1(c) for the impact from the initial adoption of AASB 9 and AASB 15.

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 YEAR ENDED 31 AUGUST 2019

	Note	**2019 $'000**	2018 $'000
Cash flows from operating activities			
Interest and fees received		**55,479**	44,310
Interest and fees paid		**(44,053)**	(36,169)
Principal repayment of demand note liability		**(386,652)**	(305,692)
Principal repayment of demand note loan		**428,970**	348,268
Net cash inflow from operating activities	11(b)	**53,744**	50,717
Cash flows from investing activities			
Payment for demand note loan		**(811,000)**	(743,580)
Net cash outflow from investing activities		**(811,000)**	(743,580)
Cash flows from financing activities			
Cash received from funding of interest bearing liabilities		**811,000**	743,580
Cash (released)/withheld in Reserve Fund		**(910)**	910
Distribution paid to income unit holder		**(16,359)**	(8,090)
Net cash inflow from financing activities		**793,731**	736,400
Net increase in cash and cash equivalents		**36,475**	43,537
Cash and cash equivalents at the beginning of the financial year		**43,537**	-
Cash and cash equivalents at the end of the financial year	11(a)	**80,012**	43,537

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

1. Significant accounting policies

The financial report was authorised for issue by the Manager on 15 November 2019.

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 and the Corporations Act 2001.

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

(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 Intercompany Note and the 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

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.

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.

1. Significant accounting policies (continued)

(b) Basis of preparation (continued)

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.

Those areas which involve significant estimation, uncertainty and critical judgements in applying accounting policies and have the most significant effect on the amounts recognised in the financial report is impairment of financial assets as described in Note 1(c) Implementation of new Australian accounting standards - Impairment

(c) New accounting standards and amendments

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

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

The Trust has reviewed the impact of the above and, apart from AASB 9 and AASB 15, determined there to be no material impact.

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

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

1. Significant accounting policies (continued)

(c) New accounting standards and amendments (continued)

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

- Amortised cost - From 1 September 2018, the Trust only classifies financial assets as amortised cost when both of the following conditions are met:
  - The financial asset is held within a business model where the objective is to hold them in order to collect contractual cash flows; and
  - The contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest (SPPI).
  The Trust has the following financial assets in this category: cash and cash equivalents, demand note loan and receivables.

- Fair value through other comprehensive income (FVOCI) – a financial asset is classified at FVOCI when both of the following conditions are met:
  - The financial asset is held within a business model where the objective is achieved by holding them in order to collect contractual cash flows and selling the financial assets; and
  - The contractual terms of the financial asset give rise to cash flows that meet the SPPI test. These instruments largely comprise assets that had previously been classified as financial assets available-for-sale under AASB 139.
  The Trust does not hold any financial assets in this category.

- Fair value through profit or loss (FVTPL) - Financial assets in this category are those that are held for trading and have been designated by management upon initial recognition or are mandatorily required to be measured at fair value under AASB 9. These instruments largely comprise assets that had previously been classified as financial assets held for trading under AASB 139. The Trust does not hold any financial assets in this category.

Financial liabilities
Financial liabilities continue to be measured at amortised cost.

Impairment
The adoption of AASB 9 has resulted in a change in the impairment methodology by replacing AASB 139's incurred loss approach with a forward-looking expected credit loss (**ECL**) approach. The impairment requirements have been adopted from 1 September 2018 and an allowance for ECLs has been recorded for all receivables, where applicable. The Trust does not hold any impairment provisions.

Transition
There are no changes in the classification and measurement of financial assets of the Trust or financial liabilities.

The Trust does not have any transition adjustments to its opening balance sheet or retained earnings at 1 September 2018 from the impact of the adoption of AASB 9.

AASB 15 *Revenue from contracts with customers* (AASB 15)
AASB 15 was adopted by the Trust on 1 September 2018, replacing the previous guidance under AASB 118 *Revenue*, AASB 111 *Construction Contracts* and related interpretations.
AASB 15 establishes a single comprehensive five step revenue recognition and measurement model to account for revenue arising from contracts with customers. Five steps of the revenue model include:

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

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

1. Significant accounting policies (continued)

(c) New accounting standards and amendments (continued)

Revenue arising from items such as financial instruments and leases are outside the scope of AASB 15 and continues to be accounted for in accordance with the relevant applicable standard. The revenue within the scope of AASB 15 includes other income.

Transition
The Trust has reviewed the other income within the scope of AASB 15 and determined that there is no material impact on transition to AASB 15.

AASB 16 *Leases* (AASB 16)
The following standard is applicable to the Trust in future financial periods and the impact of this standard has not been applied in these financial statements.

AASB 16 Leases introduces a single on-balance sheet accounting model for lessees for recognising and measuring lease arrangements and will replace AASB 117 *Leases* (**AASB 117**). It will become mandatory for the Trust in the financial year commencing 1 September 2019. Lessor accounting under AASB 16 remains largely unchanged from AASB 117.

For lessees on transition, the standard requires identification of leases that provide the right to control the use of an identified asset for a period of time. For these leases, the Trust is required to recognise on balance sheet a right-of-use (**ROU**) asset, representing the right to use the underlying asset, and a lease liability, representing the future lease payment obligations.

From the assessment undertaken to date, no material impacts on the Trust's financial statements have been identified.

(d) 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 9 *Financial Instruments* 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 recognises 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(e)) and the ownership of the income unit (refer note 9), remains with BOQ.

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.

(e) Derivative financial instruments

The Trust enters into interest rate swaps with BOQ. The purpose of these swaps is to align the basis of revenue from the cover pool assets purchased under equitable assignment from BOQ (note 1(d)) to the interest expense under the financial liabilities. The interest rate swaps convert the revenue from the variable and fixed rate mortgages to a floating rate basis.

As a consequence of BOQ's sale of cover pool assets to the trust not qualifying for derecognition (note 1(d)), AASB *9 Financial Instruments* also denies the Trust from separately recognising derivatives that prevent a transfer of financial assets. Therefore, the Trust has not separately recognised internal interest rate swaps in the statement of financial position and no gains or losses have been recognised in the profit or loss.

1. Significant accounting policies (continued)

(e) Derivative financial instruments (continued)

The Trust enters into external cross currency swaps to manage its exposure to interest rate and currency risk. These 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 (cash flows).

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, when applicable.

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 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.

(f) 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.

(g) 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.

(h) 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.

1. Significant accounting policies (continued)

(i) 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.

(j) Receivables

Receivables are carried at their amortised cost.

(k) 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.

(l) Interest bearing liabilities

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

(m) 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.

(n) 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.

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:

	2019 $'000	6 June 2017 to 31 August 2018 $'000
Audit services:		
Audit of financial reports	**42**	17
Other Services:		
Other Services	**9**	9
	51	26

	2019 $'000	6 June 2017 to 31 August 2018 $'000
3. Receivables		
Interest receivable from mortgagors	**4,103**	2,417
Interest collections receivable from servicer	**382**	127
Principal collections receivable from servicer	**6,453**	6,252
GST recoverable	**140**	32
	11,078	8,828
4. Derivative Financial Assets		
Cross currency swap	**102,879**	55,946
5. Demand Note loan		
Demand Note loan	**2,775,660**	1,381,647

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.

	2019 $'000	6 June 2017 to 31 August 2018 $'000
6. Payables		
Distribution payable to income unitholder	**9,713**	6,010
Interest payable to noteholders	**7,277**	3,373
Interest rate swap payable	**1,582**	858
Other	**773**	371
	19,345	10,612
7. Interest bearing liabilities		
Covered bond liability	**1,645,100**	805,600
Demand Note liability (Intercompany)	**1,293,055**	678,910
	2,938,155	1,484,510
8. Reserve fund		
Reserve Fund	**-**	910

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	**2019 $**	6 June 2017 to 31 August 2018 $
Income Unit	1	**10**	10
Capital Unit	10	**100**	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.

	2019 $'000	6 June 2017 to 31 August 2018 $'000
Hedging Reserve		
Opening Balance	**(6,074)**	**-**
Net fair value gain/(loss) on derivatives in a cash flow hedge relationship recognised directly in unitholders' funds	**18,203**	(6,074)
Closing balance	**12,129**	(6,074)

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 year 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	**80,012**	43,537

	2019 $'000	6 June 2017 to 31 August 2018 $'000

11. Notes to statement of cash flows (continued)

(b) Reconciliation of net operating income to net cash inflow from operating activities

Profit from operating activities	**20,062**	14,100
Change in operating assets and liabilities during the financial year:		
Increase in receivables	**(2,250)**	(8,828)
Increase in derivatives	**(35,189)**	(62,020)
Increase in demand note loan	**(1,394,013)**	(1,381,647)
Increase in payables	**5,030**	4,602
Increase in interest bearing liabilities	**1,460,104**	1,484,510
Net cash from operating activities	**53,744**	50,717

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 2019.

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.

KPMG

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 gives a true and fair view of the financial position as at 31 August 2019 and of its financial performance for the year ended on that date of the Trust, in accordance with the basis of preparation described in Note 1 to the Financial Report.

The ***Financial Report*** comprises:

- Statement of financial position as at 31 August 2019;
- Statement of profit or loss and other comprehensive income, Statement of changes in equity, and Statement of cash flows for the year 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 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 the 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 the Trust and should not be used by parties other than the investors of the 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 the Trust or for any other purpose than that for which it was prepared.

KPMG

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

15 November 2019

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

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

I declare that, to the best of my knowledge and belief, in relation to the audit of BOQ Covered Bond Trust for the financial year ended 31 August 2019 there have been:

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

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

KPMG

Robert Warren
Partner
Brisbane
15 November 2019