BOQ Investor Information

2022 HALF YEAR RESULTS

Incorporating the requirements of Appendix 4D

BOQ GROUP

BOQ GROUP - 2022 HALF YEAR RESULTS

ASX APPENDIX 4D

FOR THE HALF YEAR PERIOD ENDED 28 FEBRUARY 2022

RESULTS FOR ANNOUNCEMENT TO THE MARKET [1]

				$m
Revenues from ordinary activities [2]	Up	44%	to	833
Profit from ordinary activities after tax attributable to members [2][3]	Up	38%	to	212
Profit for the year attributable to members [2][3]	Up	38%	to	212

Dividends	Record Date	Paid or payable on	Amounts per security
ORDINARY SHARES (BOQ)			
Full year ordinary dividend – fully franked	29 October 2021	18 November 2021	22 cents
Interim ordinary dividend – fully franked	5 May 2022	26 May 2022	22 cents
CAPITAL NOTES (BOQPE)			
November 2021 BOQPE distribution – fully franked	28 October 2021	15 November 2021	65.72 cents
February 2022 BOQPE distribution – fully franked	31 January 2022	15 February 2022	66.98 cents
May 2022 BOQPE distribution – fully franked [4]	28 April 2022	16 May 2022	66.11 cents
CAPITAL NOTES 2 (BOQPF)			
November 2021 BOQPF distribution – fully franked	28 October 2021	15 November 2021	66.59 cents
February 2022 BOQPF distribution – fully franked	31 January 2022	15 February 2022	67.86 cents
May 2022 BOQPF distribution – fully franked [4]	28 April 2022	16 May 2022	66.97 cents
ADDITIONAL TIER 1 CAPITAL NOTES (SERIES 1)			
November 2021 Series 1 distribution – Fully franked	20 November 2021	29 November 2021	$91.83
February 2022 Series 1 distribution – Fully franked	20 February 2022	28 February 2022	$92.41
ADDITIONAL TIER 1 CAPITAL NOTES (SERIES 2)			
September 2021 Series 2 distribution – Fully franked	29 August 2021	6 September 2021	$87.70
December 2021 Series 2 distribution – Fully franked	28 November 2021	6 December 2021	$87.47
March 2022 Series 2 distribution – Fully franked	27 February 2022	7 March 2022	$88.22

(1) Rule 4.2A.3. Refer to Appendix 7.1 for the cross reference index for ASX Appendix 4D.
(2) On prior corresponding period (six months ended 28 February 2021). The February 2022 financial results include contribution of Members Equity Bank Limited (**ME Bank**) for the full half from 1 September 2021 to 28 February 2022 following the acquisition of ME Bank on 1 July 2021.
(3) Based on statutory profit results. $207 million attributable to equity holders of the parent and $5 million attributable to holders of other equity instruments.
(4) Expected dates and values only. The payment of any distribution is subject to the terms of the Capital Notes (**BOQPE**) and Capital Notes 2 (**BOQPF**).

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FINANCIAL PERFORMANCE

For the half year ended 28 February 2022

1. FINANCIAL HIGHLIGHTS

1.1 RECONCILIATION OF STATUTORY PROFIT TO CASH EARNINGS

Reported results and pro forma results

On 1 July 2021, Bank of Queensland Limited and its controlled entities (**BOQ** or **the Group**) acquired 100 per cent of Members Equity Bank Limited (**ME Bank** or **ME**). On 28 October 2021, the sale of St Andrew's Insurance (**St Andrew's**) to Farmcove Investment Holdings was completed. As a result, St Andrew's was deconsolidated and derecognised from the Group.

As required for statutory reporting purposes, the statutory financial information for the Group has been presented for the half year ended 28 February 2022 (**1H22**) and for the comparative half year ended 28 February 2021 (**1H21**). In this regard, the Group's statutory financial information only includes the results of the current Group's assets from the date of acquisition of ME Bank and hence the statutory financial information for the half year ended 28 February 2021 does not reflect the performance of the Group as it is currently structured.

To assist shareholders in their understanding of the Group's performance and to facilitate meaningful comparison with prior periods, pro forma financial information for the half year ended 31 August 2021 (**2H21**) and the half year ended 28 February 2021 has been prepared to reflect the business as it is now structured and as though it was in effect for the full comparative periods from 1 September 2019 to 28 February 2022. The commentary on the performance of the Group in Section 2 and the performance of the divisions in Section 4 is based on the pro forma results.

The basis of preparation for the pro forma financial information is set out below and reconciliations between the pro forma financial information and the statutory information are also included in this report.

The following terms have been used to describe the result throughout the Financial Performance section of the report:

- "Reported results" refers to information prepared on the same basis as the auditor reviewed statutory consolidated interim financial report of Bank of Queensland and its controlled entities for the half year ended 28 February 2022, which incorporates the results of ME Bank from acquisition on 1 July 2021 and includes the results of St Andrew's up to the date of sale on 28 October 2021;
- "Cash earnings" is a non-accounting standards measure commonly used in the banking industry to assist in presenting a clear view of the Group's underlying earnings. Cash earnings excludes a number of items that introduce volatility or one-off distortions of the current period performance and allows for a more effective comparison of performance across reporting periods; and
- "Pro forma results" have been derived from the statutory information of the Group. Material adjustments have been made to include the results of ME Bank assuming that the acquisition was completed on 1 September 2019 and to exclude the results of St Andrew's, including the loss on sale, from the entire period under review. Pro forma income statements are primarily presented on a cash earnings basis. References to "statutory net profit" without the preceding term "reported" reflects a pro forma number derived on the basis of statutory net profits. Material one-off fair value adjustments associated with the acquisition of ME Bank have also been excluded from the pro forma results.

Pro forma results for 1H22 are not required because ME Bank has been included for the entire period whilst the profit from St Andrew's prior to its disposal, including the loss on sale, has been excluded from cash earnings. Pro forma balances as at 28 February 2022 and 31 August 2021 are also not required as ME Bank is already included in these balances.

Pro forma results have not been subject to an independent audit or review. They are provided for illustrative information purposes only to facilitate comparison of 1H22 with prior periods. The pro forma result should be read in conjunction with the reported results and historical financial statements of BOQ and ME Bank.

Basis of preparation of pro forma results

The pro forma results for the half years ended 31 August 2021 and 28 February 2021 have been prepared on the basis described below.

Income statements

The pro forma income statements for BOQ and the pro forma divisional results have been prepared on the basis that the acquisition of ME Bank was completed on 1 September 2019 and are based on aggregating previously reported BOQ cash earnings and ME cash earnings from that date. The impacts of the allocation of purchase consideration, associated fair value adjustments and accounting policy alignments are only incorporated from the date of acquisition, 1 July 2021 and have not been included in the comparatives. There has been alignment of ME Bank's results to BOQ's August year end and classification adjustments made to align ME Bank's income statement line items to BOQ's presentation. There were no material transactions between BOQ and ME Bank requiring elimination in the pro forma income statements.

St Andrew's income, operating expenses and related tax expense have been removed from the pro forma income statements.

ME Bank's cash earnings are included in BOQ's Retail division.

Pro forma sections related to the income statements, including net interest income, non-interest income and operating expenses have been prepared on the same basis as above and are included in Section 2 of the Financial Performance report.

Reconciliations between the reported income statements and pro forma income statements are included in Section 4.5.

FINANCIAL PERFORMANCE

For the half year ended 28 February 2022

1.1 RECONCILIATION OF STATUTORY PROFIT TO CASH EARNINGS (CONTINUED)

Basis of preparation of pro forma results (continued)

Balances and average balance sheets

Pro forma loans, deposits, impairment provisions and impaired asset sections related to the balance sheet as at 28 February 2021 have been prepared by combining the respective balances of BOQ and ME Bank. The presentation of ME Bank's housing loans has been aligned to BOQ. The pro forma balance sheet sections as at 28 February 2021 have not been adjusted to reflect the impact of allocated purchase consideration and associated fair value adjustments.

The pro forma average balance sheets for 1H21 and 2H21 have been prepared by aggregating the average balances of BOQ and ME Bank for the respective periods. Averages used for both BOQ and ME Bank were predominantly daily averages. The presentation of certain ME Bank balances has been aligned with that of the BOQ balance sheet to facilitate a comparable trend analysis. The pro forma shareholders' funds for 2H21 has been grossed up for the period between the date of the capital raising and the date of the acquisition of ME Bank. The impact of allocated purchase consideration and associated fair value adjustments have been excluded.

Reconciliations between the previously reported average balance sheets of BOQ and the pro forma average balance sheets for the half years ended 28 February 2021 and 31 August 2021 are presented in Section 5.3.

Capital, funding and profit metric disclosures

The capital position and profit metrics, including Return on equity (**ROE**), Return on tangible equity (**ROTE**) and Earnings per share (**EPS**) for half years ended 28 February 2021 and 31 August 2021 have not been prepared on a pro forma basis as it is considered more meaningful to compare them with the respective positions of BOQ prior to the acquisition. Similarly, pro forma funding and liquidity comparatives in Section 3.2 at 28 February 2021 have not been provided. Asset quality metrics have been presented on a pro forma basis, however material one-off adjustments associated with the acquisition of ME Bank have been excluded from the half year ended 28 February 2021.

Other

In the financial tables throughout the Financial Performance report, 'large' indicates that the absolute percentage change in the balance was greater than 200 per cent or 500 basis points. 'Large' also indicates the result was a gain or positive in one period and a loss or negative in another.

Note on statutory profit and cash earnings

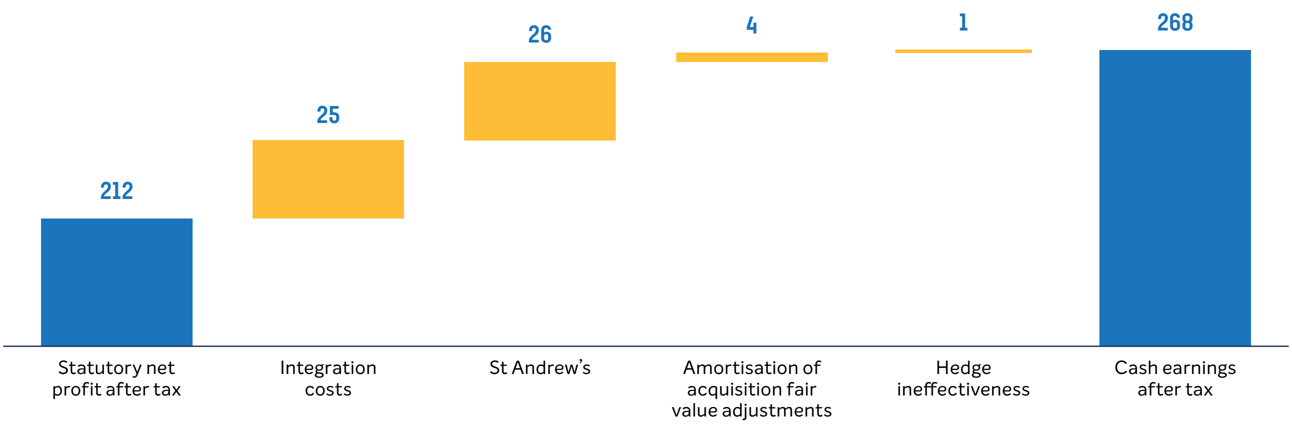
Statutory profit is prepared in accordance with the *Corporations Act 2001* and Australian Accounting Standards, which comply with International Financial Reporting Standards (**IFRS**). Cash earnings is a non-accounting standards measure commonly used in the banking industry to assist in presenting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

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

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

- Integration costs – costs associated with the restructure and integration of ME Bank;
- St Andrew's - this represents the loss on sale and the net earnings of St Andrew's between 1 September 2021 and the date of completion of the sale on 28 October 2021;
- Amortisation of acquisition fair value adjustments - this arises from the acquisition of subsidiaries including ME Bank; and
- Hedge ineffectiveness - this represents earnings volatility from hedges that are not fully effective and create a timing difference in reported profit. These hedges remain economically effective.

Reconciliation of statutory net profit to cash earnings after tax 1H22 ($ million)



FINANCIAL PERFORMANCE

For the half year ended 28 February 2022

1.1 RECONCILIATION OF STATUTORY PROFIT TO CASH EARNINGS (CONTINUED)

(a) Reconciliation of pro forma cash earnings after tax to reported statutory net profit after tax

	Half Year Performance				
$ million	Feb-22	Pro forma Aug-21	Pro forma Feb-21	Feb-22 vs Aug-21	Feb-22 vs Feb-21
Cash earnings after tax	268	296	236	(9%)	14%
Integration costs	(25)	(9)	-	178%	100%
St Andrew's	(26)	-	-	100%	100%
Amortisation of acquisition fair value adjustments	(4)	(2)	(1)	100%	large
Hedge ineffectiveness	(1)	(3)	(3)	(67%)	(67%)
Intangible asset review	-	(3)	-	(100%)	-
Transaction costs	-	(38)	(4)	(100%)	(100%)
Employee pay and entitlements review	-	-	(6)	-	(100%)
Statutory net profit after tax	**212**	241	222	(12%)	(5%)
Less: Pro forma ME Bank cash earnings after tax (1)	-	(49)	(71)	(100%)	(100%)
Add: Pro forma statutory adjustments (2)	-	23	3	(100%)	(100%)
Reported statutory net profit after tax (3)	**212**	215	154	(1%)	38%

(1) Pro forma ME Bank cash earnings after tax comprises earnings for the four months ended 30 June 2021 in 2H21 and the six months ended 28 February 2021 in 1H21.
(2) Pro forma statutory adjustments comprises ME Bank adjustments for the four months ended 30 June 2021 in 2H21 and the six months ended 28 February 2021 in 1H21.
(3) Reported statutory net profit after tax is not presented on a pro forma basis and agrees to the audited, or auditor reviewed, Financial Statements consolidated Income Statement.

(b) 1H22 Non-cash earnings reconciling items

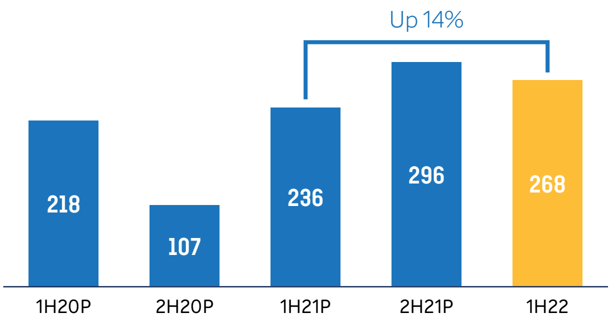
$ million	Cash earnings Feb-22	Integration costs	St Andrew's	Amortisation of acquisition fair value adjustments	Hedge ineffectiveness	Statutory net profit Feb-22
Net interest income	741	-	-	2	-	743
Non-Interest income	90	-	1	-	(1)	90
Total income	831	-	1	2	(1)	833
Operating expenses	(461)	(36)	(27)	(8)	-	(532)
Underlying profit	370	(36)	(26)	(6)	(1)	301
Loan impairment expense	15	-	-	-	-	15
Profit before tax	385	(36)	(26)	(6)	(1)	316
Income tax expense	(117)	11	-	2	-	(104)
Profit after tax	**268**	(25)	(26)	(4)	(1)	**212**

FINANCIAL PERFORMANCE

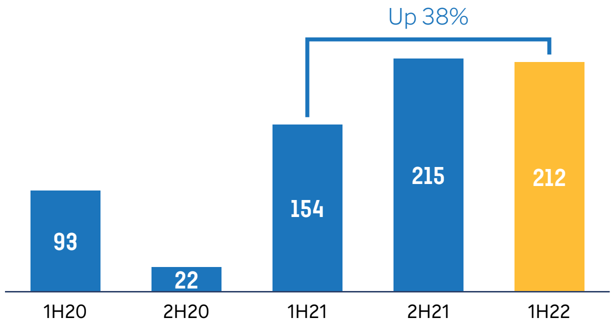
For the half year ended 28 February 2022

1.2 FINANCIAL SUMMARY

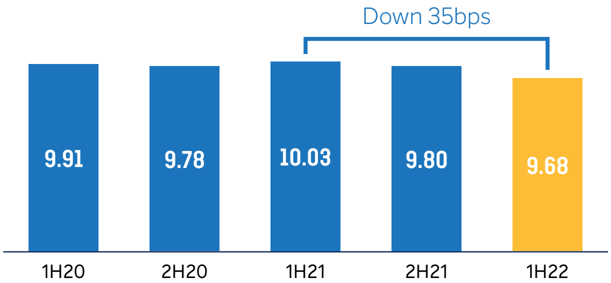
Cash earnings after tax ($ million) (1)



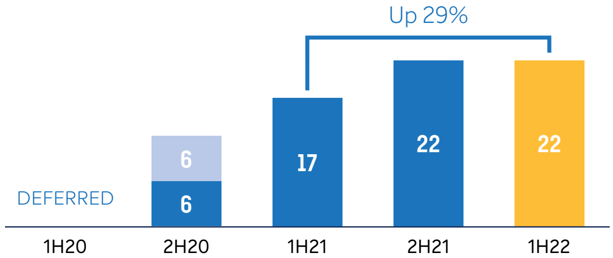
Reported statutory net profit after tax ($ million)



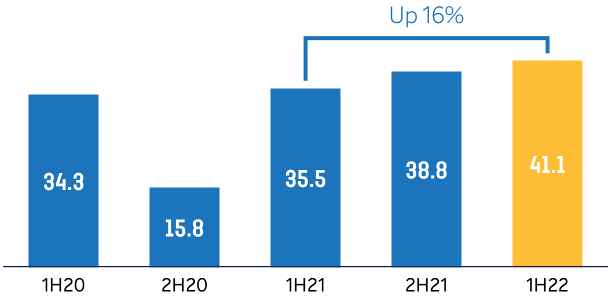
Common equity tier 1 (CET1) (%)



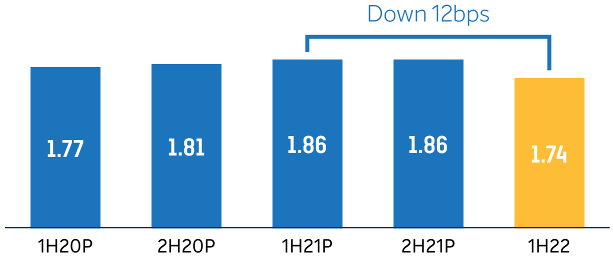
Dividends per ordinary share (cents) (2)



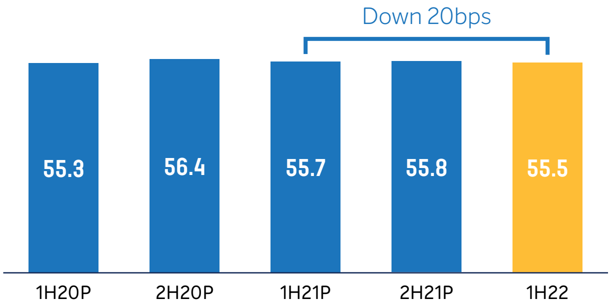
Cash basic earnings per share (EPS) (cents)



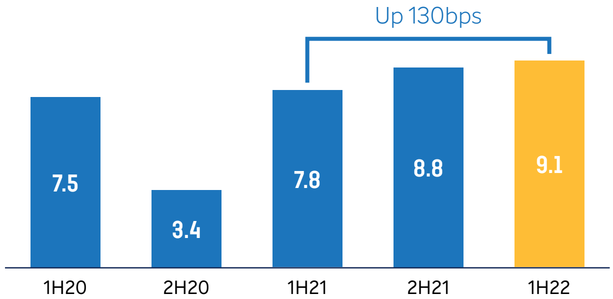
Cash net interest margin (NIM) (%) (1)



Cash cost to income (CTI) ratio (%) (1)



Cash return on average equity (ROE) (%)



(1) When the period in the respective graphs ends in "P" it reflects a pro forma metric.
(2) Based on the Australian Prudential Regulation Authority guidance issued on 7 April 2020, BOQ determined to defer the decision on payment of an interim dividend. Refer to BOQ Australian Securities Exchange (**ASX**) Release "BOQ FY20 Interim Dividend Deferral", 8 April 2020.

FINANCIAL PERFORMANCE

For the half year ended 28 February 2022

1.2 FINANCIAL SUMMARY (CONTINUED)

NET PROFIT AFTER TAX

$268m

Cash NPAT
Up 14% on 1H21.

$212m

Reported statutory NPAT
Up 38% on 1H21.

Cash net profit after tax (**NPAT**) increase driven by lower impairment provisions and positive jaws.

CASH NET INTEREST MARGIN

1.74%

Decrease of 12 basis points on 1H21, driven by price competition, customers switching to fixed rate loans, higher swap rates and liquidity.

LOAN IMPAIRMENT

$(15)m

Reflects write backs in specific provisions and a reduction in the collective provision (**CP**) since 2H21.

CASH OPERATING EXPENSES

$461m

Decrease of three per cent on 2H21. Flat on 1H21, reflecting savings from productivity and synergies, offset by increased costs to support lending volumes and the technology transformation.

CET1

9.68%

Decrease of 12 basis points on 2H21, driven by growth in lending and investment into the business partly offset by cash earnings.

CASH ROE

9.1%

Increase of 130 basis points on 1H21, driven by higher earnings.

BOQ's cash earnings after tax for 1H22 of $268 million was 14 per cent higher than the pro forma 1H21 result. The reported statutory net profit after tax was $212 million, a 38 per cent increase on 1H21. The increase in earnings was primarily driven by a loan impairment expense credit in 1H22.

Net interest income

Net interest income (**NII**) of $741 million decreased by $16 million or two per cent on pro forma 1H21. This was driven by a 12 basis points decrease in net interest margin (**NIM**) to 1.74 per cent, partially offset by five per cent growth in average interest earnings assets.

Gross loans and advances annualised growth of nine per cent in 1H22 was driven by growth of nine per cent in the housing portfolio and 15 per cent in the commercial lending portfolio. The ME Bank home lending portfolio returned to growth in the period following declines in the previous two halves. ME home lending grew by two per cent compared to 14 per cent for BOQ excluding ME Bank.

NIM of 1.74 per cent decreased 12 basis points on pro forma 1H21 and 2H21. This was primarily driven by the ongoing impact of competition for new housing loans, customers switching from variable to lower margin fixed rate loans, swap rates increasing faster than customer rates and an increase in liquid assets. The low interest rate environment continued to adversely impact returns on capital and the low cost deposit portfolio. These were partially offset by benefits from deposit repricing and lower wholesale funding costs.

As a result of the above, net interest income for BOQ excluding ME grew by one per cent on pro forma 1H21 while ME net interest income declined by eight per cent.

Non-interest income

Non-interest income of $90 million increased by $21 million or 30 per cent on pro forma 1H21. This was primarily driven by a number of one-off revenue items including incentive income realised through an updated card services arrangement, a termination fee relating to a third party insurance provider and realised gains on sale of investment securities.

Operating expenses

Total operating expenses of $461 million were three per cent lower than pro forma 2H21 and flat on pro forma 1H21. Ongoing productivity initiatives and synergy savings driven by operating model changes as part of the ME Bank acquisition led to a lower number of employees (**FTE**). This offset higher costs to support lending volumes and the technology transformation. This resulted in positive jaws and a cost to income (**CTI**) ratio of 55.5 per cent, down 20 basis points on pro forma 1H21.

Loan impairment expense

Loan impairment expense was a credit of $15 million, which compares to an expense of $26 million in pro forma 1H21. This was driven by a collective provision expense credit of $9 million, which was primarily due to a more favourable economic outlook supported by a strong residential housing market.

A specific provision credit of $6 million was driven by write backs across the retail and commercial portfolios as a result of strong property prices and improved economic conditions across most industries.

Capital management

The CET1 ratio of 9.68 per cent is 12 basis points lower than 2H21. This was driven by strong growth in housing and commercial lending and resulting growth in risk weighted assets and origination costs. Additionally, the business continued to invest in digital transformation and the integration of ME Bank. At 9.68 per cent, the CET1 ratio is above the upper end of the interim management target range of 9.0 per cent to 9.5 per cent. The Group executed a securitisation transaction that settled in March 2022, which would have increased the CET1 ratio to 9.76 per cent.

Shareholder returns

BOQ has determined to pay an ordinary dividend of 22 cents per share, which is 53 per cent of 1H22 cash earnings. The Board has committed to a target dividend payout ratio of 60-75 per cent of full year cash earnings.

FINANCIAL PERFORMANCE

For the half year ended 28 February 2022

1.2 FINANCIAL SUMMARY (CONTINUED)

ME Bank update

Purchase Price Allocation (PPA) update

ME Bank's net assets recognised in the FY21 Annual Report were based on the provisional assessment of their fair value. Matters assessed in the current period resulted in adjustments including a reduction of $18 million to intangible assets and amendments to deferred tax liabilities and provisions, which resulted in an increase to goodwill of $31 million. Refer to Note 6.4 to the Financial Statements for further details.

Integration progress

The integration of ME Bank is well progressed. In order to reduce risk, a phased approach to integration was developed. Following the pre-completion phase and the successful completion of the transaction on 1 July 2021, a 90 day sprint was undertaken to ensure a strong start to the integration program and to build momentum. During that period, a number of key integration milestones were achieved including consolidation of the Board and leadership team, commencement of supply chain consolidation and development of work stream integration plans.

During 1H22, the scale phase of the integration has proceeded well including:

- Returning ME Bank to growth;
- Handback of the ME Bank Authorised Deposit-taking Institution (**ADI**) licence on 28 February 2022 and consolidation of ME Bank and BOQ on to a single ADI, a key foundational activity for a number of synergies;
- Ongoing execution of the technology integration roadmap alongside the broader transformation program;
- Shared service functions and supply chain and property consolidation is underway; and
- Harmonisation of policies and ways of working.

Integration expenses and synergies

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

The amount of integration expenditure in 1H22 was $36 million, with costs primarily relating to operating model consolidation, technology integration, the risk and remediation program and integration program costs.

Total integration costs of $75 - $80 million (pre-tax) are expected to be incurred in FY22.

The acquisition is expected to realise significant pre-tax cost synergies with additional upside from revenue benefits, funding savings and investment capex synergies.

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

An accelerated delivery of these synergies has resulted in $13 million of cost synergies in 1H22, with an associated annualised run rate benefit of $33 million. Cost synergies of $30 - $34 million are expected to be delivered in FY22. The remainder of the $70 to $80 million of cost synergies is expected to be delivered in FY23 with additional upside expected in FY24 following completion of the technology integration initiatives.

In addition to the above benefits, there has been a one-off benefit in the first half from an updated card services arrangement, and further funding cost benefits on the wholesale and retail deposit portfolios from the bringing together of the two banks. Investment capex benefits from the consolidation of investment roadmaps are also expected to be delivered.

Software as a Service (SaaS)

The Group's accounting policy has historically been to capitalise costs related to SaaS arrangements as intangible assets. Based on the updated IFRS Interpretation Committee guidance, the Group revised its accounting policy in relation to these costs in 1H22. A full assessment of previously capitalised customisation and configuration costs resulted in a $47 million adjustment to the carrying value of computer software intangible assets as at 1 September 2021. Refer to Section 2.5 for further details. The net impact of the changes to operating expenses in Section 2.4 was not material.

FINANCIAL PERFORMANCE

For the half year ended 28 February 2022

2. GROUP PERFORMANCE ANALYSIS

2.1 PRO FORMA INCOME STATEMENT AND KEY METRICS

	Half Year Performance				
$ million	Feb-22	Pro forma Aug-21	Pro forma Feb-21	Feb-22 vs Aug-21	Feb-22 vs Feb-21
Net interest income (1)	741	782	757	(5%)	(2%)
Non-interest income (1)	90	65	69	38%	30%
Total income (1)	831	847	826	(2%)	1%
Operating expenses (1)	(461)	(473)	(460)	(3%)	-
Underlying profit (1)	370	374	366	(1%)	1%
Loan impairment expense	15	55	(26)	(73%)	large
Profit before tax (1)	385	429	340	(10%)	13%
Income tax expense (1)	(117)	(133)	(104)	(12%)	13%
Cash earnings after tax	**268**	296	236	(9%)	14%
Statutory net profit after tax	**212**	241	222	(12%)	(5%)
Reported statutory net profit after tax	**212**	215	154	(1%)	38%

		Half Year Performance				
Key metrics		Feb-22	Aug-21	Feb-21	Feb-22 vs Aug-21	Feb-22 vs Feb-21
SHAREHOLDER RETURNS						
Share price	($)	8.00	9.46	8.79	(15%)	(9%)
Market capitalisation	($ million)	5,141	6,063	4,004	(15%)	28%
Dividends per ordinary share (fully franked)	(cents)	22	22	17	-	29%
CASH EARNINGS BASIS						
Basic earnings per share (**EPS**) (2)	(cents)	41.1	38.8	35.5	6%	16%
Diluted EPS (2)	(cents)	37.7	36.2	32.8	4%	15%
Dividend payout ratio	(%)	52.7	57.1	65.9	(440bps)	large
REPORTED STATUTORY BASIS						
Basic EPS	(cents)	32.3	34.0	32.9	(5%)	(2%)
Diluted EPS	(cents)	29.9	31.8	30.5	(6%)	(2%)
Dividend payout ratio	(%)	66.6	65.6	70.6	100bps	(400bps)

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

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

FINANCIAL PERFORMANCE

For the half year ended 28 February 2022

2.1 PRO FORMA INCOME STATEMENT AND KEY METRICS (CONTINUED)

		Half Year Performance				
Key metrics		Feb-22	Aug-21 (1)(2)(3)	Feb-21 (1)(2)(3)	Feb-22 vs Aug-21	Feb-22 vs Feb-21
PROFITABILITY AND EFFICIENCY MEASURES						
CASH EARNINGS BASIS						
Net profit after tax	($ million)	**268**	296	236	(9%)	14%
Underlying profit [4]	($ million)	**370**	374	366	(1%)	1%
Net interest margin (**NIM**) [5]	(%)	**1.74**	1.86	1.86	(12bps)	(12bps)
Cost to income (**CTI**) ratio	(%)	**55.5**	55.8	55.7	(30bps)	(20bps)
Loan Impairment expense to gross loans and advances (**GLA**)	(bps)	**(4)**	(14)	7	10bps	large
Return on average equity (**ROE**)	(%)	**9.1**	8.8	7.8	30bps	130bps
Return on average tangible equity (**ROTE**) [6]	(%)	**11.5**	10.9	9.9	60bps	160bps
REPORTED STATUTORY BASIS						
Net profit after tax	($ million)	**212**	215	154	(1%)	38%
Underlying profit [4]	($ million)	**301**	270	247	11%	22%
NIM [5]	(%)	**1.74**	1.90	1.95	(16bps)	(21bps)
CTI ratio	(%)	**63.9**	60.1	57.2	380bps	large
Loan impairment expense to GLA	(bps)	**(4)**	(12)	10	8bps	large
ROE	(%)	**7.2**	7.8	7.2	(60bps)	-
ROTE [6]	(%)	**9.1**	9.6	9.2	(50bps)	(10bps)
ASSET QUALITY						
30 days past due (**dpd**) arrears	($ million)	**885**	941	1113	(6%)	(20%)
90 dpd arrears	($ million)	**476**	593	642	(20%)	(26%)
Impaired assets	($ million)	**194**	243	221	(20%)	(12%)
Specific provisions to impaired assets	(%)	**46**	47	47	(100bps)	(100bps)
Total provision and general reserve for credit losses (**GRCL**) coverage / GLA	(bps)	**48**	63	77	(15bps)	(29bps)
CAPITAL						
CET1 ratio	(%)	**9.68**	9.80	10.03	(12bps)	(35bps)
Total capital adequacy ratio	(%)	**13.91**	12.60	13.83	131bps	8bps
Risk weighted assets (**RWA**)	($ million)	**45,162**	44,229	32,126	2%	41%

(1) Cash earnings basis are on a pro forma basis except for the return on average equity and return on average tangible equity metrics, which are as previously reported. Reported statutory basis are as previously reported.
(2) Asset quality metrics have been presented on a pro forma basis. Excludes the impact of the fair value adjustments on acquisition of ME Bank. Arrears have been presented on an unadjusted basis for all periods.
(3) Capital metrics including RWA are as previously reported.
(4) Profit before loan impairment expense and tax.
(5) NIM is calculated net of offset accounts.
(6) Based on after tax earnings applied to average shareholders' equity (excluding preference shares and treasury shares) less goodwill and identifiable intangible assets (customer related intangibles/brands and computer software).

FINANCIAL PERFORMANCE

For the half year ended 28 February 2022

2.2 NET INTEREST INCOME

	Half Year Performance				
$ million	Feb-22	Pro forma Aug-21	Pro forma Feb-21	Feb-22 vs Aug-21	Feb-22 vs Feb-21
Net interest income [1]	741	782	757	(5%)	(2%)
Average interest earning assets	86,057	83,179	81,866	3%	5%
NIM	1.74	1.86	1.86	(12bps)	(12bps)

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

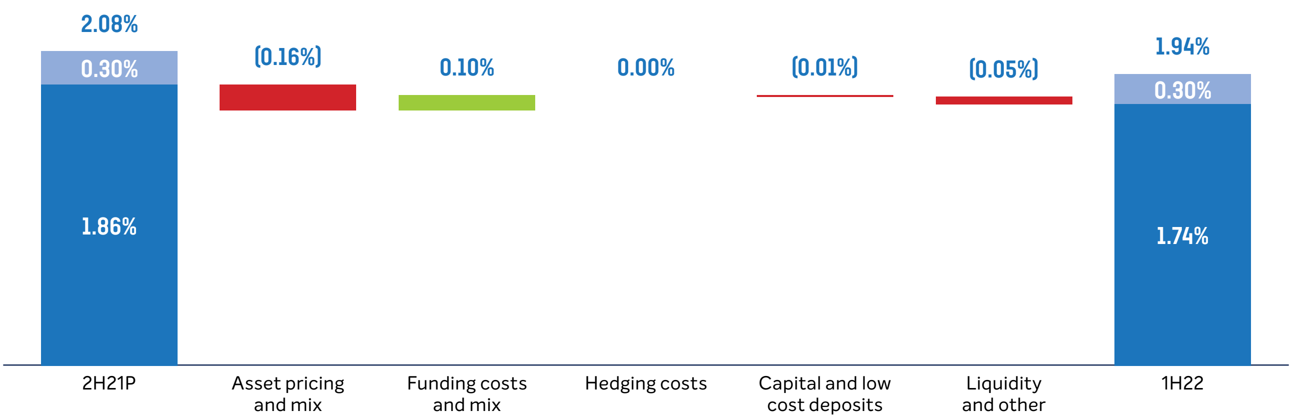
Net interest income decreased by $16 million or two per cent on pro forma 1H21 driven by a 12 basis points decrease in NIM partly offset by five per cent growth in average interest earnings assets.

Net interest income decreased by $41 million or five per cent on pro forma 2H21 driven by a 12 basis points decrease in NIM and three less days, which reduced NII by $13 million, partly offset by three per cent growth in average interest earnings assets.

NIM was down 12 basis points on 1H21 as benefits from deposit repricing and lower wholesale funding costs were more than offset by the ongoing impact of competition for new housing on front book rates and retention discounting, customers switching from variable to lower margin fixed rate loans, swap rates increasing faster than customer rates and an increase in liquid assets. The low interest rate environment continued to adversely impact returns on capital and the low cost deposit portfolio.

The ME Bank home lending portfolio returned to growth in the period following declines in the previous two halves. Notwithstanding this return to growth, ME home lending grew by only two per cent, compared to 14 per cent for BOQ excluding ME. As a result, net interest income for BOQ excluding ME Bank grew by one per cent while ME Bank net interest income declined by nine per cent on pro forma 1H21.

Net interest margin - August 2021 to February 2022



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

NIM in 1H22 was 1.74 per cent, down 12 basis points on pro forma 2H21 at 1.86 per cent. The key drivers of the movement are set out below.

Asset pricing and mix (-16bps): This was driven by ongoing competition for new housing and commercial lending through lower front book rates and retention discounting, increased customer preference for lower margin fixed rates which were further impacted by swap rates increasing faster than the repricing of fixed rate offerings, consistent with the market.

Funding costs and mix (+10bps): This was primarily driven by active repricing of at-call accounts, term deposits and money market portfolios as well as an improvement in portfolio mix as at-call growth continued while more expensive term deposit funding was run-off. Margin also benefitted from a reduction in wholesale funding costs due to the full half benefits of the Term Funding Facility (**TFF**) and other long term wholesale funding costs.

Hedging costs (flat): Cash-bills spreads were relatively steady in the period. Notional hedging requirements reduced during 1H22 due to the higher share of fixed rate loans and at-call deposits.

Capital and low cost deposits (-1bp): The low interest rate environment continued to impact returns on the $7.1 billion replicating portfolio (covering BOQ's capital and invested low cost deposits), uninvested capital and low cost deposits.

Liquidity and other (-5bps): This was primarily driven by an increase in lower yielding liquid asset balances driven by the regulatory change in phasing out the Committed Liquidity Facility (**CLF**) as a means of meeting the minimum Liquidity Coverage Ratio (**LCR**).

FINANCIAL PERFORMANCE

For the half year ended 28 February 2022

2.3 NON-INTEREST INCOME

	Half Year Performance				
$ million	**Feb-22**	Pro forma Aug-21	Pro forma Feb-21	Feb-22 vs Aug-21	Feb-22 vs Feb-21
Banking income	**41**	41	41	-	-
Other income	**45**	24	28	88%	61%
Trading income	**4**	-	-	100%	100%
Total non-interest income (1)	**90**	65	69	38%	30%

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

Non-interest income of $90 million increased by $21 million or 30 per cent on pro forma 1H21 driven by a number of one-off revenue items and realised gains on sale of investment securities.

Banking income was in line with pro forma 1H21. Higher volume related lending fee income was offset by the removal of fees, including dishonour and overdrawn account fees, as part of product simplification and lower Financial Markets revenue from interest rate hedging activity.

Other income increased by $17 million or 61 per cent on pro forma 1H21. The increase was driven by a number of one-off revenue items including incentive income realised through an updated card services arrangement with a third party supplier and a termination fee relating to a third party insurance provider. The increase also reflected higher proceeds from the sale of leased assets.

Trading income increased by $4 million on pro forma 1H21. This reflected gains from portfolio management activities and the sale of Alternative Liquid Assets (**ALA**) to purchase High Quality Liquid Assets (**HQLA1**) in order to maintain LCR targets as part of the phased reduction in the CLF.

FINANCIAL PERFORMANCE

For the half year ended 28 February 2022

2.4 OPERATING EXPENSES

	Half Year Performance				
$ million	Feb-22	Pro forma Aug-21	Pro forma Feb-21	Feb-22 vs Aug-21	Feb-22 vs Feb-21
Salaries and on costs	214	219	228	(2%)	(6%)
Employee share programs and other	12	10	8	20%	50%
EMPLOYEE EXPENSES	226	229	236	(1%)	(4%)
Information technology services	91	78	75	17%	21%
Amortisation - intangible assets	30	35	30	(14%)	-
Depreciation - fixed assets	2	2	2	-	-
TECHNOLOGY EXPENSES	123	115	107	7%	15%
Marketing	19	29	19	(34%)	-
Commissions to owner-managed branches (**OMB**)	2	2	2	-	-
Communications, print and stationery	12	15	13	(20%)	(8%)
Processing costs	8	7	7	14%	14%
Other	28	33	31	(15%)	(10%)
OPERATIONAL EXPENSES	69	86	72	(20%)	(4%)
OCCUPANCY EXPENSES	25	25	25	-	-
ADMINISTRATION EXPENSES	18	18	20	-	(10%)
Total operating expenses (1)	461	473	460	(3%)	-
CTI ratio	55.5	55.8	55.7	(30bps)	(20bps)
Number of employees (**FTE**)	3,172	3,300	3,257	(4%)	(3%)

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

Summary

Total operating expenses of $461 million increased by $1 million on pro forma 1H21. Productivity and synergy savings, largely from the alignment of operating models across ME and BOQ, led to lower employee expenses. This offset higher amortisation from the investment in building out the Digital Bank and higher costs to support lending volumes and the technology transformation. The net impact of the changes associated with the treatment of SaaS costs was not material with higher project related operating expenses offset by lower amortisation.

Employee expenses

Employee expenses of $226 million decreased by $10 million or four per cent on pro forma 1H21. This was primarily driven by a decrease of three per cent in full time equivalent staff. Excluding the impact of the ongoing conversion of contractors to permanent employees, FTE declined by four per cent on pro forma 1H21.

The decrease in the number of FTE was primarily driven by synergy savings from the alignment of operating models. Expenses relating to employee leave entitlements also decreased as the impact of lockdowns started to reduce.

Technology expenses

Technology expenses of $123 million increased by $16 million or 15 per cent on pro forma 1H21. This was driven by additional costs to support the technology transformation and higher lending volumes including processing and storage costs. The increase in information technology services also reflected additional costs as a result of the changes associated with the treatment of SaaS costs.

Amortisation expense of $30 million was in line with pro forma 1H21. An increase in the underlying level of amortisation driven by the investment in the Digital Bank and enhancements in regulatory reporting and Financial Markets software was offset by lower amortisation on SaaS assets, which are no longer on the balance sheet.

Operational expenses

Operational expenses of $69 million decreased by $3 million or four per cent on pro forma 1H21 driven by savings from productivity and synergies.

Administration expenses

Administration expenses of $18 million decreased by $2 million or ten per cent on pro forma 1H21 primarily driven by lower consulting fees and lower directors' fees as a result of synergies.

FINANCIAL PERFORMANCE

For the half year ended 28 February 2022

2.5 CAPITALISED INVESTMENT EXPENDITURE

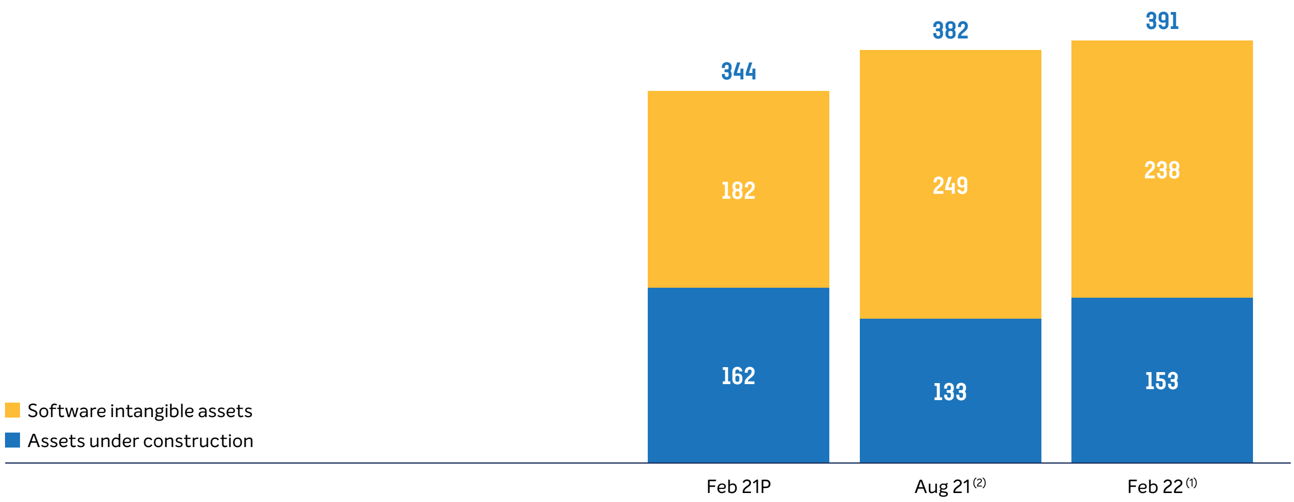
BOQ's comprehensive digital transformation continues. Phase 1 of building a next generation cloud based digital banking platform through Virgin Money Australia (**VMA**) was delivered in March 2021 and has provided an enhanced experience for customers using our transaction accounts, savings accounts and credit cards. Significant progress has been made during 1H22 leveraging this foundational work to provide our BOQ retail customers this functionality. Recently, this experience was launched to market following a successful "Family and Friends" soft launch. Our multi-brand lending origination platform is progressing to plan with significant progress made in 1H22. The plan is focused on delivering this home loan capability to all our brands on this cloud-based platform in FY23.

Other milestones during the period included providing brokers the ability to automatically load BOQ applications into our lending platform, resulting in faster turnaround times along with greater ability to provide their customers "real time" loan progress updates. In addition to these customer-focused initiatives, we have completed key foundational components of our Open Banking and Data Platform with the delivery of Consumer data, a regulatory obligation that provides consumers greater access and control over their data and improving consumers' ability to compare and switch between financial products and services. ME Bank implemented an upgrade to its core banking platform, along with implementing a new payments platform and digital wallet enhancing the customer banking experience.

Strong momentum from 2H21 continued as planned. 1H22 carrying value of intangible assets increased further, with continued investment in the digital capability of VMA, digital transformation of Retail banking (ME Bank and BOQ), Open Banking, and BOQ's Enterprise Data Management Platform. These foundational investments align to BOQ's digital transformation strategy, and will provide our customers with better access to our products and services through easy to use digital experiences that are focused on their needs.

In 1H22, BOQ adopted the IFRS Interpretations Committee decision in respect of a specific part of cloud technology, SaaS. A full assessment of capitalised customisation and configuration costs resulted in a $47 million adjustment to the carrying value of computer software intangible assets as at 1 September 2021[1].

Carrying value of IT intangible assets ($ million)



(1) Carrying values as at 28 February 2022 reflect the change in accounting policy in relation to SaaS. Refer to Note 6.1.3 to the Financial Statements.

(2) Carrying values as at 31 August 2021 are restated by $18 million for the updates to the ME Bank acquisition accounting entries, primarily attributable to SaaS accounting policy change. Refer to Note 6.4(a) to the Financial Statements.

FINANCIAL PERFORMANCE

For the half year ended 28 February 2022

2.6 LENDING

Gross loans and advances of $79.0 billion grew by $3.2 billion or nine per cent on 2H21, driven by home lending and commercial lending. Home lending, excluding ME Bank, remained above system and delivered growth of $2.3 billion or 14 per cent on 2H21. ME Bank's home lending portfolio contracted by $0.9 billion on 1H21 however returned to growth in 1H22, increasing by $0.3 billion on 2H21 as mortgage simplification and integration activities drove efficiency and enabled higher volumes. Commercial lending was in line with system and grew by $0.7 billion on 2H21.

			As at		
$ million	**Feb-22**	Aug-21	Pro forma Feb-21	Feb-22 vs Aug-21 [(1)]	Feb-22 vs Feb-21
Housing lending	**55,245**	53,146	51,504	8%	7%
Housing lending - APS 120 qualifying securitisation [(2)]	**6,397**	5,907	6,545	17%	(2%)
	61,642	59,053	58,049	9%	6%
Commercial lending	**10,619**	9,879	9,531	15%	11%
Asset finance	**6,356**	6,457	6,278	(3%)	1%
Consumer	**335**	359	378	(13%)	(11%)
Gross loans and advances [(3)]	**78,952**	75,748	74,236	9%	6%
Provision for impairment	**(289)**	(311)	(469)	(14%)	(38%)
Net loans and advances	**78,663**	75,437	73,767	9%	7%

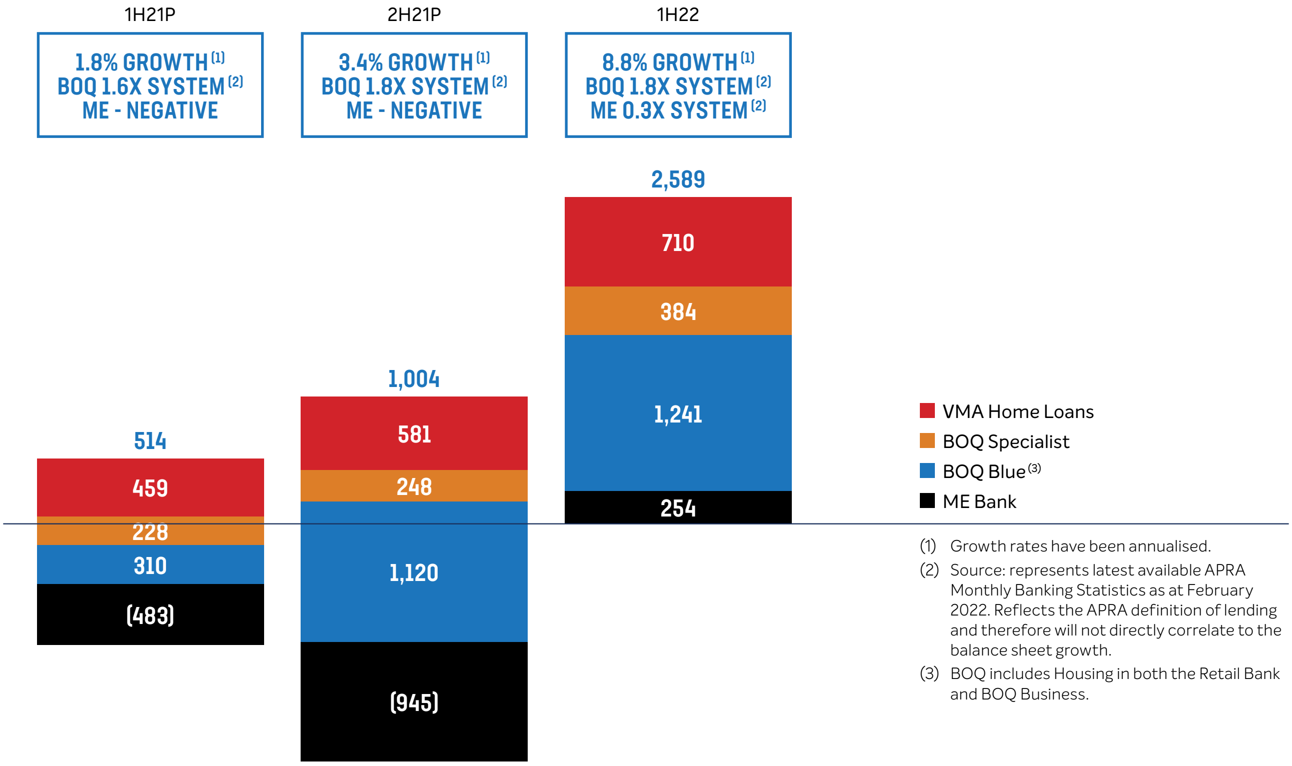
(1) Growth rates have been annualised.
(2) Securitised loans subject to capital relief under Australian Prudential Regulation Authority (**APRA**) Prudential Standard APS 120 *Securitisation* (**APS 120**).
(3) Gross loans and advances aligns to the Financial Statement Note 6.3.4 Loans and Advances, "Gross loans and advances" after deducting "Unearned finance lease income".

FINANCIAL PERFORMANCE

For the half year ended 28 February 2022

2.6 LENDING (CONTINUED)

Growth in Housing lending ($ million)



(1) Growth rates have been annualised.
(2) Source: represents latest available APRA Monthly Banking Statistics as at February 2022. Reflects the APRA definition of lending and therefore will not directly correlate to the balance sheet growth.
(3) BOQ includes Housing in both the Retail Bank and BOQ Business.

The total housing portfolio grew by $2.6 billion or nine per cent on 2H21, representing 1.1x system growth. Growth excluding ME Bank was $2.3 billion or 14 per cent, representing 1.8x system growth, with all channels maintaining and building on the volume momentum generated in FY21.

Settlement volumes increased by 12 per cent on 2H21, a function of improving conversion rates in a buoyant and competitive property market. 1H22 was initially characterised by strong fixed rate flow, which shifted towards higher margin variable rate loans in the second quarter. Sustaining and building on the volume momentum generated in FY21 was enabled by the ongoing delivery of the Retail Banking strategy, which included mortgage process simplification, uplifting retail banking and lending capability, and improving customer experience and quality third party broker relationships. The BOQ mortgage net promoter score (**NPS**) improved from +4 in August 2021 to +7 in February 2022. The ME Bank mortgage NPS is -10.

The BOQ Blue portfolio grew by $1.2 billion or 11 per cent on 2H21. The BOQ broker channel contributed $0.8 billion as settlement volumes increased nine per cent. The consistency in the broker channel's performance was enabled by the reactivation of the broker network and new quality third party relationships, on boarded in FY21, and the investment and uplift in the broker support ecosystem. The BOQ branch portfolio grew by $0.4 billion, continuing and improving on the turnaround in performance delivered in FY21. The corporate and owner-manager networks contributed to the improved performance with a combined uplift in settlement volumes of nine per cent.

The VMA mortgage portfolio continued to deliver strong growth in 1H22. The portfolio grew by $0.7 billion or 33 per cent on 2H21, taking the portfolio to over $5.0 billion. The VMA brand is a globally recognised brand, which tends to attract a younger, more digitally savvy customer and contributes to the Group's geographical diversification by targeting metropolitan-based customers across Australia.

ME Bank's portfolio has returned to growth after contracting $1.4 billion in the prior year. The portfolio grew by $0.3 billion or two per cent on 2H21 as settlement volumes increased 16 per cent and conversion and retention rates improved. The return to growth was mainly attributable to the delivery of mortgage simplification and integration activities focused on re-energising the broker and customer experience, simplifying process and policies and improving customer maintenance and retention. Investment and focus into delivering further improvements continues into 2H22.

BOQ Specialist home lending portfolio grew by $0.4 billion or 13 per cent on 2H21. BOQ Specialist continues to deliver above system growth by building relationships with health professionals in the early stages of their careers and providing a solid online banking solution. This creates future opportunities for BOQ Specialist to meet the commercial lending needs of these health professionals as they progress through their careers.

FINANCIAL PERFORMANCE

For the half year ended 28 February 2022

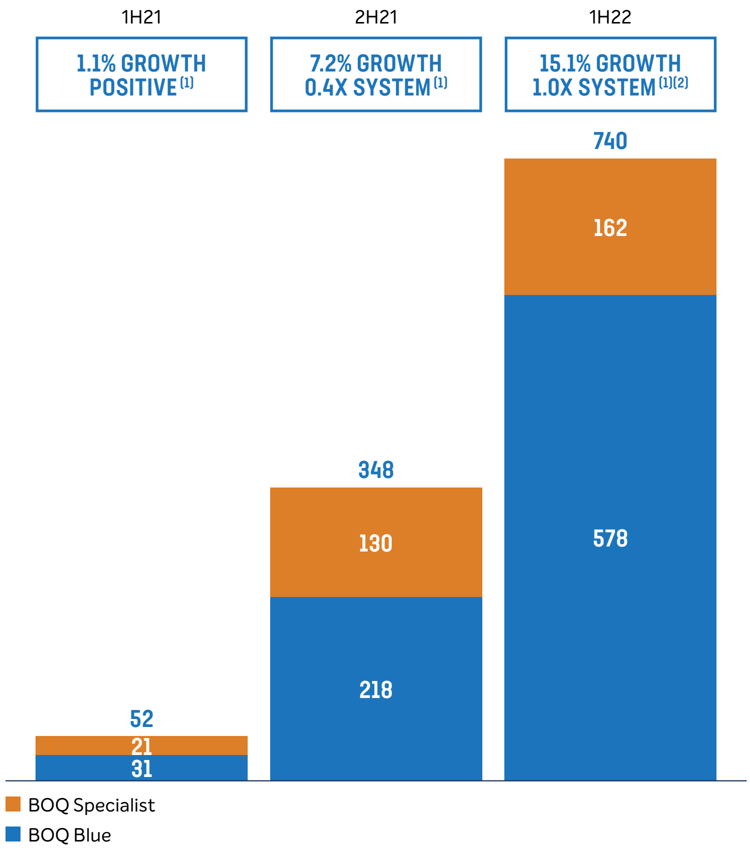
2.6 LENDING (CONTINUED)

Growth in Commercial lending ($ million)

The commercial lending portfolio grew by $0.7 billion on 2H21. This represented annualised growth of 15 per cent and 1.0x system growth.

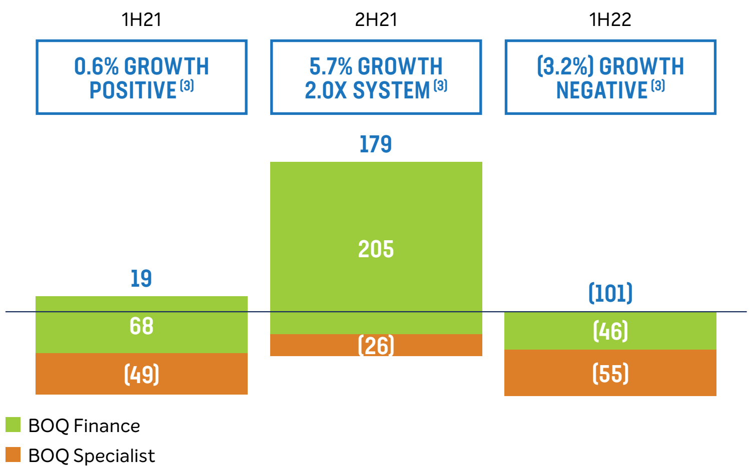
BOQ Blue commercial lending grew by $0.6 billion or 16 per cent on 2H21, with growth across both corporate and small business lending portfolios. Growth in corporates came largely within the hospitality and property segments. The small business lending portfolio contributed 17 per cent annualised growth in 1H22 as it continued to benefit from several strategic initiatives including reshaping the go-to market proposition for small business customers enabled by the creation of a business unit solely focused on this customer segment. The business remains committed to deliver further policy simplification, building banker and branch capability, risk policy, product features and business lending process transformation.

The BOQ Specialist commercial lending portfolio grew by $0.2 billion or 12 per cent on 2H21. Growth was mainly achieved in small business lending with the brand offering financing solutions to medical, dental and veterinary professionals.



Growth in Asset finance lending ($ million)

The asset finance portfolio contracted $0.1 billion or three per cent on 2H21. BOQ Finance saw its core equipment finance business deliver positive growth led by the construction and transport sectors, however, this was offset by contraction elsewhere in the portfolio as COVID-related supply chain issues continued to impact customers. BOQ Specialist contracted $55 million reflecting a slower return to investment from dentistry and medical practices. In order to improve service levels and return to growth the business is focused on delivering improvements across both people capability and processes.



(1) Commercial system growth represents latest available APRA Monthly Banking Statistics as at February 2022. Reflects the APRA definition of lending and therefore will not directly correlate to the balance sheet growth. "Positive system" represents a growth better than system whereas "Negative system" represents growth worse than system.

(2) Commercial growth in 1H22 includes a reclassification for the restructure of the BOQ Business division, which was not restated in the prior periods.

(3) Asset finance system growth represents latest available Australian Finance Industry Association (**AFIA**) system growth statistics as at February 2022.

FINANCIAL PERFORMANCE

For the half year ended 28 February 2022

2.7 CUSTOMER DEPOSITS

	Half Year Performance				
$ million	Feb-22	Aug-21	Pro forma Feb-21	Feb-22 vs Aug-21 [1]	Feb-22 vs Feb-21
Term deposits	**20,693**	21,991	20,533	(12%)	1%
Savings and investment accounts	**26,099**	24,293	22,395	15%	17%
Transaction accounts	**6,214**	5,377	4,941	31%	26%
Sub-total	**53,006**	51,661	47,869	5%	11%
Mortgage offsets [2]	**5,278**	4,808	4,662	20%	13%
Customer deposits	**58,284**	56,469	52,531	6%	11%
Deposit to loan ratio	**74%**	75%	71%	(1%)	3%

(1) Growth rates have been annualised.
(2) Mortgage offset balances are netted against home loans for the purposes of customer interest payments.

Customer deposits

Customer deposits grew by $1.8 billion or six per cent on 2H21, consistent with the Group's strategy to increase stable sources of funding while also reflecting ongoing high levels of liquidity in the market.

The Retail Bank remains the primary source of customer deposits with the majority generated through the branch network and VMA. These 1H22 inflows have been largely through lower cost transaction and savings and investment accounts, while continuing to reduce reliance on term deposits.

The Group has continued to maintain a strong liquidity position with a deposit to loan ratio of 74 per cent.

Term deposits

Term deposits decreased by $1.3 billion or 12 per cent on 2H21. This reduction is as a result of customer preferences for savings and investment accounts in a low rate environment and continued management of pricing to manage liquidity and reduce the cost of funds. As a result, term deposits have reduced from 39 per cent of the total portfolio in August 2021 to 36 per cent in February 2022.

Savings and investment accounts

Savings and investment accounts grew by $1.8 billion or 15 per cent on 2H21 with growth in both retail and commercial accounts.

The Bonus Interest Savings Account (**BISA**) achieved annualised growth of over ten per cent in 1H22, although growth has tapered since 2H21 following rate reductions. VMA savings accounts grew by $0.4 billion or 394 per cent reflecting a full period of these products in market. BISA and VMA growth accounted for the majority of the growth in retail products, which can be attributed to the highly accessible and flexible product offerings and competitive market rates offered during 1H22.

Transaction accounts and mortgage offsets

Transaction accounts and mortgage offsets grew by $0.8 billion and $0.5 billion on 2H21 respectively. The growth in transaction accounts reflected the impact of lockdowns during the period in reducing living costs including travel, supported by initiatives to improve customer propositions including payment capabilities and enhanced customer lifecycle communications. Higher offset balances also reflected the growth in home lending in 1H22.

FINANCIAL PERFORMANCE

For the half year ended 28 February 2022

3. BUSINESS SETTINGS

3.1 ASSET QUALITY

		Half Year Performance				
		Feb-22	Pro forma Aug-21	Pro forma Feb-21	Feb-22 vs Aug-21	Feb-22 vs Feb-21
Loan impairment expense	($ million)	**(15)**	(55)	26	(73%)	large
Loan impairment expense / GLA	(bps)	**(4)**	(14)	7	10bps	large
Impaired assets	($ million)	**194**	243	221	(20%)	(12%)
30 dpd arrears (1)	($ million)	**885**	941	1,113	(6%)	(20%)
90 dpd arrears (1)	($ million)	**476**	593	642	(20%)	(26%)
90dpd arrears / GLA (1)	(bps)	**60**	78	86	(18bps)	(26bps)
Total provision and GRCL coverage / GLA (1)(2)	(bps)	**48**	63	77	(15bps)	(29bps)

(1) Excludes the impact of the fair value adjustments on acquisition of ME Bank. Arrears have been presented on an unadjusted basis for all periods.
(2) GRCL gross of tax effect.

The loan impairment expense was a credit of $15 million for 1H22. The credit position for this half was driven by a $9 million collective provision expense credit due to a more favourable economic outlook, partly offset by an increase in the ME Bank collective provision. Specific provisions have also contributed a $6 million credit due to economic improvements and strong property prices.

Impaired assets of $194 million decreased by $49 million or 20 per cent on 2H21. Decreases in impaired assets were seen across all portfolios and are in line with low specific provisioning activity.

Arrears in both the 30 day and 90 day categories reduced compared to both 2H21 and 1H21. Improved economic conditions, low unemployment, the low interest rate environment and strong property prices contributed to decreases in the Retail and Commercial portfolios, partly offset by increases in the leasing and niche healthcare segments within the Asset finance portfolio. The overall 90 days arrears ratio to GLAs reduced by 18 basis points from 2H21 to 60 basis points in 1H22.

Loan impairment expense

	Half Year Performance					
	Feb-22		Pro forma Aug-21		Pro forma Feb-21	
	Expense ($m)	Expense / GLA (1) (bps)	Expense ($m)	Expense / GLA (1) (bps)	Expense ($m)	Expense / GLA (1) (bps)
Retail lending	**13**	**4**	(13)	(4)	(6)	(2)
Commercial lending	**(21)**	**(40)**	(26)	(52)	17	36
Asset finance	**(7)**	**(22)**	(16)	(49)	15	48
Total loan impairment expense	**(15)**	**(4)**	(55)	(14)	26	7

(1) Metrics have been annualised.

The loan impairment expense was a credit of $15 million in 1H22. This included a $35 million credit across the BOQ brands and a $20 million expense in ME Bank. The ME Bank expense reflected re-establishment of the collective provision following the initial recognition at fair value on acquisition. The overall collective provision expense for 1H22 was a credit of $9 million, driven by a more favourable economic outlook, and an associated decrease in the weighting assigned to the severe scenario, and strong property prices. Specific provision expense was a credit of $6 million driven primarily by write backs as a result of strong property prices and improved economic conditions across most industries.

Retail loan impairment expense of $13 million for 1H22 was driven by the re-establishment of ME Bank's collective provision. This was partly offset by lower specific provisions driven by strong property prices.

Commercial loan impairment expense was a credit of $21 million for 1H22 driven by a reduction in the collective provision of $20 million due to portfolio improvements and a more favourable economic outlook. Specific provisions were also lower resulting in a $1 million credit due to strong property prices and the general strength of economic conditions across most industries.

Asset finance loan impairment expense was a credit of $7 million for 1H22 driven by a reduction in the collective provision of $7 million due to a more favourable economic outlook. There was no specific provision expense as economic conditions improved.

FINANCIAL PERFORMANCE

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3.1 ASSET QUALITY (CONTINUED)

Impaired assets

$ million	As at Feb-22	Aug-21	Pro forma Feb-21	Feb-22 vs Aug-21	Feb-22 vs Feb-21
Retail lending	95	128	111	(26%)	(14%)
Commercial lending	63	77	78	(18%)	(19%)
Asset finance	36	38	32	(5%)	13%
Total impaired assets	**194**	243	221	(20%)	(12%)
Impaired assets / GLA	25bps	32bps	30bps	(7bps)	(5bps)

BOQ impaired assets of $194 million decreased by $49 million or 20 per cent on 2H21. There were decreases across all portfolios in line with low specific provisioning activity.

Retail impaired assets decreased by $33 million or 26 per cent on 2H21 as increasing house prices, low unemployment and a strong economy supported low specific provisioning activity.

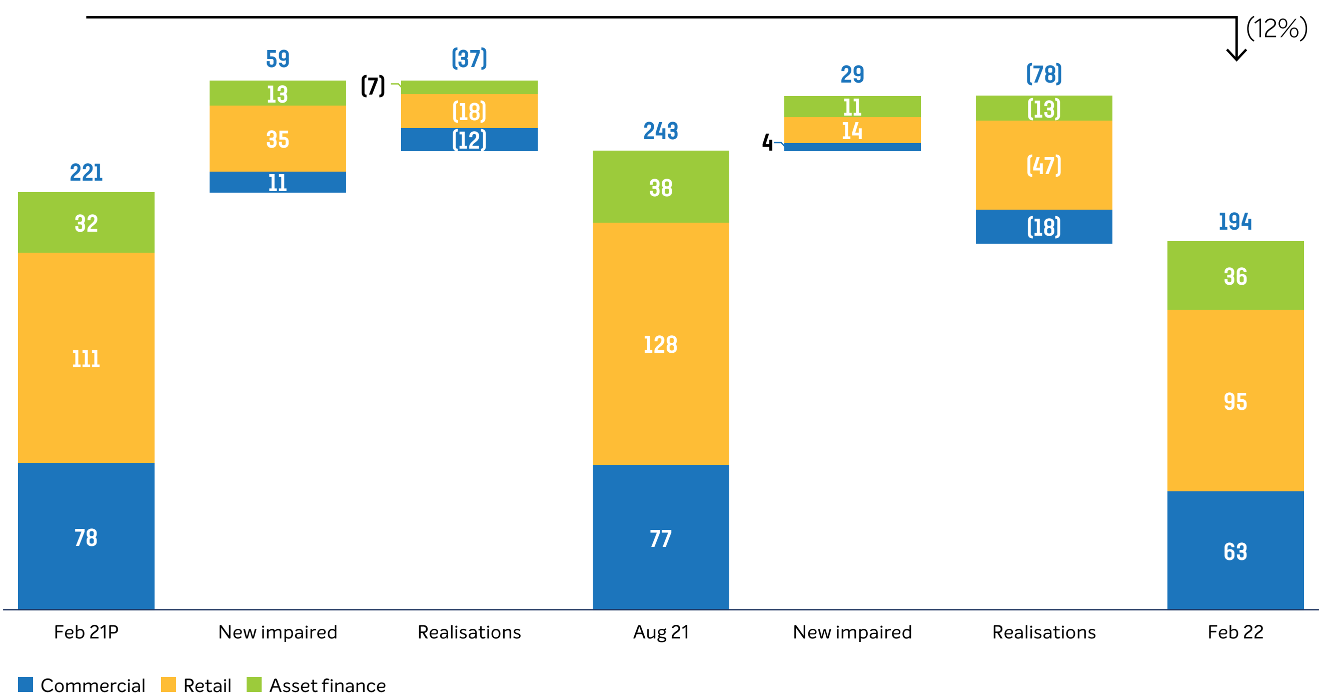
Commercial impaired assets decreased by $14 million or 18 per cent on 2H21. This was due to low specific provisioning activity and one large Agribusiness facility of $5 million returning to performing.

Asset finance impaired assets decreased by $2 million or five per cent on 2H21 but increased $5 million or 16 per cent on 1H21. Improved asset values and loan servicing, reflective of improved economic conditions, were offset by a slower recovery within niche medical practices impacting asset finance.

The Group holds two exposures with impaired balances greater than $5 million for a combined total of $22 million. This decreased from $27 million at 2H21 due to one $5 million impaired balance returning to performing in the commercial portfolio.

The following chart outlines the movements in impaired assets since February 2021.

Impaired assets ($ million)



FINANCIAL PERFORMANCE

For the half year ended 28 February 2022

3.1 ASSET QUALITY (CONTINUED)

Provision coverage

	As at				
$ million	Feb-22	Aug-21	Pro forma Feb-21	Feb-22 vs Aug-21	Feb-22 vs Feb-21
Specific provision	**90**	107	103	(16%)	(13%)
Collective provision	**199**	204	271	(2%)	(27%)
Pro forma ME Bank total provision	**-**	-	95	-	(100%)
Total provisions	**289**	311	469	(7%)	(38%)
GRCL ($ million)	**63**	52	69	21%	(9%)
Excluding fair value adjustments [(1)]					
Specific provisions to impaired assets	**46%**	47%	47%	(100bps)	(100bps)
Total provisions and GRCL coverage / impaired assets [(2)]	**195%**	198%	257%	(300bps)	large
CP and GRCL / Total RWA [(2)]	**64bps**	84bps	115bps	(20bps)	(51bps)
Total provisions and GRCL coverage / GLA [(2)]	**48bps**	63bps	77bps	(15bps)	(29bps)
Including fair value adjustments					
Specific provisions to impaired assets	**46%**	44%	47%	200bps	(100bps)
Total provisions and GRCL coverage / impaired assets [(2)]	**195%**	158%	257%	large	large
CP and GRCL / Total RWA [(2)]	**64bps**	63bps	115bps	1bp	(51bps)
Total provisions and GRCL coverage / GLA [(2)]	**48bps**	51bps	77bps	(3bps)	(29bps)

(1) Excludes the impact of the fair value adjustments on acquisition of ME Bank.
(2) GRCL gross of tax effect.

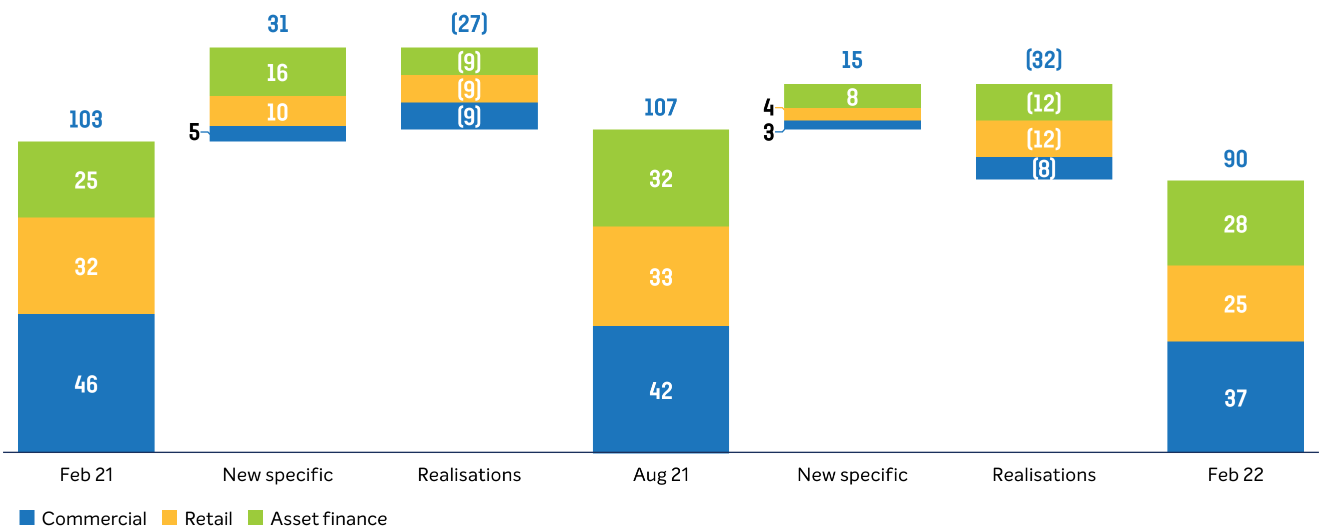
Total provisions of $289 million decreased by $22 million or seven per cent from 2H21. This was driven by decreases in both specific and collective provisions.

Specific provisions of $90 million decreased by $17 million or 16 per cent from 2H21. Specific provisions were subdued in 1H22 driven by increases in security valuations and loan servicing, reflecting improved economic conditions, partly offset by a slower recovery within niche medical practices impacting Asset finance. The coverage of impaired assets increased by two per cent to 46 per cent driven the decrease in impaired assets.

The collective provision of $199 million decreased by $5 million or two per cent from 2H21. This was driven by a more favourable economic outlook, and an associated decrease in the weighting assigned to the severe scenario, partly offset by the re-establishment of the ME Bank collective provision following the initial recognition at fair value on acquisition. Economic model assumptions and management overlays are prudently managed to ensure sufficient provisions are held.

Including the fair value adjustments, total provisions and GRCL coverage decreased by three basis points from 2H21 as a result of the decreases in the collective and specific provisions and growth in GLAs. Excluding ME Bank, BOQ Group's total provision and GRCL coverage is 66 basis points.

Specific provisions ($ million)



FINANCIAL PERFORMANCE

For the half year ended 28 February 2022

3.1 ASSET QUALITY (CONTINUED)

Arrears

Key metrics	Portfolio balance ($m) BOQ Group	Feb-22	Aug-21	Feb-21	Feb-22 vs Aug-21	Feb-22 vs Feb-21
Total lending - portfolio balance ($ million)		78,952	75,748	74,236	4%	6%
30 dpd ($ million)		885	941	1,113	(6%)	(20%)
90 dpd ($ million)		476	593	642	(20%)	(26%)
		Proportion of portfolio				
30 dpd: GLAs		1.12%	1.24%	1.50%	(12bps)	(38bps)
90 dpd: GLAs		0.60%	0.78%	0.86%	(18bps)	(26bps)
By portfolio						
30 dpd: GLAs (Retail) [(1)]	61,977	1.11%	1.26%	1.61%	(15bps)	(50bps)
90 dpd: GLAs (Retail) [(1)]		0.60%	0.83%	0.93%	(23bps)	(33bps)
30 dpd: GLAs (Commercial)	10,619	1.32%	1.52%	1.48%	(20bps)	(16bps)
90 dpd: GLAs (Commercial)		0.84%	0.93%	0.91%	(9bps)	(7bps)
30 dpd: GLAs (Asset finance)	6,356	0.85%	0.69%	0.48%	16bps	37bps
90 dpd: GLAs (Asset finance)		0.24%	0.20%	0.15%	4bps	9bps

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

Retail arrears

Retail arrears decreased in both the 30 day and 90 day categories by 15 and 23 basis points respectively since 2H21 and are in line with pre-COVID-19 levels. This was driven by improved economic conditions, low unemployment, the low interest rate environment and strong property prices. The downward trend was further improved by growth in the retail portfolio as new loans generally show low arrears for at least the first 12 months on book.

Commercial arrears

Commercial arrears decreased by 20 basis points in the 30 day category and by nine basis points in the 90 day category since 2H21. The decreases were driven by improved economic conditions and overall portfolio growth.

Asset finance arrears

Asset finance arrears increased by 16 basis points in the 30 day category and by four basis points in the 90 day category since 2H21. This was due to the impact of lockdowns and reduced collection activity over the Christmas period. Increases in 30 day arrears were driven by leasing products, particularly by a small number of customers in the New Zealand Agriculture industry and seasonality. Deterioration of 90 day arrears was driven by increases in the construction and health care sectors.

FINANCIAL PERFORMANCE

For the half year ended 28 February 2022

3.2 FUNDING AND LIQUIDITY

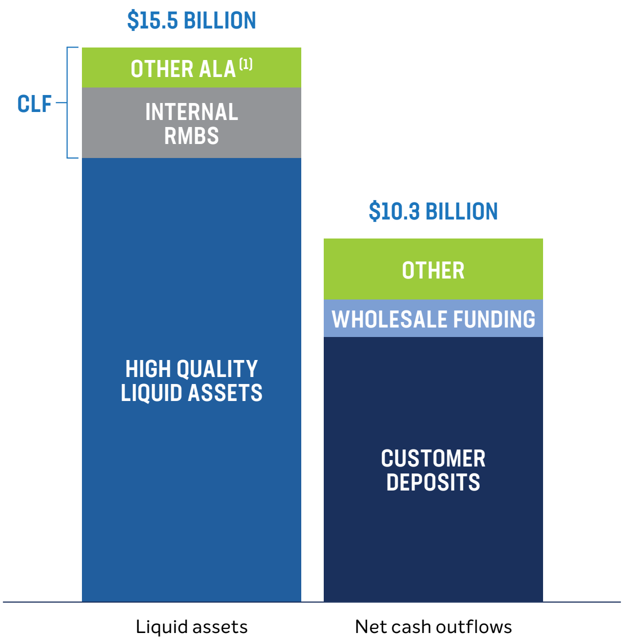
BOQ's liquidity and funding risk appetite strategy is designed to ensure that the Group has the ability to meet its financial obligations as they fall due under all market conditions. Management of liquidity risk at BOQ is focused on developing a stable customer deposit base, maintaining access to diversified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

Liquidity coverage ratio (LCR)

APRA requires ADIs to maintain a minimum LCR of 100 per cent. BOQ manages its LCR on a daily basis and actively maintains a buffer above the regulatory minimum in line with BOQ's prescribed risk appetite and policy settings.

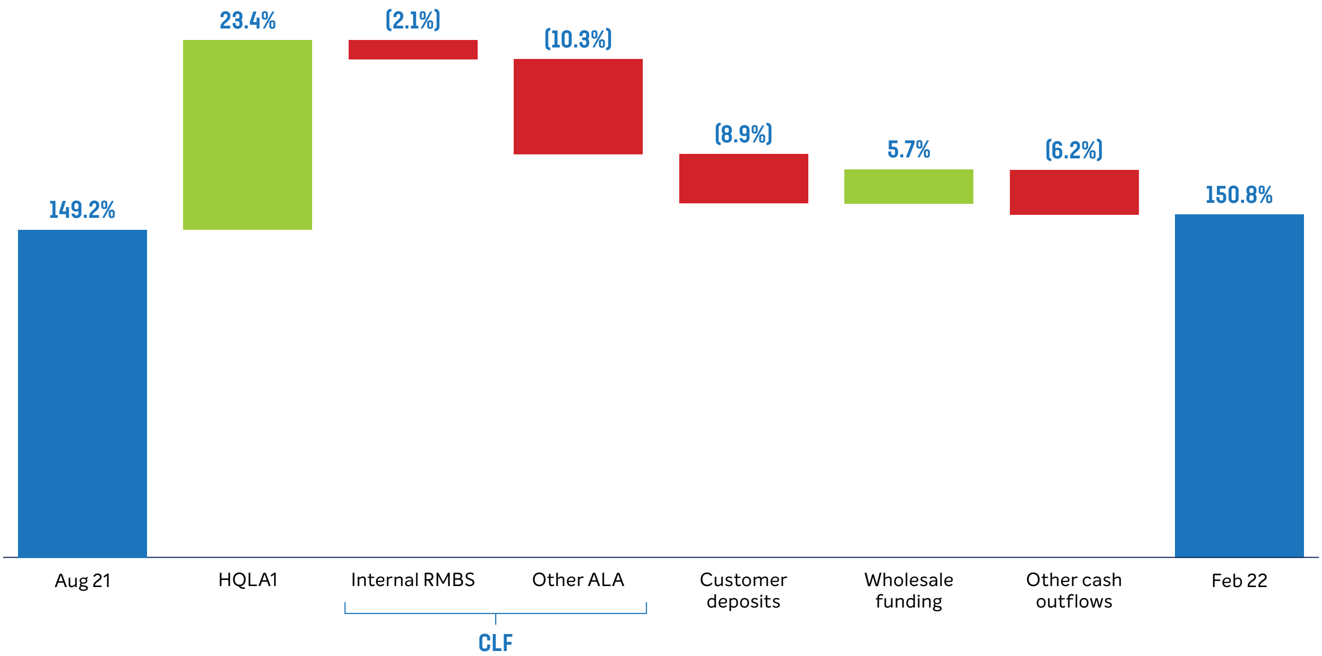
BOQ's level 2 LCR at 28 February 2022 was 151 per cent, which was two per cent higher than 2H21. The average level 2 LCR for the half was 153 per cent. This average is higher than usual and is primarily due to an increase in HQLA1 (cash, Australian Semi-Government and Commonwealth Government securities) to comply with APRA's requirement that an LCR ADI's ratio of HQLA1 to net cash outflows (**NCO**) remain above 100 per cent through the phasing out of the CLF in 2022. Over the half, the CLF decreased by $1.2 billion. NCO grew by $600 million, which was influenced by increases in customer deposit funding, loans approved but not advanced (**LANA**) and cash outflows relating to potential collateral movements arising from greater volatility in interest rate markets. HQLA1 increased by $2.3 billion to compensate for the decrease in CLF and increase in NCO. The majority of the ALA portfolio was sold to assist in the funding of HQLA1.

LCR - February 2022 (151%)



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

LCR waterfall 31 August 2021 – 28 February 2022



FINANCIAL PERFORMANCE

For the half year ended 28 February 2022

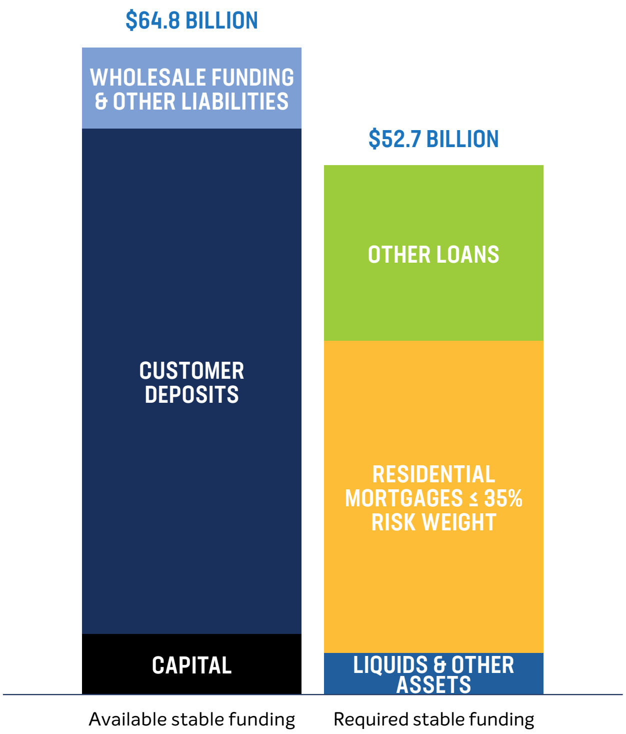
3.2 FUNDING AND LIQUIDITY (CONTINUED)

Net stable funding ratio (NSFR)

The NSFR encourages ADIs to fund their lending activities with more stable sources of funding, thereby promoting greater balance sheet resilience. BOQ manages its NSFR on a daily basis and actively maintains a buffer above the regulatory minimum of 100 per cent, in line with BOQ's prescribed risk appetite and policy settings.

BOQ's level 2 NSFR at 28 February 2022 was 123 per cent, which is an increase of one per cent over 2H21. The CLF decrease had a negative impact on the NSFR but growth in stable funding sources was sufficient to offset this impact and the impact of faster loan growth when compared to the previous half.

NSFR – February 2022 (123%)

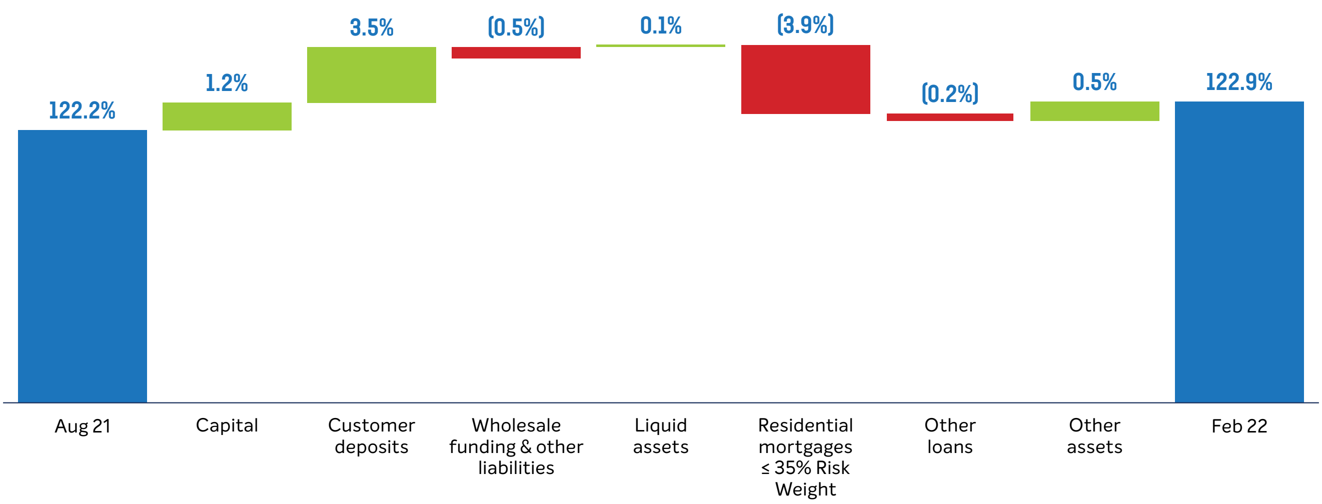


Liquid assets

BOQ maintains a portfolio of high quality, diversified liquid assets to facilitate balance sheet liquidity and meet internal and regulatory requirements. Liquid assets are comprised of: HQLA1 and alternative liquid assets covered under the CLF provided by the RBA. CLF assets include senior unsecured bank debt, covered bonds, asset backed securities (**ABS**) and RMBS that are eligible for repurchase with the RBA.

As of 28 February 2022, BOQ's CLF was $3.6 billion. APRA has confirmed that the CLF allowance for the banking system will be reduced to zero by the end of 2022, which is in response to the increase in HQLA available to the banking system to meet LCR requirements.

NSFR waterfall 31 August 2021 – 28 February 2022



FINANCIAL PERFORMANCE

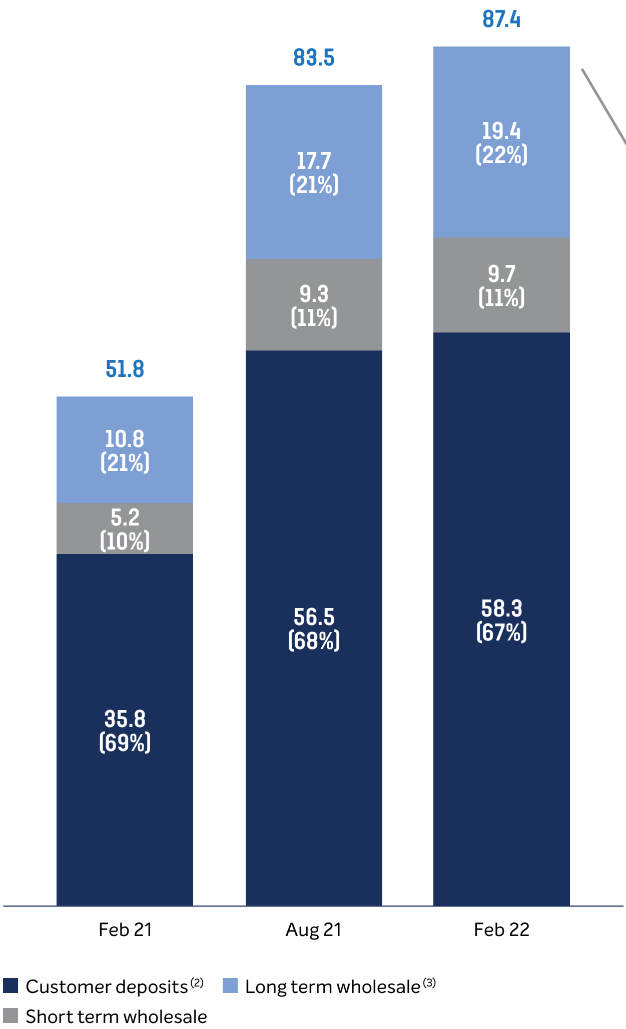
For the half year ended 28 February 2022

3.2 FUNDING AND LIQUIDITY (CONTINUED)

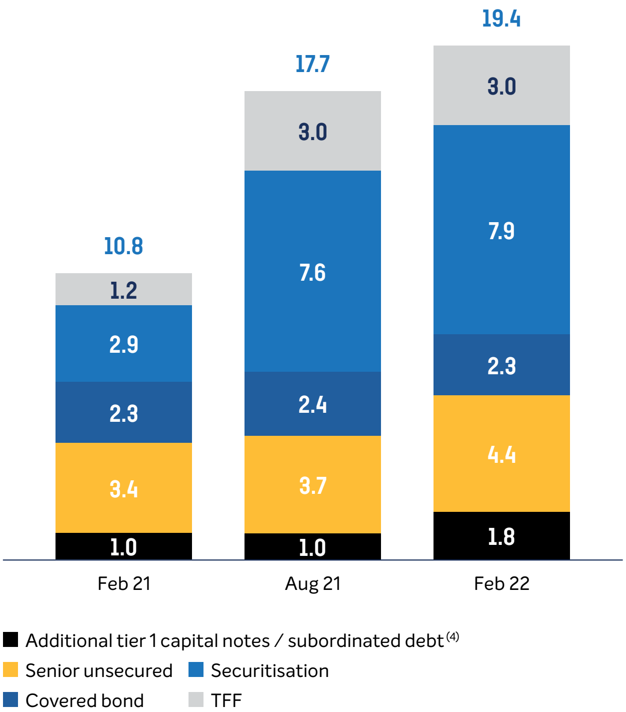
Funding

BOQ's funding strategy and risk appetite reflects the Group's business strategy, adjusted for the current economic environment. Funding is managed to allow for various scenarios that may impact BOQ's funding position.

Funding mix ($ billion) (1)



Long term wholesale ($ billion)



(1) Funding mix has not been presented on a pro forma basis and therefore 1H21 excludes ME Bank.
(2) The classification of customer deposits is defined as all deposits excluding those from financial institutions as defined under APS 210 *Liquidity*.
(3) Foreign currency balances have been translated at end of day spot rates.
(4) Includes $0.3 billion additional tier 1 capital notes at 28 February 2022, which are in 'other equity instruments' in the Financial Statements: Consolidated Statement of Changes in Equity. Upon ADI licence handback completed on 28 February 2022, these notes, which were originally issued by ME Bank, formed part of the Group's capital adequacy. As at 31 August 2021, these notes were not included in the Group's capital.

Wholesale funding

BOQ focuses on three main strategic elements in delivering its wholesale funding objectives – capacity growth, resilience and diversity – while minimising the cost of funds and maintaining its ability to take advantage of opportunities in the most appropriate markets. BOQ continues to optimise the mix of wholesale and retail funding, whilst also increasing stable sources of funding.

In 1H22, BOQ's continued focus on growing customer deposits through a variety of channels has seen growth in deposits of $1.8 billion. As a result, above-system loan growth was partly funded by customer deposits, which has seen the deposit to loan ratio remain well above 70 per cent ending the period at 74 per cent. The remaining retail funding gap was primarily funded by accessing term wholesale funding markets, including both in secured and unsecured formats.

FINANCIAL PERFORMANCE

For the half year ended 28 February 2022

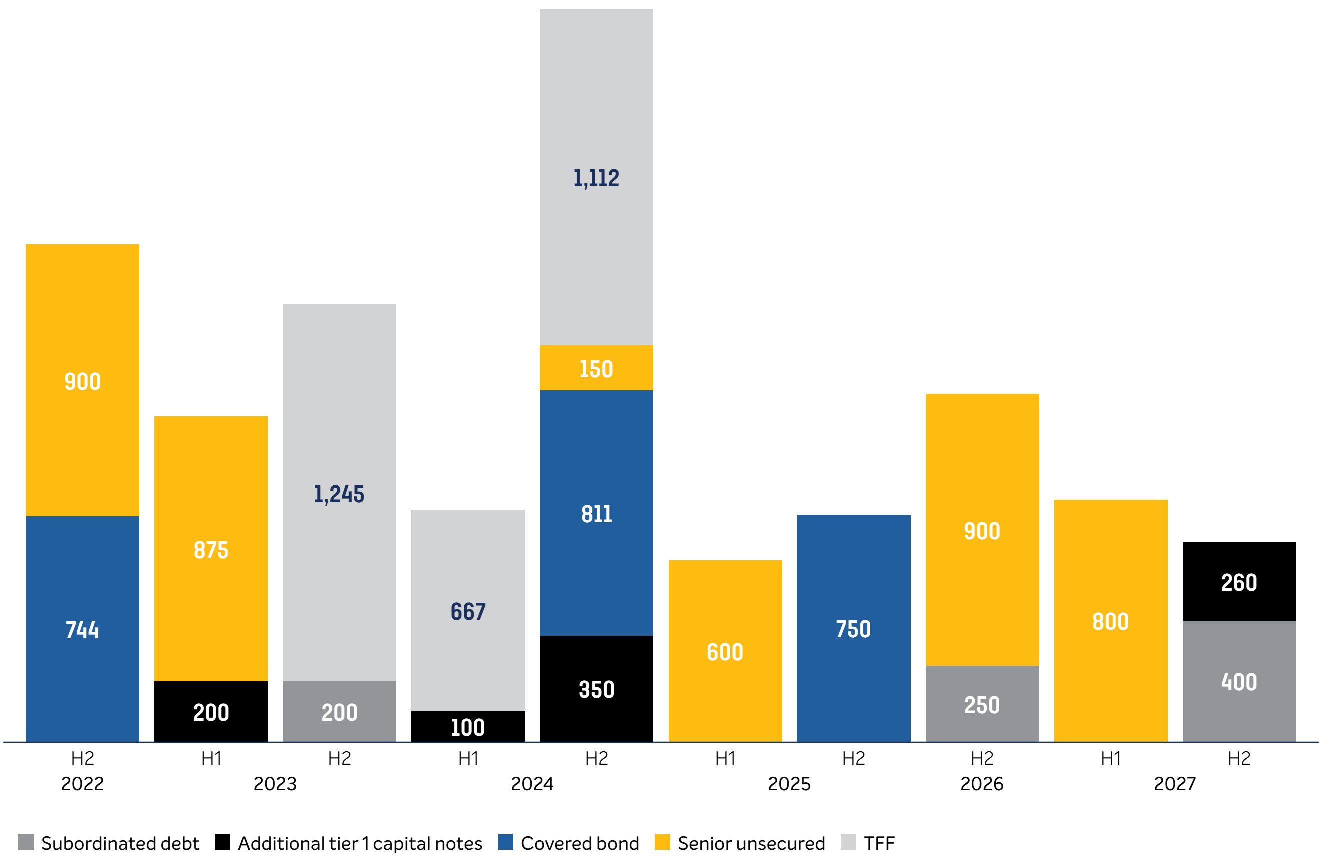
3.2 FUNDING AND LIQUIDITY (CONTINUED)

Term funding issuance

BOQ accessed term funding markets in 1H22 using a range of long term wholesale products, with the intention of refinancing existing maturities as well as funding loan growth, complementing the inflow of customer deposits. This included an $800 million domestic Senior Unsecured benchmark issuance in October 2021, a $250 million domestic Senior Unsecured benchmark deal in January 2022, and a $400 million Subordinated Debt (Tier 2 Capital) deal in November 2021.

BOQ has a diverse range of unsecured and secured debt programmes. This provides funding diversification benefits and also enables BOQ to fund future asset growth and manage term maturity towers over the next five years, including refinancing the TFF.

Major maturities ($ million) (1)(2)(3)(4)



(1) Any transaction issued in a currency other than Australian dollars (**AUD**) is shown in the applicable AUD equivalent hedged amount.
(2) Senior unsecured maturities greater than or equal to $50 million shown, excludes private placements.
(3) Redemption of subordinated debt notes and additional tier 1 capital notes at the scheduled call date is at BOQ's option and is subject to obtaining prior written approval from APRA.
(4) Halves are reflected in line with the Group's financial reporting year.

FINANCIAL PERFORMANCE

For the half year ended 28 February 2022

3.3 CAPITAL MANAGEMENT

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

Capital adequacy

	As at				
$ million	Feb-22	Aug-21 (1)	Feb-21 (1)	Feb-22 vs Aug-21	Feb-22 vs Feb-21
QUALIFYING CAPITAL FOR LEVEL 2 ENTITIES (2)					
Common Equity Tier 1 Capital					
Ordinary share capital	**5,218**	5,213	3,870	-	35%
Reserves	**487**	346	298	41%	63%
Retained profits, including current period profits	**349**	277	199	26%	75%
CET1 capital before regulatory adjustments	**6,054**	5,836	4,367	4%	39%
Regulatory adjustments					
Goodwill and intangibles	**(1,197)**	(1,180)	(927)	1%	29%
Deferred expenditure	**(350)**	(311)	(201)	13%	74%
Other deductions	**(136)**	(11)	(18)	large	large
Total CET1 regulatory adjustments	**(1,683)**	(1,502)	(1,146)	12%	47%
CET1 Capital	**4,371**	4,334	3,221	1%	36%
Additional Tier 1 Capital	**910**	610	610	49%	49%
Total Tier 1 Capital	**5,281**	4,944	3,831	7%	38%
Tier 2 Capital					
GRCL (3)	**167**	178	263	(6%)	(36%)
Tier 2 Capital	**836**	450	350	86%	139%
Total Tier 2 Capital	**1,003**	628	613	60%	64%
Total Capital	**6,284**	5,572	4,444	13%	41%
Total RWA	**45,162**	44,229	32,126	2%	41%
CET1 ratio	**9.68%**	9.80%	10.03%	(12bps)	(35bps)
Net Tier 1 Capital ratio	**11.69%**	11.18%	11.92%	51bps	(23bps)
Total Capital adequacy ratio	**13.91%**	12.60%	13.83%	131bps	8bps

(1) Comparative information has not been restated to reflect the prior period adjustments detailed in Note 6.4(a) to the Financial Statements.

(2) APRA Prudential Standard APS 001 *Definitions* defines Level 2 as the Bank and all of its subsidiary entities other than non-consolidated subsidiaries. The non-consolidated subsidiaries excluded from Level 2 regulatory measurements at 28 February 2022 are:

- Bank of Queensland Limited Employee Share Plans Trust;
- Home Credit Management Pty Ltd;
- Series 2012-1E REDS Trust;
- Series 2013-1 REDS Trust;
- Series 2015-1 REDS Trust;
- Series 2017-1 REDS Trust;
- Series 2018-1 REDS Trust;
- Series 2019-1 REDS Trust;
- SMHL Series Securitisation Fund 2015-1;
- SMHL Series Securitisation Fund 2016-1;
- SMHL Series Securitisation Fund 2017-1;
- SMHL Series Securitisation Fund 2017-2;
- SMHL Series Securitisation Fund 2018-2;
- SMHL Series Securitisation Fund 2019-1;
- SMHL Series Private Placement Trust 2019-1;
- SMHL Series Private Placement 2019-2; and
- SMHL Securitisation Trust 2020-1.

Hence, the balances in the table will not directly correlate to the Consolidated Balance Sheet.

(3) Reflects the APRA definition for GRCL.

FINANCIAL PERFORMANCE

For the half year ended 28 February 2022

3.3 CAPITAL MANAGEMENT (CONTINUED)

The Group's CET1 ratio decreased by 12 basis points during 1H22 from 9.80 per cent to 9.68 per cent and was above the top end of the target range of 9.0 to 9.5 per cent (1). Including the impact of a securitisation transaction that settled in March 2022, the CET1 ratio would be 9.76 per cent.

Cash earnings generated 61 basis points of capital, which was offset by:

- Underlying RWA growth and increased loan origination costs (41 basis points decrease) driven by strong lending growth. RWA growth excludes the impact of capital efficient securitisations;
- Investment in the business for transformation in line with the strategic roadmap, net of amortisation (nine basis points decrease); and
- Payment of the FY21 Final Dividend net of Dividend Reinvestment Plan (**DRP**) share issuance (28 basis points decrease).

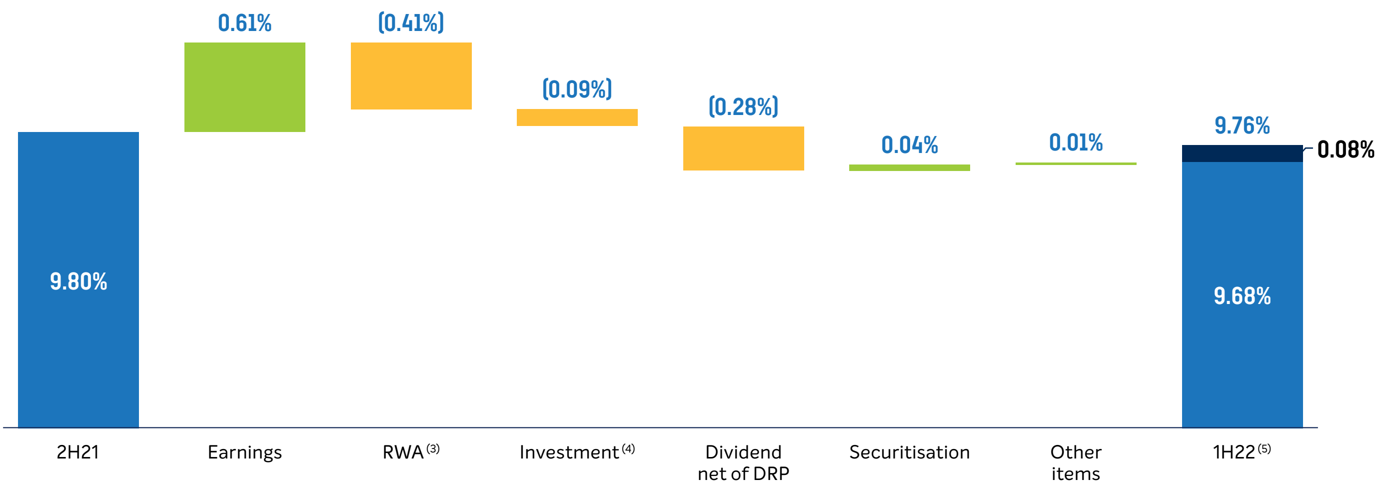
The overall net impact of securitisations in 1H22 was a four basis points increase. Capital efficient securitisations issued over the half contributed nine basis points of capital. This was partly offset by run-off in capital relief securitised housing loans, which utilised five basis points.

Other items, which increased the ratio by one basis point, include statutory adjustments, a decrease in the Deferred Tax Asset and completion of the sale of St Andrew's in October 2021.

The Group's total capital adequacy ratio increased by 131 basis points to 13.91 per cent in 1H22. This was primarily due to:

- $300 million of ME Bank issued Additional Tier 1 capital becoming eligible for inclusion in BOQ's Group capital position following the completion of the ADI licence handback (68 basis points increase); and
- $400 million Tier 2 Capital issuance in November 2021 (90 basis points increase). Partly offset by:
- 12 basis points decrease in the CET1 capital ratio.

1H22 CET1 Walk



(1) BOQ intends to operate above the management target range of 9.0 – 9.5 per cent in FY22 until the final impacts of APRA's changes to RWAs and capital calibration are understood.
(2) Participation in the 2H21 DRP was 10.7 per cent.
(3) Includes loan origination costs.
(4) Capitalised expenses net of amortisation.
(5) Including the securitisation transaction which settled in March 2022.

3.4 TAX EXPENSE

BOQ tax expense arising on cash earnings for 1H22 amounted to $117 million. This represented an effective tax rate of 30.4 per cent, which is above the corporate tax rate of 30 per cent primarily due to the non-deductibility of interest payable on Capital Notes issued in FY18 and FY21.

FINANCIAL PERFORMANCE

For the half year ended 28 February 2022

4. DIVISIONAL PERFORMANCE

4.1 RETAIL INCOME STATEMENT, KEY METRICS AND FINANCIAL PERFORMANCE REVIEW

Overview

The Retail Bank meets the financial needs and services of personal customers. The division supports customers through owner-managed and corporate branch networks, third party intermediaries, VMA distribution channels, more than 2,300 automated teller machines (**ATMs**), an Australian based customer call centre, digital services and mobile mortgage specialists. BOQ acquired 100 per cent of the share capital of ME Bank on 1 July 2021. ME Bank operates in the retail segment of the domestic market offering primarily home loan products, everyday transaction and online savings accounts.

	Half Year Performance				
$ million	Feb-22	Pro forma Aug-21	Pro forma Feb-21	Feb-22 vs Aug-21	Feb-22 vs Feb-21
Net interest income	460	500	481	(8%)	(4%)
Non-interest income	62	43	42	44%	48%
Total income	522	543	523	(4%)	-
Operating expenses	(321)	(339)	(324)	(5%)	(1%)
Underlying profit	201	204	199	(1%)	1%
Loan impairment expense	(19)	25	4	large	large
Profit before tax	182	229	203	(21%)	(10%)
Income tax expense	(55)	(72)	(62)	(24%)	(11%)
Cash earnings after tax	**127**	157	141	(19%)	(10%)

Key metrics

		Feb-22	Pro forma Aug-21	Pro forma Feb-21	Feb-22 vs Aug-21	Feb-22 vs Feb-21
PERFORMANCE INDICATORS						
CTI ratio	(%)	61.5	62.4	62.0	(90bps)	(50bps)
Net interest income / average GLA (1)	(%)	1.85	2.03	2.01	(18bps)	(16bps)
ASSET QUALITY						
90dpd arrears	($ million)	350	476	535	(26%)	(35%)
Impaired assets	($ million)	85	120	105	(29%)	(19%)
Loan impairment expense / GLA	(bps)	7	(3)	(2)	large	large
BALANCE SHEET						
GLA (2)(3)	($ million)	55,072	52,883	52,183	8%	6%
Housing	($ million)	54,838	52,626	51,887	8%	6%
Other retail	($ million)	234	257	296	(18%)	(21%)
Credit risk weighted assets	($ million)	18,852	18,716	18,218	1%	3%
Customer deposits (2)(4)	($ million)	38,208	37,046	34,131	6%	12%
Term deposits	($ million)	10,936	12,019	11,125	(18%)	(2%)
Mortgage offsets	($ million)	4,022	3,689	3,540	18%	14%
Savings & investment	($ million)	19,189	17,847	16,382	15%	17%
Transaction accounts	($ million)	4,061	3,491	3,084	33%	32%
Deposit to loan ratio	(%)	69	70	65	(100bps)	400bps

(1) Calculated on a cash earnings basis and net of offsets accounts.
(2) Growth rates have been annualised.
(3) GLA has been presented gross of provisions for impairment and therefore does not align to Note 6.2.4 to the Financial Statements.
(4) Treasury managed deposits are included in the Group's Other operating segment.

FINANCIAL PERFORMANCE

For the half year ended 28 February 2022

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

Business review

The Retail Bank continues to execute its strategic initiatives and remains committed to supporting customers, employees and communities in the current environment. The acquisition of ME Bank strengthened the multi-brand proposition enabling the Group to optimise the use of multi-channels and geographical strengths while leveraging best practices and scale to drive growth across all brands. Following a successful "Family and Friends" pilot, MyBOQ, including transaction and savings accounts, was successfully launched in March 2022. This represented the first deployment of multi-brand capability onto the new Digital Bank platform. MyBOQ is a significant milestone and execution proof point for the Group in the strategy to move towards a single consolidated digital platform across all retail brands and fulfil the strategic ambition to be 'the digital bank with a personal touch.'

The BOQ brand is largely distributed through the BOQ branch network, consisting of 107 owner-managed and 44 corporate branches supported by seven transaction centres, and the BOQ broker channel. Expanding and leveraging the unique owner-manager model, anchored in the communities being served, remains a strategic focus for the Retail Bank. The branch network continues to deliver high-quality mortgage growth, increasing $0.4 billion on 2H21 and remains an important funding source with customer deposits of $18.6 billion, up nine per cent on 2H21. Branch originated commercial lending has increased 50 per cent on 2H21 due to improved branch capability and business lending process transformation.

The BOQ broker channel recorded home lending growth of $0.8 billion or 39 per cent on 2H21. The broker channel's consistency in performance was driven by the reactivation of the broker network and new quality third party relationships, on boarded in FY21, supported by the ongoing focus on front line and mortgage process efficiency, consistency in pricing and credit policy and the investment to uplift the broker support ecosystem. Whilst further areas for improvement remain, specifically processing times, the advances made to date have enabled an uplift of nine per cent in settlement volumes on 2H21.

The VMA brand is a globally recognised brand which appeals to younger more digital savvy customers and continues to contribute to the Group's geographical diversification by targeting metropolitan-based customers across Australia. VMA has a proven track record in executing on strong customer value led propositions, evidenced by a home loan portfolio of $5.0 billion. The cloud-based VMA Digital Bank, launched in FY21, has attracted deposit balances of over $0.5 billion and over 50,000 new customers. The Digital Bank launched with transaction, savings and integrated credit card and loyalty offering. Phase 2 of the Digital Bank program is well underway and will see the extension of the platform to include an expanded deposit offering and home lending across both VMA and BOQ brands.

The ME Bank brand is a strong complementary brand, sharing a customer-centric culture recognised nationally, with a notable Victorian emphasis. The target customer base is slightly more mainstream, but digitally capable and therefore not as reliant on face-to-face support. The ME Bank brand is largely centred on a housing portfolio of $25 billion which is supported by a broker channel and propriety network of mobile bankers. ME Bank contributes to the Group's funding with customer deposits of $18 billion.

The ME Bank housing portfolio has returned to growth after contracting $1.4 billion in the prior year. The portfolio grew $0.3 billion or two per cent on 2H21. Home buying transformation delivered over 80 improvements across broker and customer experience, process, policy and retention to get ME home buying back to growth.

Financial performance review

Retail Bank cash earnings after tax decreased by $14 million or ten per cent on pro forma 1H21 as collective provisioning levels normalised following provision releases in FY21. Underlying profit was marginally up as lower net interest income was offset by one-off non-interest income items and a reduction in operating costs due to synergy realisation and continued productivity.

Net interest income

Net interest income decreased by $21 million or four per cent on 1H21. This was largely driven by housing margin contraction and lower housing loan balances in ME Bank, partly offset by housing growth in the BOQ channels, deposit volume growth and active repricing of higher cost deposits.

Strong volume momentum continued through 1H22 with the portfolio increasing by $2.9 billion or six per cent on 1H21. Loan growth excluding ME Bank was $3.6 billion or 14 per cent on 1H21. As a result, Retail Bank excluding ME Bank net interest income grew by one per cent on 1H21.

Housing margin contraction was driven by customers switching from variable to lower margin fixed rate loans, swap rates increasing faster than fixed rates, intensifying competition on new business and continued retention discounting.

Deposit margins decreased due to the low interest rate environment, partially offset by active deposit repricing, impacting saving deposit account margins. Transaction and savings balances growth, driven by high levels of liquidity in the market, continued into 1H22 resulting in total deposit growth of $4.1 billion or 12 per cent on 1H21.

Non-interest income

Non-interest income increased by $20 million or 48 per cent on 1H21. The increase was driven by a number of one-off revenue items including incentive income realised through an updated card services arrangement with a third party supplier, a termination fee relating to a third party insurance provider and realised gains on sale of investment securities. Underlying non-interest income was largely flat on 1H21.

Operating expenses

Operating expenses decreased by $3 million or one per cent on 1H21. Productivity and synergy realisation was partly offset by investment to support increased volume growth and to enable the Retail digital transformation.

Loan impairment expense

Loan impairment expense was $19 million in 1H22 compared to a credit of $4 million in 1H21. The increased loan impairment charge reflects the normalisation of collective provisioning following prior period COVID-19 provisioning impacts, with re-establishment of the ME Bank collective provision and volume growth driving the increase.

FINANCIAL PERFORMANCE

For the half year ended 28 February 2022

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

Overview

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

	Half Year Performance				
$ million	Feb-22	Aug-21	Feb-21	Feb-22 vs Aug-21	Feb-22 vs Feb-21
Net interest income	280	285	270	(2%)	4%
Non-interest income	25	23	25	9%	-
Total income	305	308	295	(1%)	3%
Operating expenses	(140)	(130)	(132)	8%	6%
Underlying profit	165	178	163	(7%)	1%
Loan impairment expense	34	30	(30)	13%	large
Profit before tax	199	208	133	(4%)	50%
Income tax expense	(61)	(65)	(41)	(6%)	49%
Cash earnings after tax	**138**	143	92	(3%)	50%

Key metrics

		Feb-22	Aug-21	Feb-21	Feb-22 vs Aug-21	Feb-22 vs Feb-21
PERFORMANCE INDICATORS						
CTI ratio	(%)	45.9	42.2	44.7	370bps	120bps
Net interest income / average GLA [1]	(%)	2.55	2.67	2.60	(12bps)	(5bps)
ASSET QUALITY						
90dpd arrears	($ million)	126	118	107	7%	18%
Impaired assets	($ million)	109	123	115	(11%)	(5%)
Loan impairment expense / GLA	(bps)	(29)	(26)	27	(3bps)	large
BALANCE SHEET						
GLA [2][3]	($ million)	23,880	22,865	22,053	9%	8%
Housing	($ million)	6,804	6,427	6,162	12%	10%
Commercial and other	($ million)	10,720	9,981	9,613	15%	12%
Asset finance	($ million)	6,356	6,457	6,278	(3%)	1%
Credit risk weighted assets	($ million)	19,114	18,147	17,553	5%	9%
Customer deposits [2][4]	($ million)	11,889	10,838	10,339	20%	15%
Term deposits	($ million)	1,573	1,393	1,349	26%	17%
Mortgage offsets	($ million)	1,255	1,119	1,122	25%	12%
Savings & investment	($ million)	6,909	6,443	6,011	15%	15%
Transaction accounts	($ million)	2,152	1,883	1,857	29%	16%
Deposit to loan ratio	(%)	50	47	47	300bps	300bps

(1) Calculated on a cash earnings basis and net of offsets accounts.
(2) Growth rates have been annualised.
(3) GLA has been presented gross of provisions for impairment and therefore does not align to Note 6.2.4 to the Financial Statements.
(4) Treasury managed deposits are included in the Group's Other operating segment.

FINANCIAL PERFORMANCE

For the half year ended 28 February 2022

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

Business review

BOQ Business has continued to support its corporate and small business customers through challenging economic conditions by providing ongoing lending and specific COVID-19 relief where required.

The business continued to execute on its niche segment strategy of providing a tailored relationship offering to customers by achieving total asset growth of $1.0 billion or nine per cent on 2H21. This was matched by strong deposit growth of $1.1 billion or 20 per cent on 2H21.

The BOQ Blue brand saw commercial lending balance growth of $0.6 billion or 16 per cent on 2H21, with strong performance across both the corporate and small business lending portfolios.

The small business strategy remains a core focus with strategic initiatives, including the creation of a business unit solely focused on servicing this customer segment, helping to deliver 17 per cent asset growth on 2H21. The business remains committed to deliver further policy simplification, building banker and branch capability, risk policy, product features and business lending process transformation.

BOQ Specialist commercial lending grew by $0.2 billion or 12 per cent on 2H21, while the asset financing portfolio contracted $55 million reflecting a slower return to investment from dentistry and medical practices. BOQ Specialist home lending grew by 13 per cent, with the mortgage offering providing a pipeline of customers with potential commercial lending needs in the future.

Improvements made to online banking in BOQ Specialist helped to deliver continued deposit growth, up 27 per cent in 1H22 primarily across savings and term accounts. BOQ Specialist focuses on clearly defined niches and has developed deep client relationships offering tailored consumer and commercial products and services to assist professionals.

BOQ Finance saw asset finance balances contract $46 million in 1H22. The core equipment finance book delivered growth led by the construction and transport sectors, however this was offset by contraction elsewhere in the portfolio on the back of continued COVID-related supply chain issues.

Financial performance review

BOQ Business cash earnings after tax increased by $46 million or 50 per cent on 1H21. Underlying profit increased by one per cent, while loan impairment expense improved by $64 million following a reduction in the collective provision in 1H22.

Net interest income

Net interest income increased by $10 million or four per cent on 1H21 driven by growth across both asset and deposit balances, partly offset by margin contraction.

Asset growth of $1.8 billion or eight per cent on 1H21 was driven by commercial lending which delivered 11 per cent growth, with both large corporate and small business segments contributing. Home lending delivered growth of ten per cent primarily in the BOQ Specialist portfolio. Asset finance balances saw growth of only one per cent on COVID-related supply chain challenges and subdued investment across dentistry and medical practices.

Margin contracted five basis points on 1H21, as the low interest rate environment continued to put pressure on deposit margins, while rising swap rates and high levels of competition impacted asset margins. This was partly offset by the benefits of repricing activity, lower funding costs and higher early termination fees in the BOQ Finance leasing portfolio.

Non-interest income

Non-interest income of $25 million was flat on 1H21. This reflected higher volume related lending fee income and gains on the sale of leased assets, offset by lower Financial Markets revenue from interest rate hedging activity and trading.

Operating expenses

Operating expenses increased by $8 million or six per cent on 1H21. This reflected increased software amortisation following investment in technology projects, and additional staff to support both volume growth and regulatory compliance obligations.

Loan impairment expense

Loan impairment expense was a credit of $34 million in 1H22 driven by a $34 million reduction in the collective provision and low specific provisioning activity. This was primarily driven by portfolio improvements in the commercial lending book and an improved economic outlook.

FINANCIAL PERFORMANCE

For the half year ended 28 February 2022

4.3 OTHER SEGMENT INCOME STATEMENT AND FINANCIAL PERFORMANCE REVIEW

Overview

The Other segment includes Treasury and Group head office. Previously, the Other segment included St Andrew's Insurance, which was sold during 1H22 and therefore excluded from the pro forma result below.

	Half Year Performance				
$ million	Feb-22	Pro forma Aug-21	Pro forma Feb-21	Feb-22 vs Aug-21	Feb-22 vs Feb-21
Net interest income / (expense)	1	(3)	6	large	(83%)
Non-interest income / (expense)	3	(1)	2	large	50%
Total income	4	(4)	8	large	(50%)
Operating expenses	-	(5)	(4)	(100%)	(100%)
Underlying profit / (loss)	4	(9)	4	large	-
Loan impairment expense	-	-	-	-	-
Profit / (loss) before tax	4	(9)	4	large	-
Income tax expense	(1)	4	(1)	large	-
Cash earnings / (loss) after tax	**3**	(5)	3	large	-

Financial performance review

Cash earnings after tax of $3 million was flat compared to 1H21.

Net interest income / (expense)

Net interest income decreased by $5 million or 83 per cent on 1H21. This primarily reflected lower home loan break cost income.

Non-interest income / (expense)

Non-interest income of $3 million reflected gains from portfolio management activities and the sale of ALAs to purchase HQLA1s in order to maintain LCR targets as part of the phased reduction in the CLF.

Operating expenses

Operating expenses decreased by $4 million in 1H22 as all Group head office expenses were allocated to the Retail and Business divisions.

4.4 OUTLOOK

Looking forward, we are cautiously optimistic that despite the uncertain environment, Australia remains well placed for economic recovery. Cash rate rises appear increasingly likely as the recovery continues and inflation rises. BOQ remains focused on achieving quality sustainable profitable growth and on delivering positive jaws. BOQ intends to operate above the management target range of 9.0 per cent to 9.5 per cent in FY22 until the final impacts of APRA's changes to RWAs and capital calibration are understood.

FINANCIAL PERFORMANCE

For the half year ended 28 February 2022

4.5 RECONCILIATION OF PRO FORMA RESULTS

A reconciliation of the pro forma results for 1H21 and 2H21 to the BOQ reported results are set out in the tables below.

	Cash and statutory earnings reconciliation 1H21			
$ million	Reported BOQ result	ME Bank result from 1 September 2020 to 28 February 2021	Excluding result of St Andrew's	**Pro forma result for 1H21**
Net interest income	512	245	–	**757**
Non-interest income	66	6	(3)	**69**
Total income	578	251	(3)	**826**
Operating expenses	(315)	(148)	3	**(460)**
Underlying profit	263	103	–	**366**
Loan impairment expense	(24)	(2)	–	**(26)**
Profit before tax	239	101	–	**340**
Income tax expense	(74)	(30)	–	**(104)**
Cash earnings after tax	165	71	–	**236**
Integration costs	–	–	–	**–**
Amortisation of acquisition fair value adjustments	(1)	–	–	**(1)**
Hedge ineffectiveness	(1)	(2)	–	**(3)**
Intangible asset review	–	–	–	**–**
Transaction costs	(3)	(1)	–	**(4)**
Employee pay and entitlements review	(6)	–	–	**(6)**
Statutory net profit after tax	154	68	–	**222**

	Cash and statutory earnings reconciliation 2H21					
$ million	BOQ result	ME Bank result from 1 July 2021	**Reported BOQ result including ME Bank from 1 July 2021**	ME Bank result 1 March 2021 to 30 June 2021	Excluding result of St Andrew's	**Pro forma result for 2H21**
Net interest income	538	78	**616**	166	–	**782**
Non-interest income	59	5	**64**	5	(4)	**65**
Total income	597	83	**680**	171	(4)	**847**
Operating expenses	(318)	(51)	**(369)**	(108)	4	**(473)**
Underlying profit	279	32	**311**	63	–	**374**
Loan impairment expense	44	1	**45**	10	–	**55**
Profit before tax	323	33	**356**	73	–	**429**
Income tax expense	(99)	(10)	**(109)**	(24)	–	**(133)**
Cash earnings after tax	224	23	**247**	49	–	**296**
Integration costs	(7)	(2)	**(9)**	–	–	**(9)**
Amortisation of acquisition fair value adjustments	(1)	(1)	**(2)**	–	–	**(2)**
Hedge ineffectiveness	(2)	–	**(2)**	(1)	–	**(3)**
Intangible asset review	–	(3)	**(3)**	–	–	**(3)**
Transaction costs	(16)	–	**(16)**	(22)	–	**(38)**
Employee pay and entitlements review	–	–	**–**	–	–	**–**
Statutory net profit after tax	198	17	**215**	26	–	**241**

FINANCIAL PERFORMANCE

For the half year ended 28 February 2022

4.5 RECONCILIATION OF PRO FORMA RESULTS (CONTINUED)

	Cash and statutory earnings reconciliation FY21					
$ million	BOQ result	ME Bank result from 1 July 2021	**Reported BOQ result including ME Bank from 1 July 2021**	ME Bank result 1 September 2020 to 30 June 2021	Excluding result of St Andrew's	**Pro forma result for FY21**
Net interest income	1,050	78	**1,128**	411	–	**1,539**
Non-interest income	125	5	**130**	11	(7)	**134**
Total income	1,175	83	**1,258**	422	(7)	**1,673**
Operating expenses	(633)	(51)	**(684)**	(256)	7	**(933)**
Underlying profit	542	32	**574**	166	–	**740**
Loan impairment expense	20	1	**21**	8	–	**29**
Profit before tax	562	33	**595**	174	–	**769**
Income tax expense	(173)	(10)	**(183)**	(54)	–	**(237)**
Cash earnings after tax	389	23	**412**	120	–	**532**
Integration costs	(7)	(2)	**(9)**	–	–	**(9)**
Amortisation of acquisition fair value adjustments	(2)	(1)	**(3)**	–	–	**(3)**
Hedge ineffectiveness	(3)	–	**(3)**	(3)	–	**(6)**
Intangible asset review	–	(3)	**(3)**	–	–	**(3)**
Transaction costs	(19)	–	**(19)**	(23)	–	**(42)**
Employee pay and entitlements review	(6)	–	**(6)**	–	–	**(6)**
Statutory net profit after tax	352	17	**369**	94	–	**463**

FINANCIAL PERFORMANCE

For the half year ended 28 February 2022

5. APPENDIX TO FINANCIAL PERFORMANCE

5.1 CASH EPS CALCULATIONS

		Half Year Performance				
		Feb-22	Aug-21[1]	Feb-21[1]	Feb-22 vs Aug-21	Feb-22 vs Feb-21
Reconciliation of cash earnings for EPS						
Cash earnings after tax	($ million)	268	247	165	9%	62%
Returns to other equity instruments[2]	($ million)	(5)	(1)	–	large	(100%)
Cash earnings available for ordinary shareholders	($ million)	263	246	165	7%	59%
Effect of Capital Notes 1	($ million)	5	5	5	–	–
Effect of Capital Notes 2	($ million)	3	4	2	(25%)	50%
Cash diluted earnings available for ordinary shareholders	($ million)	**271**	255	172	6%	58%
Weighted average number of shares (**WANOS**)						
Basic WANOS – Ordinary shares	(million)	640	630	468	2%	37%
Effect of award rights	(million)	4	3	3	33%	33%
Effect of Capital Notes 1	(million)	43	38	40	13%	8%
Effect of Capital Notes 2	(million)	32	28	15	14%	113%
Diluted WANOS for cash earnings EPS	(million)	**719**	699	526	3%	37%
Earnings per share						
Basic EPS – Ordinary shares	(cents)	41.1	38.8	35.5	6%	16%
Diluted EPS – Ordinary shares	(cents)	37.7	36.2	32.8	4%	15%

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

(2) Other equity instruments of $314 million include AT1 securities assumed on the acquisition of ME Bank. The securities are perpetual, non-cumulative, subordinated and unsecured notes. Refer to Note 6.3.2(b) to the Financial Statements. The return in 2H21 represents two months since the acquisition compared to the full six months in 1H22.

FINANCIAL PERFORMANCE

For the half year ended 28 February 2022

5.2 AVERAGE BALANCE SHEET AND MARGIN ANALYSIS

The following table outlines the major categories of interest earning assets and interest bearing liabilities of the Group together with the respective interest earned or paid and the average interest rate for each of 1H22, 2H21P and 1H21P.

	Group 1H22			Pro forma 2H21			Pro forma 1H21		
	Average balance $m	Interest $m	Average rate %	Average balance $m	Interest $m	Average rate %	Average balance $m	Interest $m	Average rate %
Interest earning assets									
Loans & advances (1)	71,966	997	2.79	70,296	1,069	3.02	69,306	1,119	3.26
Investments & other securities	14,091	16	0.23	12,883	18	0.28	12,560	22	0.35
Total interest earning assets	86,057	1,013	2.37	83,179	1,087	2.59	81,866	1,141	2.81
Non-interest earning assets									
Property, plant & equipment	231			199			172		
Other assets	1,926			1,940			1,840		
Provision for impairment	(380)			(435)			(455)		
Total non-interest earning assets	1,777			1,704			1,557		
Total assets	87,834			84,883			83,423		
Interest bearing liabilities									
Retail deposits	53,479	132	0.50	50,611	153	0.60	48,180	200	0.84
Wholesale deposits & borrowings (2)	27,123	140	1.04	25,690	152	1.17	27,976	184	1.33
Total interest bearing liabilities	80,602	272	0.68	76,301	305	0.79	76,156	384	1.02
Non-interest bearing liabilities	1,154			1,367			1,462		
Total liabilities	81,756			77,668			77,618		
Shareholders' funds	6,078			7,215			5,805		
Total liabilities & shareholders' funds	87,834			84,883			83,423		
Interest margin & interest spread									
Interest earning assets	86,057	1,013	2.37	83,179	1,087	2.59	81,866	1,141	2.81
Interest bearing liabilities	80,602	272	0.68	76,301	305	0.79	76,156	384	1.02
Net interest spread			1.69			1.80			1.79
Benefit of free funds			0.05			0.06			0.07
NIM - on average interest earning assets	86,057	741	1.74	83,179	782	1.86	81,866	757	1.86

(1) Net of average mortgage offset balances.
(2) Includes hedging costs, execution costs and dealer fees.

FINANCIAL PERFORMANCE

For the half year ended 28 February 2022

5.3 RECONCILIATION OF PRO FORMA AVERAGE BALANCE SHEETS

A reconciliation of the pro forma average balance sheets for 1H21 and 2H21 to the reported BOQ average balance sheets are set out in the tables below.

	BOQ 1H21			ME Bank 1H21			Pro forma 1H21		
	Average balance $m	Interest $m	Average rate %	Average balance $m	Interest $m	Average rate %	**Average balance $m**	**Interest $m**	**Average rate %**
Interest earning assets									
Loans & advances [(1)]	44,511	724	3.28	24,795	395	3.21	**69,306**	**1,119**	**3.26**
Investments & other securities	8,441	14	0.33	4,119	8	0.39	**12,560**	**22**	**0.35**
Total interest earning assets	52,952	738	2.81	28,914	403	2.81	**81,866**	**1,141**	**2.81**
Non-interest earning assets									
Property, plant & equipment	144			28			**172**		
Other assets	1,626			214			**1,840**		
Provision for impairment	(360)			(95)			**(455)**		
Total non-interest earning assets	1,410			147			**1,557**		
Total assets	54,362			29,061			**83,423**		
Interest bearing liabilities									
Retail deposits	32,518	117	0.73	15,662	83	1.07	**48,180**	**200**	**0.84**
Wholesale deposits & borrowings [(2)]	16,285	109	1.35	11,691	75	1.29	**27,976**	**184**	**1.33**
Total interest bearing liabilities	48,803	226	0.93	27,353	158	1.16	**76,156**	**384**	**1.02**
Non-interest bearing liabilities	1,231			231			**1,462**		
Total liabilities	50,034			27,584			**77,618**		
Shareholders' funds	4,328			1,477			**5,805**		
Total liabilities & shareholders' funds	54,362			29,061			**83,423**		
Interest margin & interest spread									
Interest earning assets	52,952	738	2.81	28,914	403	2.81	**81,866**	**1,141**	**2.81**
Interest bearing liabilities	48,803	226	0.93	27,353	158	1.16	**76,156**	**384**	**1.02**
Net interest spread			1.88			1.65			**1.79**
Benefit of free funds			0.07			0.06			**0.07**
NIM – on average interest earning assets	52,952	512	1.95	28,914	245	1.71	**81,866**	**757**	**1.86**

(1) Net of average mortgage offset balances.
(2) Includes hedging costs, execution costs and dealer fees.

FINANCIAL PERFORMANCE

For the half year ended 28 February 2022

5.3 RECONCILIATION OF PRO FORMA AVERAGE BALANCE SHEETS (CONTINUED)

	BOQ 2H21			ME Bank 2H21			Pro forma 2H21		
	Average balance $m	Interest $m	Average rate %	Average balance $m	Interest $m	Average rate %	Average balance $m	Interest $m	Average rate %
Interest earning assets									
Loans & advances [1]	45,970	706	3.05	24,326	363	2.96	70,296	1,069	3.02
Investments & other securities	8,697	14	0.32	4,186	4	0.19	12,883	18	0.28
Total interest earning assets	54,667	720	2.61	28,512	367	2.55	83,179	1,087	2.59
Non-interest earning assets									
Property, plant & equipment	126			73			199		
Other assets	1,732			208			1,940		
Provision for impairment	(350)			(85)			(435)		
Total non-interest earning assets	1,508			196			1,704		
Total assets	56,175			28,708			84,883		
Interest bearing liabilities									
Retail deposits	33,851	85	0.50	16,760	68	0.80	50,611	153	0.60
Wholesale deposits & borrowings [2]	15,643	97	1.23	10,047	55	1.09	25,690	152	1.17
Total interest bearing liabilities	49,494	182	0.73	26,807	123	0.91	76,301	305	0.79
Non-interest bearing liabilities	1,126			241			1,367		
Total liabilities	50,620			27,048			77,668		
Shareholders' funds	5,555			1,660			7,215		
Total liabilities & shareholders' funds	56,175			28,708			84,883		
Interest margin & interest spread									
Interest earning assets	54,667	720	2.61	28,512	367	2.55	83,179	1,087	2.59
Interest bearing liabilities	49,494	182	0.73	26,807	123	0.91	76,301	305	0.79
Net interest spread			1.88			1.64			1.80
Benefit of free funds			0.07			0.06			0.06
NIM - on average interest earning assets	54,667	538	1.95	28,512	244	1.70	83,179	782	1.86

(1) Net of average mortgage offset balances.
(2) Includes hedging costs, execution costs and dealer fees.

6. CONSOLIDATED INTERIM FINANCIAL REPORT

For the half year ended 28 February 2022

DIRECTORS' REPORT

The Directors present their report together with the consolidated interim financial report of Bank of Queensland Limited (**the Bank** or **BOQ**), being the Bank and its controlled entities, for the half year ended 28 February 2022.

Directors' details

The Directors of the Bank at any time during or since the end of the half year and up to the date of this report are:

Name	Period of directorship
Patrick Allaway	Director since May 2019 / Chairman since October 2019
George Frazis	Managing Director & Chief Executive Officer (**CEO**) since September 2019
Bruce Carter	Director since February 2014
Jennifer Fagg	Director since October 2021
Deborah Kiers	Director since August 2021
John Lorimer	Director since January 2016 (retired December 2021)
Warwick Negus	Director since September 2016
Karen Penrose	Director since November 2015
Miyuki (Mickie) Rosen	Director since March 2021

Principal activities

The principal activity of the Bank and its controlled entities (together referred to as **the Consolidated Entity** or **the Group**) is the provision of financial services to the community. The Bank has an authority to carry on banking business under the *Banking Act 1959*. There were no significant changes during the period in the nature of the activities of the Consolidated Entity.

Operating and financial review

Our Operating and Financial review is contained in pages 2 – 38 of this report.

Regulatory developments

On 28 February 2022, ME Bank surrendered its Authorised Deposit-taking Institution (**ADI**) licence and ME Bank's assets and liabilities were transferred to BOQ.

Key management changes

Key management changes during the half year and up to the date of this report were as follows:

- David Watts commenced as Chief Risk Officer on 3 March 2022. Former Chief Risk Officer Adam McAnalen remains with the Group, no longer as key management personnel (**KMP**).
- Chris Screen commenced as Group Executive, Business Banking on 1 October 2021.
- Racheal Kellaway will commence in the role of Chief Financial Officer on 1 July 2022 when current Chief Financial Officer & Chief Operating Officer Ewen Stafford departs the Group. At this time, the Group's Operations function will be repointed to Chief Information Officer, Craig Ryman.

Subsequent events

The Bank has determined an interim dividend to be paid on 26 May 2022. Further details with respect to the dividend amount per share, payment date and dividend reinvestment plan can be obtained from Note 6.2.3.

A series of floods commencing in South East Queensland on 26 February 2022 continued into New South Wales during March 2022. Weather events do not immediately cause losses for banks as both property and business interruption insurance, for retail and business customers respectively, provide a buffer to default events. Commonwealth and local government assistance packages have been made available to primary producers and small businesses to support those impacted by the floods. BOQ has considered whether events subsequent to the reporting date have confirmed conditions existing at the reporting date and has not identified any developments which would require adjustments to the amounts or disclosures contained in the consolidated financial statements.

The Directors are unaware of any other matters or circumstances that have arisen in the interval between the end of the financial half year end and the date of this report, or any item, event or transaction which significantly affects, or may significantly affect the operations of the Group in future financial years.

DIRECTORS' REPORT

For the half year ended 28 February 2022

Management attestation

The Board has been provided with a joint written statement from the Group's Managing Director & CEO and Chief Financial Officer & Chief Operating Officer confirming that, in their opinion, the accompanying financial statements and notes:

(i) have been prepared in accordance with Australian Accounting Standards; and

(ii) present a true and fair view of the Group's financial position and performance as at and for the half year ended 28 February 2022.

Further, that in their opinion financial records for the Group have been properly maintained for the half year ended 28 February 2022.

The Directors' Declaration can be found on page 62 of this document.

Lead auditor's independence declaration under section 307C of the Corporations Act 2001

The lead auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 41 and forms part of the Directors' Report for the half year ended 28 February 2022.

Rounding of amounts

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

Signed in accordance with a resolution of the Directors:

Patrick Allaway

Chairman
13 April 2022

George Frazis

Managing Director & CEO
13 April 2022

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

Auditor's Independence Declaration

As lead auditor for the review of Bank of Queensland Limited for the half year ended 28 February 2022, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

(b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Bank of Queensland Limited and the entities it controlled during the period.

Matthew Lunn
Partner
PricewaterhouseCoopers

Sydney
13 April 2022

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CONSOLIDATED INCOME STATEMENT

For the half year ended 28 February 2022

	Note	Feb-22 [(1)] $m	Feb-21 $m
Interest income		1,074	793
Effective interest income		1,016	739
Other		58	54
Interest expense		(331)	(281)
Net interest income		743	512
Other operating income	6.2.1	89	61
Net banking operating income		832	573
Net insurance operating income	6.2.1	1	4
Net operating income before impairment and operating expenses		833	577
Expenses		(532)	(330)
Impairment on loans and advances		15	(24)
Profit before income tax		**316**	223
Income tax expense	6.2.2	(104)	(69)
Profit for the period		**212**	154
Profit attributable to:			
Equity holders of Bank of Queensland Limited		212	154
Earnings per share			
Basic earnings per share – Ordinary shares (cents)		32.3	32.9
Diluted earnings per share – Ordinary shares (cents)		29.9	30.5

(1) The February 2022 financial results include contribution of Members Equity Bank Limited (**ME Bank**) for the full half from 1 September 2021 to 28 February 2022 following the acquisition of ME Bank on 1 July 2021.

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the half year ended 28 February 2022

	Feb-22 [(1)] $m	Feb-21 $m
Profit for the period	212	154
Other comprehensive income, net of income tax		
Items that may be reclassified subsequently to profit or loss		
Cash flow hedges:		
Net movement taken to equity	167	48
Net movement transferred to profit or loss	9	10
Debt instruments at fair value through other comprehensive income (**FVOCI**):		
Net change in fair value	(5)	34
Net movement transferred to profit or loss	(6)	(6)
Other comprehensive income, net of income tax	165	86
Total comprehensive income for the period	**377**	240
Total comprehensive income attributable to:		
Equity holders of Bank of Queensland Limited	377	240

(1) The February 2022 financial results include contribution of ME Bank for the full half from 1 September 2021 to 28 February 2022 following the acquisition of ME Bank on 1 July 2021.

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

CONSOLIDATED BALANCE SHEET

As at 28 February 2022

	Note	Feb-22 $m	Aug-21[1] $m
ASSETS			
Cash and cash equivalents		2,157	2,562
Due from other financial institutions		395	827
Derivative financial assets	6.3.3(a)	357	137
Financial assets at fair value through profit or loss (**FVTPL**)	6.3.3(a)	874	1,087
Debt instruments at FVOCI	6.3.3(a)	10,695	9,701
Equity instruments at FVOCI	6.3.3(a)	9	9
Loans and advances	6.3.4	78,663	75,437
Other assets		254	190
Current tax assets		11	-
Property, plant and equipment		274	198
Assets held for sale	6.4(b)	-	43
Deferred tax assets		-	43
Intangible assets		1,197	1,193
Investments in joint arrangements		9	10
Total assets		94,895	91,437
LIABILITIES			
Due to other financial institutions - accounts payable at call		211	273
Deposits		67,896	65,902
Derivative financial liabilities	6.3.3(a)	415	653
Accounts payable and other liabilities		605	575
Current tax liabilities		-	31
Deferred tax liabilities		54	-
Liabilities held for sale	6.4(b)	-	17
Provisions		61	66
Borrowings	6.3.5	19,244	17,723
Total liabilities		88,486	85,240
Net assets		6,409	6,197
EQUITY			
Issued capital	6.3.2	5,218	5,213
Other equity instruments	6.3.2	314	314
Reserves		535	376
Retained profits		342	294
Total equity		6,409	6,197

(1) Comparative information has been restated to reflect the prior period adjustments detailed in Note 6.4(a).

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the half year ended 28 February 2022

	Issued capital $m	Employee benefits reserve $m	Share Revaluation Reserve $m	Equity reserve for credit losses $m	Other reserves $m	Retained profits $m	Other equity instruments $m	Total equity $m
HALF YEAR ENDED 28 FEBRUARY 2022								
Balance as at 31 August 2021	5,213	35	3	52	286	294	314	6,197
Change on revision of accounting policy [1]	–	–	–	–	–	(25)	–	(25)
Restated balance as at 1 September 2021	5,213	35	3	52	286	269	314	6,172
Total comprehensive income for the period								
Profit for the period	–	–	–	–	–	207	5	212
Transfers to profit reserve	–	–	–	–	123	(123)	–	–
Other comprehensive income, net of income tax:								
Cash flow hedges:								
Net movement taken to equity	–	–	–	–	167	–	–	167
Net movement transferred to profit or loss	–	–	–	–	9	–	–	9
Debt instruments at FVOCI:								
Net change in fair value	–	–	–	–	(5)	–	–	(5)
Net movement transferred to profit or loss	–	–	–	–	(6)	–	–	(6)
Transfers to equity reserve for credit losses	–	–	–	11	–	(11)	–	–
Total other comprehensive income	–	–	–	11	165	(11)	–	165
Total comprehensive income for the period	–	–	–	11	288	73	5	377
Transactions with owners, recorded directly in equity / contributions by and distributions to owners								
Dividend reinvestment plan	15	–	–	–	–	–	–	15
Dividends to shareholders	–	–	–	–	(141)	–	–	(141)
Other equity instruments distributions paid	–	–	–	–	–	–	(5)	(5)
Share plan revaluation	–	–	(3)	–	–	–	–	(3)
Equity settled transactions	–	4	–	–	–	–	–	4
Treasury shares [2]	(10)	–	–	–	–	–	–	(10)
Total contributions by and distributions to owners	5	4	(3)	–	(141)	–	(5)	(140)
Balance as at 28 February 2022	**5,218**	**39**	**–**	**63**	**433**	**342**	**314**	**6,409**

(1) Opening balance has been restated to reflect the adjustments detailed in Note 6.1.3.
(2) Treasury shares represents the value of shares held by a subsidiary that the Bank is required to include in the Consolidated Entity's financial statements. The revaluation of treasury shares is netted off in equity.

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the half year ended 28 February 2022

	Issued capital $m	Employee benefits reserve $m	Equity reserve for credit losses $m	Other reserves $m	Retained profits $m	Total equity $m
HALF YEAR ENDED 28 FEBRUARY 2021						
Balance as at 31 August 2020	3,869	30	63	91	178	4,231
Total comprehensive income for the period						
Profit for the period	–	–	–	–	154	154
Transfers to profit reserve	–	–	–	122	(122)	–
Other comprehensive income, net of income tax:						
Cash flow hedges:						
Net movement taken to equity	–	–	–	48	–	48
Net movement transferred to profit or loss	–	–	–	10	–	10
Debt instruments at FVOCI:						
Net change in fair value	–	–	–	34	–	34
Net movement transferred to profit or loss	–	–	–	(6)	–	(6)
Transfers from equity reserve for credit losses	–	–	(5)	–	5	–
Total other comprehensive income	–	–	(5)	86	5	86
Total comprehensive income for the period	–	–	(5)	208	37	240
Transactions with owners, recorded directly in equity / contributions by and distributions to owners						
Issues of ordinary shares [(1)]	1	–	–	–	–	1
Dividend reinvestment plan	7	–	–	–	–	7
Dividends to shareholders	–	–	–	(55)	–	(55)
Treasury shares [(2)]	(7)	–	–	3	–	(4)
Total contributions by and distributions to owners	1	–	–	(52)	–	(51)
Balance as at 28 February 2021	3,870	30	58	247	215	4,420

(1) On 9 November 2020, 130,000 ordinary shares were issued at $6.37 to the trustee of the Bank of Queensland Limited Employee Share Plans Trust to satisfy the issue of shares under the BOQ Employee Gift Plan.

(2) Treasury shares represents the value of shares held by a subsidiary that the Bank is required to include in the Consolidated Entity's financial statements. The revaluation of treasury shares is netted off in equity.

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the half year ended 28 February 2022

	Note	Feb-22 $m	Feb-21 $m
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		1,097	771
Fees and other income received		104	77
Interest paid		(393)	(286)
Cash paid to suppliers and employees		(468)	(293)
Income tax paid		(107)	(41)
		233	228
Increase in operating assets:			
Loans and advances at amortised cost		(3,222)	(1,077)
Other financial assets		(638)	(147)
Increase in operating liabilities:			
Deposits		1,907	1,402
Net cash inflow / (outflow) from operating activities		(1,720)	406
CASH FLOWS FROM INVESTING ACTIVITIES			
Disposal of a subsidiary, net of cash disposed of		15	–
Payments for property, plant and equipment		(26)	(1)
Proceeds from sale of property, plant and equipment		4	2
Payments for intangible assets		(93)	(38)
Proceeds from investments in joint arrangements		1	–
Net cash outflow from investing activities		(99)	(37)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings	6.3.5	3,455	680
Repayments of borrowings	6.3.5	(1,873)	(1,188)
Payments for treasury shares		(17)	(7)
Other equity instruments distribution paid		(5)	–
Dividends paid		(126)	(48)
Payment of lease liabilities		(21)	(20)
Net cash inflow / (outflow) from financing activities		1,413	(583)
Net decrease in cash and cash equivalents		(406)	(214)
Cash and cash equivalents at beginning of the period		2,563	1,353
Cash and cash equivalents at end of the period		**2,157**	1,139
Cash and cash equivalents included in assets held for sale		–	(3)
Cash and cash equivalents as presented in the Balance Sheet		**2,157**	1,136

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

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 28 February 2022

6.1 BASIS OF PREPARATION

6.1.1 REPORTING ENTITY

The Bank of Queensland Limited (**the Bank** or **BOQ**) is a for-profit company domiciled in Australia. Its registered office is Level 6, 100 Skyring Terrace, Newstead, QLD 4006.

The consolidated interim financial statements of the Bank as at and for the half year ended 28 February 2022 comprise the Consolidated Entity (or **the Group**), being the Bank and its controlled entities, and the Consolidated Entity's interest in equity accounted investments. The principal activity of the Group is the provision of financial services to the community.

6.1.2 BASIS OF ACCOUNTING

The consolidated interim financial report is a general purpose interim financial report which has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. The consolidated interim financial report does not include all the information required for a full annual financial report, and should be read in conjunction with the consolidated annual financial report of the Group as at and for the financial year ended 31 August 2021, which is available upon request from the Bank's registered office at Level 6, 100 Skyring Terrace, Newstead QLD 4006 or at http://www.boq.com.au.

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

The consolidated interim financial report is presented in Australian dollars which is the functional currency of the Group.

The consolidated interim financial report was approved by the Board of Directors on 13 April 2022.

6.1.3 SIGNIFICANT ACCOUNTING POLICIES

Except as described below, the accounting policies applied by the Group in this consolidated interim financial report are the same as those applied by the Group in its consolidated financial report as at and for the year ended 31 August 2021.

International Financial Reporting Standards Interpretations Committee final agenda decisions on Software as a Service arrangements

In April 2021, the IFRS Interpretations Committee (**IFRIC**) published its second agenda decision in relation to Software as a Service (**SaaS**) cloud computing arrangements. The decision discusses whether configuration or customisation expenditure relating to SaaS arrangements is able to be recognised as an intangible asset and if not, over what time period the expenditure is expensed. Specifically, IFRIC stated that in most instances, configuration and customisation costs incurred in implementing SaaS solutions will be treated as an operating expense.

The Group's accounting policy has historically been to capitalise costs incurred in configuring or customising SaaS arrangements as intangible assets, as the Group considered it would benefit from those services over the expected renewable term of the arrangements. Based on the updated IFRIC guidance, the Group revised its accounting policy in the period ended 28 February 2022 and adopted the accounting treatment set out in the IFRIC agenda decision, which is to only recognise those costs as intangible assets if the implementation activities create an asset that the entity controls and the asset meets the recognition criteria. Costs that do not result in intangible assets are expensed as incurred, unless they are paid to the suppliers of the SaaS arrangement to significantly customise the software for the Group, in which case the costs are recorded as a prepayment for services and amortised over the expected renewable term of the arrangement.

In applying the revised accounting policy at the reporting date and in an ongoing application of the SaaS policy, the Group makes significant judgements in:

- Determining whether implementation activities create an intangible asset that the entity controls; and
- Determining whether costs paid to the suppliers of the SaaS arrangements relate to significant customisation of the software.

Due to a lack of historical information on which to determine the nature of capitalised software, as set out above, it is not practicable to determine the cumulative effect on the amounts in both opening and closing statements of financial position for prior years. Accordingly, amounts relating to prior years have been adjusted through opening retained earnings and comparatives have not been restated.

The impact to the consolidated financial statements of the Group to reflect amendments to previously capitalised costs at 1 September 2021 was as follows:

- A decrease in intangible assets of $47 million;
- An increase in prepaid assets of $11 million;
- An increase in deferred tax assets of $11 million; and
- A decrease in retained earnings of $25 million.

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 28 February 2022

6.1.4 USE OF JUDGEMENTS AND ESTIMATES

In preparing the consolidated interim financial report, management has been required to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, equity, income and expenses. These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances.

The significant judgements made by management in applying the Group's accounting policies and key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 August 2021, except for the change in accounting policy in relation to SaaS arrangements described in Note 6.1.3.

Impacts of COVID-19

The Group has carefully considered the impact of COVID-19 in preparing its financial statements for the half year ended 28 February 2022, including the application of critical estimates and judgements. In line with the year ended 31 August 2021, the main impact on the financial statements is Provision for impairment (Refer to Note 6.3.4).

In assessing forecast conditions, the Group has incorporated the effects of COVID-19 and government support measures based on reasonable and supportable information at the reporting date. The improved economic outlook has allowed an updating of macroeconomic scenarios, transition of weightings from downside and severe to the base case and the removal of certain specific industry overlays. This has resulted in the release of some provisions raised in prior periods while maintaining a prudent provision coverage to cater for ongoing uncertainty of the pandemic.

6.1.5 NEW AUSTRALIAN ACCOUNTING STANDARDS

AASB 2020-8 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform – Phase 2.*

The amendments introduce practical expedients in relation to accounting for modification of financial instruments resulting directly from the Interbank Offered Rates (**IBOR**) reform. The amendments also allow a series of exemptions from the regular hedge accounting rules and introduce additional disclosures requirements.

The Group assessed the changes required by the IBOR reform and the resulting amendments and determined there are no significant impacts to the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 28 February 2022

6.2 FINANCIAL PERFORMANCE

6.2.1 OTHER OPERATING INCOME

	Feb-22 (1) $m	Feb-21 $m
INCOME FROM OPERATING ACTIVITIES		
Customer fees and charges (2)	37	30
Share of fee revenue paid to owner-managed branches	(3)	(3)
Commissions	21	15
Foreign exchange income – customer based	7	6
Net profit on sale of property, plant and equipment	4	2
Net gain from financial instruments and derivatives at fair value	4	1
Dividend income	1	-
Other income	18	10
Total other operating income	89	61
INCOME FROM INSURANCE ACTIVITIES (3)		
Premiums from insurance contracts	7	21
Claims and policyholder liability expense from insurance contracts	(6)	(17)
Net insurance operating income	1	4
Total	**90**	65

(1) The February 2022 financial results include contribution of ME Bank for the full half from 1 September 2021 to 28 February 2022 following the acquisition of ME Bank on 1 July 2021.
(2) Customer charges on lending, banking and leasing products.
(3) Income up to the sale completion date of 28 October 2021 for the St Andrew's Insurance Group.

6.2.2 INCOME TAX EXPENSE

The Group's effective tax rate for the half year ended 28 February 2022 was 32.8 per cent and for the half year ended 28 February 2021 was 31.0 per cent. This is above the corporate tax rate of 30 per cent, which is primarily attributable to the loss on the sale of the St. Andrew's Group (refer to Note 6.4(b) for details) and interest payable on Capital Notes, which are both non-deductible for tax purposes.

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 28 February 2022

6.2.3 DIVIDENDS

	Feb-22		Feb-21	
	Cents per share	$m	Cents per share	$m
ORDINARY SHARES				
Final 2021 dividend paid 18 November 2021 (2020: 25 November 2020)	22	141	12	55

All dividends paid on ordinary shares have been fully franked.

Since the end of the period, the Directors have determined the following dividends.

	Cents per share	$m
Interim 2022 ordinary share dividend	22	141

The interim ordinary share dividend payment will be fully franked and paid on 26 May 2022 to owners of ordinary shares at the close of business on 5 May 2022 (record date). Shares will be quoted ex-dividend on 4 May 2022.

Dividend reinvestment plan

The dividend reinvestment plan (**DRP**) provides ordinary shareholders with the opportunity to reinvest all or part of their entitlement to a dividend into new ordinary shares.

The price for shares issued or transferred under the DRP is the Market Price less such discount (if any) as the Directors may determine from time to time and notify to the ASX (rounded to the nearest cent).

Market price is the arithmetic average, rounded to four decimal places, of the daily volume weighted average price of:

- all shares sold in the ordinary course of trading on the ASX automated trading system; and
- where shares are sold on trading platforms of Australian licensed Financial Markets operated by persons other than ASX, all shares sold in the ordinary course of trading on such of those trading platforms determined by the Board from time to time, during the 10 trading day period commencing on the second trading day after the Record Date in respect of the relevant dividend.

The calculation of the daily volume weighted average price shall not include certain transactions, as outlined in the DRP terms and conditions. If, after this calculation, there is a residual balance, that balance will be carried forward (without interest) and added to the next dividend for the purpose of calculating the number of shares secured under the DRP at that time.

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

The last date for election to participate in the DRP for the 2022 interim dividend is 6 May 2022.

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 28 February 2022

6.2.4 OPERATING SEGMENTS

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

The Bank's operating segments comprise the following:

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

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

Other – Treasury and Group Head Office. This segment also includes the impact of the sale of the St Andrew's Group.

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

All inter-segment profits are eliminated on consolidation.

	Half year ended 28 February 2022			
	Retail Banking $m	BOQ Business $m	Other $m	Segment total $m
Net interest income [(1)]	460	280	1	741
Non-interest income	62	25	3	90
Total income	522	305	4	831
Operating expenses	(321)	(140)	-	(461)
Underlying profit	201	165	4	370
Loan impairment expense	(19)	34	-	15
Segment cash profit before tax	182	199	4	385
Income tax expense	(55)	(61)	(1)	(117)
Segment cash profit after tax [(2)]	**127**	**138**	**3**	**268**
STATUTORY BASIS ADJUSTMENTS				
Integration costs [(3)]	-	-	-	(25)
St Andrew's [(4)]	-	-	-	(26)
Amortisation of acquisition fair value adjustments	-	-	-	(4)
Hedge ineffectiveness	-	-	-	(1)
Statutory net profit / (loss) after tax	**-**	**-**	**-**	**212**
BALANCE SHEET				
Loans and advances	54,988	23,675	-	78,663
Deposits [(5)]	38,208	11,889	17,799	67,896

(1) Interest income and interest expenses are disclosed in this note on a net interest income basis. This is in line with the information provided internally to the Managing Director & CEO.
(2) This excludes a number of items that introduce volatility and / or one-off distortions of the current period performance.
(3) Integration and transaction costs from ME Bank acquisition completed on 1 July 2021.
(4) Includes the loss on sale of the St Andrew's Group of $25 million and net earnings of the St Andrew's Group for the period ended 28 October 2021 of $1 million.
(5) Treasury managed deposits are included in the Group's Other operating segment.

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 28 February 2022

6.2.4 OPERATING SEGMENTS (CONTINUED)

	Half year ended 28 February 2021			
	Retail Banking [1] $m	BOQ Business $m	Other $m	Segment total $m
Net interest income [2]	236	270	6	512
Non-interest income	36	25	5	66
Total income	272	295	11	578
Operating expenses	(176)	(132)	(7)	(315)
Underlying profit	96	163	4	263
Loan impairment expense	6	(30)	-	(24)
Segment cash profit before tax	102	133	4	239
Income tax expense	(32)	(41)	(1)	(74)
Segment cash profit / (loss) after tax [3]	70	92	3	165
STATUTORY BASIS ADJUSTMENTS				
Amortisation of acquisition fair value adjustments	-	-	-	(1)
Hedge ineffectiveness	-	-	-	(1)
Transaction costs [4]	-	-	-	(3)
Employee pay and entitlements review	-	-	-	(6)
Statutory net profit / (loss) after tax	-	-	-	154
BALANCE SHEET				
Loans and advances	25,970	21,764	-	47,734
Deposits [5]	17,424	10,339	13,300	41,063

(1) VMA operating costs have been restated from non-interest income and included in operating expenses per ASX announcement on 30 September 2021.
(2) Interest income and interest expenses are disclosed in this note on a net interest income basis. This is in line with the information provided internally to the Managing Director & CEO.
(3) This excludes a number of items that introduce volatility and / or one-off distortions of the current period performance.
(4) Transaction costs from ME Bank acquisition completed on 1 July 2021.
(5) Treasury managed deposits are included in the Group's Other operating segment.

6.3 CAPITAL AND BALANCE SHEET MANAGEMENT

6.3.1 CAPITAL MANAGEMENT

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

BOQ intends to operate above an interim CET1 target of 9.0 to 9.5 per cent until the finalisation of APRA's new capital framework.

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 28 February 2022

6.3.2 ISSUED CAPITAL

(a) Ordinary shares

	Feb-22 No of shares	Feb-21 No of shares
MOVEMENTS DURING THE PERIOD		
Balance at the beginning of the period – fully paid	640,889,563	454,335,413
Dividend reinvestment plan [(1)]	1,736,021	1,015,377
Issue of ordinary shares [(2)]	–	130,000
Balance at the end of the period – fully paid	**642,625,584**	455,480,790
Treasury shares (included in ordinary shares above)		
Balance at the beginning of the period	1,128,671	633,187
Net acquisitions and disposals during the period	1,476,436	771,603
Balance at the end of the period	**2,605,107**	1,404,790

(1) 11 per cent of the dividend paid on 18 November 2021 (13 per cent of the dividend paid on 25 November 2020) was reinvested by shareholders as part of the dividend reinvestment plan.

(2) On 9 November 2020, 130,000 ordinary shares were issued at $6.37 to the trustee of the Bank of Queensland Limited Employee Share Plans Trust to satisfy the issue of shares under the BOQ Employee Gift Plan.

(b) Other equity instruments

	Earliest redemption date	Feb-22 No of Capital Notes	Feb-21 No of Capital Notes
AT1 EQUITY INSTRUMENTS			
AT1 Capital Notes (Series 1)	28 November 2022	20,000	–
AT1 Capital Notes (Series 2)	5 December 2023	10,000	–
Total AT1 equity instruments		30,000	–

Other equity instruments of $314 million include Additional Tier 1 (**AT1**) securities assumed on the acquisition of ME Bank. The securities are perpetual, non-cumulative, subordinated and unsecured notes (**AT1 Capital Notes**). There have been no issuances and redemptions in the six months to 28 February 2022.

The AT1 Capital Notes were transferred to BOQ on 28 February 2022 as part of a total transfer of all assets and liabilities of ME Bank to BOQ undertaken pursuant to the *Financial Sector (Transfer and Restructure) Act 1999* (Cth). Upon transfer, the AT1 Capital Notes formed part of the Group's capital adequacy. The AT1 Capital Notes continue to be presented in Other equity instruments in the Consolidated Balance Sheet and the Consolidated Statement of Changes in Equity.

The principal terms of the AT1 Capital Notes are as follows:

- Rank for payment:
  - Ahead of common equity;
  - Equally without any preferences amongst themselves for each series and with holders of equal ranking instrument; and
  - Behind the claim of subordinated tier 2 instruments and the senior creditors.
- AT1 Capital Notes are undated and, unless a tax event or regulatory event occurs, are only redeemable, at the option of BOQ, on or after the fifth anniversary of the date of issue, subject to regulatory approval;
- AT1 Capital Notes pay quarterly floating rate non-cumulative distributions. The payment of distributions is at the discretion of BOQ and subject to no payment condition existing at the payment date; and
- Some or all of the AT1 Capital Notes must be written-off if a non-viability trigger event, as determined by APRA, occurs.

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 28 February 2022

6.3.3 FINANCIAL INSTRUMENTS

(a) Fair value hierarchy

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

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

The fair value hierarchy classification of instruments held at amortised cost:

- Debt instruments at amortised cost – Level 2;
- Loans and advances – Level 3;
- Deposits and borrowings – Level 2.

The carrying values for instruments at amortised cost approximate their fair values.

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

	Feb-22			
	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial instruments measured at fair value				
Derivative financial assets	–	357	–	357
Financial assets at FVTPL	–	874	–	874
Debt instruments at FVOCI	6,548	4,147	–	10,695
Equity instruments at FVOCI	–	–	9	9
Total assets measured at fair value	6,548	5,378	9	11,935
Derivative financial liabilities	–	(415)	–	(415)
Net financial instruments at fair value	**6,548**	**4,963**	**9**	**11,520**

	Aug-21			
	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial instruments measured at fair value				
Derivative financial assets	–	137	–	137
Financial assets at FVTPL	43	1,044	–	1,087
Debt instruments at FVOCI	6,309	3,392	–	9,701
Equity instruments at FVOCI	–	–	9	9
Total assets measured at fair value	6,352	4,573	9	10,934
Derivative financial liabilities	–	(653)	–	(653)
Net financial instruments at fair value	6,352	3,920	9	10,281

There was no movement between levels during the period.

(b) Valuation techniques used to derive Level 2 and Level 3 fair values

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques which maximise the use of observable market data where it is available and rely as little as possible on the entity specific estimates.

If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3. Specific valuation techniques used to value financial instruments include:

- The use of quoted market prices or dealer quotes for similar instruments;
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves; and
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 28 February 2022

6.3.4 LOANS AND ADVANCES

	Feb-22 $m	Aug-21 $m
Gross loans and advances	79,024	75,824
Less:		
Unearned finance lease income	(72)	(76)
Specific provision for impairment	(90)	(107)
Collective provision for impairment	(199)	(204)
Total loans and advances	**78,663**	75,437

Provision for impairment

The following table discloses the reconciliation of the ECL for the half year ended 28 February 2022:

	Collective Provision				
	Stage 1 – 12 month ECL $m	Stage 2 – Lifetime ECL $m	Stage 3 – Lifetime ECL $m	Stage 3 – Specific provision $m	Total $m
Balance as at 1 September 2021	88	50	66	107	311
Transfers during the period to:					
Stage 1	21	(11)	(7)	(3)	-
Stage 2	(3)	10	(5)	(2)	-
Stage 3	(1)	(3)	5	(1)	-
New / increased provisions	31	39	34	14	118
Write-back of provisions no longer required	(76)	(21)	(18)	(15)	(130)
Amounts written off, previously provided for	-	-	-	(10)	(10)
Balance as at 28 February 2022	**60**	**64**	**75**	**90**	**289**

	Collective Provision				
	Stage 1 – 12 month ECL $m	Stage 2 – Lifetime ECL $m	Stage 3 – Lifetime ECL $m	Stage 3 – Specific provision $m	Total $m
Balance as at 1 March 2021	135	105	31	103	374
Transfers during the period to:					
Stage 1	1	–	–	(1)	–
Stage 2	–	4	(1)	(3)	–
Stage 3	(1)	(3)	3	1	–
New / increased provisions	(33)	(3)	40	20	24
Write-back of provisions no longer required	(14)	(53)	(7)	3	(71)
Amounts written off, previously provided for	–	–	–	(16)	(16)
Balance as at 31 August 2021	88	50	66	107	311

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 28 February 2022

6.3.4 LOANS AND ADVANCES (CONTINUED)

The table below discloses the effect of movements in the gross carrying value of loans and advances in the different stages of the ECL during the half year ended 28 February 2022:

	Stage 1 – 12 month ECL $m	Stage 2 – Lifetime ECL $m	Stage 3 – Lifetime ECL $m	Stage 3 – Specific provision $m	Stage 3 - POCI Loans $m	Total $m
Gross carrying amount as at 1 September 2021	70,688	4,010	543	221	286	75,748
Transfers during the period to:						
Stage 1	802	(774)	(28)	–	–	–
Stage 2	(1,578)	1,656	(70)	(8)	–	–
Stage 3	(105)	(94)	182	17	–	–
New loans and advances originated or purchased	13,661	48	12	–	–	13,721
Loans and advances derecognised during the period including write-offs	(9,667)	(699)	(101)	(31)	(19)	(10,517)
Balance at the end of the period	73,801	4,147	538	199	267	78,952
Provision for impairment	(60)	(64)	(75)	(90)	–	(289)
Net carrying amount as at 28 February 2022	**73,741**	**4,083**	**463**	**109**	**267**	**78,663**

	Stage 1 – 12 month ECL $m	Stage 2 – Lifetime ECL $m	Stage 3 – Lifetime ECL $m	Stage 3 – Specific provision $m	Stage 3 - POCI Loans $m	Total $m
Gross carrying amount as at 1 March 2021	44,044	3,526	327	211	–	48,108
Transfers during the period to:						
Stage 1	152	(172)	21	(1)	–	–
Stage 2	(954)	951	5	(2)	–	–
Stage 3	(163)	(109)	235	37	–	–
New loans and advances originated or purchased	33,154	331	4	8	286	33,783
Loans and advances derecognised during the period including write-offs	(5,545)	(517)	(49)	(32)	–	(6,143)
Balance at the end of the period	70,688	4,010	543	221	286	75,748
Provision for impairment	(88)	(50)	(66)	(107)	–	(311)
Net carrying amount as at 31 August 2021	70,600	3,960	477	114	286	75,437

Purchased or originated credit-impaired (**POCI**) loans are financial assets that are purchased or originated as being credit impaired. The ECL for POCI assets is measured at an amount equal to the lifetime ECL. However, the amount recognised as a loss allowance for these assets is not the total amount of lifetime ECLs, but instead the changes in lifetime ECLs since initial recognition of the asset. The loss allowance associated with the POCI loans amounted to a reduction of $5 million for the half year ended 28 February 2022 and was taken directly to the balance of the gross carrying value of loans and advances. No new POCI loans were recognised in the half year ended 28 February 2022.

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 28 February 2022

6.3.4 LOANS AND ADVANCES (CONTINUED)

ECL model methodology, estimates and assumptions

The Group's reported ECL of $289 million was determined by taking into account the facts, circumstances and forecasts of future economic conditions and supportable information available at the reporting date. The fundamental credit model mechanics and methodology underpinning the Group's calculation of ECL have broadly remained consistent with prior periods, including economic and model overlays reflecting the uncertainty at that time.

In accordance with AASB 9 *Financial Instruments*, the ECL reflects an unbiased and probability-weighted amount, determined by the evaluation of a range of possible forward looking economic outcomes, rather than being based on a best or worst case scenario. The inclusion of a forward-looking component in the model anticipates changes in the economic outlook, and is an important component of the provisioning process. The Group considers four forward-looking macro-economic scenarios (base, upside, downside and severe downside) over the next three years. The scenarios are then probability weighted based on the likelihood of the scenario occurring to ensure ECL appropriately captures forward looking effects and considers the range of possible economic outcomes.

The scenarios, including their underlying indicators, are developed using a combination of publicly available data and internal forecasts to form the initial baseline. The scenarios are refined through consultation with internal specialists and benchmarking to external data from reputable sources, which includes forecasts published from a range of market economists and official data sources, including major central banks. Economic outlook factors that are taken into consideration include, but are not limited to, unemployment, interest rates, gross domestic product, commercial and residential property price indices, and require an evaluation of both the current and forecast direction of the macro-economic cycle. Incorporating forward looking information, including macro-economic forecasts, increases the degree of judgement required to assess how changes in these data points will affect ECLs. The methodologies and assumptions, including any forecasts of future economic conditions, are reviewed regularly.

The table below shows the probability weighting across each scenario per the macro-economic information available as at reporting date. In light of the improved outlook and reduced economic impact of COVID-19, there has been a decrease in the probability weight assigned to the downside and severe scenarios:

	Upside & Base		Downside & Severe	
	Feb-22	Aug-21	**Feb-22**	Aug-21
Weighting	**55.0%**	47.5%	**45.0%**	52.5%

The general shape of the economic recovery varies within each scenario. The table below provides a summary of macro-economic assumptions used in the Base and Downside scenarios as at 28 February 2022.

	Base (Calendar year)			Downside (Calendar year)		
Macro-economic assumption	**2022**	2023	2024	**2022**	2023	2024
GDP	**4.25%**	2.00%	2.00%	**1.50%**	2.25%	2.25%
Unemployment	**3.75%**	3.75%	3.75%	**8.25%**	7.25%	7.25%
Residential Property Prices	**6.50%**	(2.00%)	(5.00%)	**-**	(4.00%)	(5.75%)
Commercial Property Prices	**(0.25%)**	(1.25%)	(1.25%)	**(3.50%)**	(2.50%)	(2.25%)
Cash Rate	**1.25%**	2.00%	2.00%	**0.10%**	0.10%	0.10%

Sensitivity of provisions for impairment

The ECL reflects an unbiased and probability-weighted amount across a range of macro-economic scenarios as described above. The following table compares the reported ECL to approximate levels of ECL under the Base and Downside scenarios assuming a 100 per cent weighting was applied to each scenario with all other assumptions held constant.

	Consolidated $ million
Reported probability weighted ECL	289
100% Base case scenario	257
100% Downside scenario	318

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 28 February 2022

6.3.5 BORROWINGS

The Consolidated Entity recorded the following movements on borrowings:

	Securitisation liabilities (1) $m	Covered bonds liabilities (2) $m	Debt issues (3) $m	Euro-commercial paper program $m	Term funding facility (4) $m	Subordinated notes $m	Capital Notes (5) $m	Total $m
HALF YEAR ENDED 28 FEBRUARY 2022								
Balance at the beginning of the period	7,645	2,359	3,642	–	3,026	449	602	17,723
Proceeds from issues / new funding	1,469	–	1,413	173	–	400	–	3,455
Repayments	(1,225)	–	(648)	–	–	–	–	(1,873)
Deferred establishment costs	(1)	–	(1)	–	–	(2)	–	(4)
Amortisation of deferred costs (6)	1	1	–	–	–	1	1	4
Foreign exchange translation (6)	–	(59)	1	(3)	–	–	–	(61)
Balance at the end of the period	**7,889**	**2,301**	**4,407**	**170**	**3,026**	**848**	**603**	**19,244**

	Securitisation liabilities (1) $m	Covered bonds liabilities (2) $m	Debt issues (3) $m	Term funding facility (4) $m	Subordinated notes $m	Capital Notes (5) $m	Total $m
HALF YEAR ENDED 28 FEBRUARY 2021							
Balance at the beginning of the period	3,429	2,367	4,027	820	350	346	11,339
Proceeds from issues / new funding	–	–	–	420	–	260	680
Repayments	(563)	–	(625)	–	–	–	(1,188)
Deferred establishment costs	–	–	–	–	–	(5)	(5)
Amortisation of deferred costs (6)	1	1	1	–	–	1	4
Foreign exchange translation (6)	–	(71)	(6)	–	–	–	(77)
Balance at the end of the period	2,867	2,297	3,397	1,240	350	602	10,753

(1) Securitisation liabilities are secured by a floating charge over securitised assets for amounts owing to note holders and any other secured creditors of the securitisation vehicles.

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

(3) Debt issues consist of domestic and offshore senior unsecured debt transactions.

(4) The TFF provides funding at a fixed interest rate of 25 basis points, for a maximum of three years from March 2020 and is accounted for as borrowings. From 4 November 2020, the interest rate of new borrowings was lowered to 10 basis points. The funding is a below market interest loan from a Government entity and, accordingly, classified as a Government Grant. The Group reflects a net interest expense in the Income Statement. There are no terms and conditions associated with the TFF other than pledging eligible collateral that meet the RBA's eligibility criteria. At 28 February 2022, the Group has pledged $3.7 billion of self-securitised residential mortgage-backed securities as collateral.

(5) Capital Notes

On 28 December 2017, the Bank issued 3,500,000 Capital Notes at a price of $100 per note. Capital Notes are perpetual and convertible notes issued by BOQ, with preferred, discretionary, non-cumulative distributions. They are not guaranteed or secured. As at 28 February 2022, 3,500,000 Capital Notes were outstanding. Capital Notes must convert into ordinary shares on 15 August 2026 if certain mandatory conversion conditions are satisfied, unless they are converted or redeemed earlier. Where the mandatory conversion conditions are satisfied, a holder will receive a number of ordinary shares per Capital Note based on the volume weighted average price of ordinary shares during a specified period. The Capital Notes must also convert to ordinary shares of the Bank with the occurrence of a loss absorption event or an acquisition event. BOQ may elect to convert, redeem or resell Capital Notes on 15 August 2024 or following a regulatory or tax event. BOQ may also elect to convert all Capital Notes following a potential acquisition event. These options are subject to APRA's prior written approval and certain conditions being satisfied. In a winding up of the Bank, Capital Notes will rank for payment of capital ahead of ordinary shares, equally with Capital Notes 2 and other equal ranking instruments, but behind the claims of all senior ranking creditors, including depositors and unsubordinated and subordinated creditors.

Capital Notes 2

On 30 November 2020, the Bank issued 2,600,000 Capital Notes 2 at a price of $100 per note. Capital Notes 2 are perpetual and convertible notes issued by BOQ, with preferred, discretionary, non-cumulative distributions. They are not guaranteed or secured. As at 28 February 2022, 2,600,000 Capital Notes 2 were outstanding. Capital Notes 2 must convert into ordinary shares on 15 May 2029 if certain mandatory conversion conditions are satisfied, unless they are converted or redeemed earlier. Where the mandatory conversion conditions are satisfied, a holder will receive a number of ordinary shares per Capital Note 2 based on the volume weighted average price of ordinary shares during a specified period. Capital Notes 2 must also convert to ordinary shares of the Bank with the occurrence of a loss absorption event or an acquisition event. BOQ may elect to convert, redeem or resell Capital Notes 2 on 14 May 2027 or following a regulatory or tax event. BOQ may also elect to convert all Capital Notes 2 following a potential acquisition event. These options are subject to APRA's prior written approval and certain conditions being satisfied. In a winding up of the Bank, Capital Notes 2 will rank for payment of capital ahead of ordinary shares, equally with Capital Notes (issued 28 December 2017) and other equal ranking instruments, but behind the claims of all senior ranking creditors, including depositors and unsubordinated and subordinated creditors.

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

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 28 February 2022

6.4 CONTROLLED ENTITIES

(a) Business combinations

On 1 July 2021, the Group acquired 100 per cent of the shares and voting interests in Members Equity Bank Limited (**ME Bank**) for cash consideration of $1.389 billion.

ME Bank engages in the provision of banking services including funding, management and servicing of residential and consumer lending portfolios and carrying out associated funding activities for off balance sheet portfolios.

On 28 February 2022, ME Bank surrendered its ADI licence and ME Bank's assets and liabilities were transferred to BOQ.

ME Bank's net assets recognised in the 2021 Annual Report were based on a provisional assessment of their fair value, while the Group continues to finalise various matters impacting the acquisition accounting entries. Matters assessed in the current period resulted in the following adjustments:

	Fair value on acquisition 1 July 2021 $m	Adjustments $m	Revised fair value on acquisition 1 July 2021 $m
ASSETS			
Cash and cash equivalents	642	-	642
Due from other financial institutions	124	-	124
Debt instruments at FVOCI	3,320	-	3,320
Equity instruments at FVOCI	3	-	3
Property, plant and equipment	73	-	73
Software intangibles	112	(18)	94
Brand intangibles	26	-	26
Customer relationship intangibles	31	-	31
Loans and advances	25,669	-	25,669
Other assets	19	-	19
Total assets	**30,019**	**(18)**	**30,001**
LIABILITIES			
Deposits	22,302	-	22,302
Derivatives financial liabilities	26	-	26
Accounts payable and other liabilities	161	-	161
Provisions	18	2	20
Current tax liabilities	9	3	12
Borrowings	5,833	-	5,833
Deferred tax liabilities	2	7	9
Total Liabilities	**28,351**	**12**	**28,363**
Net identifiable assets and liabilities	1,668	(30)	1,638
Other equity instruments	(315)	-	(315)
Goodwill arising on acquisition	35	31	66
Total Purchase consideration transferred	**1,388**	**1**	**1,389**
Cash acquired	642	-	642
Net cash outflow	746	1	747

The adjustments primarily relate to the impact of the SaaS accounting policy change and updates to the deferred tax balances based on the revised tax consolidation outcomes.

If new information obtained within one year of the date of acquisition of 1 July 2021 about facts and circumstances that existed at the date of acquisition identifies further adjustments, or any additional provisions that existed at the date of acquisition, then the accounting for the acquisition will be further revised.

(b) Disposal of controlled entities

On 13 October 2020, the Bank entered into an agreement to sell 100 per cent of its controlled entities – St Andrew's Australia Services Pty Ltd and its subsidiaries, St Andrew's Insurance (Australia) Pty Ltd and St Andrew's Life Insurance Pty Ltd (**the St Andrew's Insurance Group**) to Farmcove Investment Holdings.

The sale completed on 28 October 2021, with direct management and control of St Andrew's Insurance Group business transferred to Farmcove Investment Holdings. As a result, the St Andrew's Insurance Group was deconsolidated and derecognised on 28 October 2021 from the BOQ Group.

The sale resulted in a post-tax loss of $25 million for the Group for the half ended 28 February 2022.

The sale of the St Andrew's Group impacted the operating segment, Other.

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 28 February 2022

6.5 OTHER NOTES

6.5.1 INTANGIBLE ASSETS

Goodwill was tested for impairment and no resulting impairment has been recognised for the half year ended 28 February 2022. Goodwill is tested for impairment at each reporting period.

The Group revised its accounting policy on the treatment of SaaS arrangements in the period ended 28 February 2022. Refer to Note 6.1.3 for further detail.

6.5.2 RELATED PARTIES

The terms of arrangements for all related parties are consistent with those disclosed in the 31 August 2021 Annual Report.

6.5.3 CONTINGENT LIABILITIES

Legal claims, remediation, compensation claims and regulatory enforcement

The Group could be engaged in a range of litigation at any point in time. Where relevant, expert legal advice has been obtained and, in the light of such advice, provisions and/or disclosures as deemed appropriate are made.

The Group also undertakes ongoing compliance activities, including review of products, advice, conduct and services provided to customers, as well as interest and fees charged. Some of these investigations and reviews have resulted in remediation programs and where required the Group consults with the respective regulator on the proposed remediation action. There is also a risk that where a breach has occurred, regulators may also impose fines and/or sanctions. The outcomes and total costs associated with such reviews and possible exposures remain uncertain.

Consumer Data Rights regime (Open Banking)

Compliance with and participation in the Consumer Data Rights (**CDR**) regime continues to be a high priority for the BOQ Group. BOQ (excluding ME Bank) is continuing to work with the Australian Competition and Consumer Commission (**ACCC**) in relation to the implementation of these requirements, specifically Phase 1, Phase 2 and Phase 3 customer data sharing requirements. BOQ did not meet the Phase 1, 2 or 3 compliance dates and has a rectification schedule in place with the ACCC. The Phase 1 requirements, due 1 July 2021 were met in December 2021, the Phase 2 requirements, due 1 November 2021, were substantively met in early March 2022 (with outstanding items to be delivered by July 2022) and Phase 3 due 1 February 2022 will be substantively delivered in April 2022. ME Bank has a separate ACCC approved compliance exemption in place with the ACCC and is due to deliver its CDR compliance requirements by 1 July 2022.

It is uncertain what (if any) actions will result following the delay in meeting CDR requirements set out above. No provisions have been made in relation to any events that may arise, as any potential future liability of that kind cannot be reliably estimated at this time.

St Andrew's

As part of the St Andrew's sale agreement, BOQ provided a capped indemnity of $8.5 million to the buyer, Farmcove Investment Holdings, for a period limited to three years until 2024. No claims on the indemnity have been made up to the date of this report.

6.5.4 EVENTS SUBSEQUENT TO BALANCE DATE

The Bank has determined an interim dividend to be paid on 26 May 2022. Further details with respect to the dividend amount per share, payment date and dividend reinvestment plan can be obtained from Note 6.2.3.

A series of floods commencing in South East Queensland on 26 February 2022 continued into New South Wales during March 2022. Weather events do not immediately cause losses for banks as both property and business interruption insurance, for retail and business customers respectively, provide a buffer to default events. Commonwealth and local government assistance packages have been made available to primary producers and small businesses to support those impacted by the floods. BOQ has considered whether events subsequent to the reporting date have confirmed conditions existing at the reporting date and has not identified any developments which would require adjustments to the amounts or disclosures contained in the consolidated financial statements.

The Directors are not aware of any other matters or circumstances that have arisen in the interval between the end of the financial half year and the date of this report, or any item, event or transaction which significantly affects, or may significantly affect the operations of the Group in future financial years.

DIRECTORS' DECLARATION

For the half year ended 28 February 2022

In the opinion of the Directors of Bank of Queensland Limited (**the Bank**):

(a) the consolidated financial statements and accompanying notes, set out on pages 42 to 61 are in accordance with sections 302 to 306 of the *Corporations Act 2001* (Cth), including that they:

(i) give a true and fair view of the financial position of the Consolidated Entity as at 28 February 2022 and of its performance, for the half year ended on that date;

(ii) comply with Australian Accounting Standards AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001* (Cth); and

(b) there are reasonable grounds to believe that the Bank will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors:

Patrick Allaway

Chairman
13 April 2022

George Frazis

Managing Director & CEO
13 April 2022

INDEPENDENT AUDITOR'S REVIEW REPORT

Independent auditor's review report to the members of Bank of Queensland Limited

Report on the interim financial report

Conclusion

We have reviewed the interim financial report of Bank of Queensland Limited (the Company) and the entities it controlled during the half year (together the Group), which comprises the consolidated balance sheet as at 28 February 2022, the consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and consolidated income statement for the half year ended on that date, significant accounting policies and explanatory notes and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying interim financial report of Bank of Queensland Limited does not comply with the *Corporations Act 2001* including:

1. giving a true and fair view of the Group's financial position as at 28 February 2022 and of its performance for the half year ended on that date

2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* (ASRE 2410). Our responsibilities are further described in the *Auditor's responsibilities for the review of the interim financial report* section of our report.

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to the audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Responsibilities of the directors for the interim financial report

The directors of the Company are responsible for the preparation of the interim financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the interim financial report that gives a true and fair view and is free from material misstatement whether due to fraud or error.

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INDEPENDENT AUDITOR'S REVIEW REPORT

Auditor's responsibilities for the review of the interim financial report

Our responsibility is to express a conclusion on the interim financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 28 February 2022 and of its performance for the half year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of an interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

PricewaterhouseCoopers

MHLunn

PricewaterhouseCoopers

Matthew Lunn
Partner

Sydney
13 April 2022

BOQ GROUP - 2022 HALF YEAR RESULTS

7. APPENDICES

7.1 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)	Page 65
Details of entities over which control has been gained or lost (Rule 4.2A.3 Item No. 4)	Page 60
Dividends and dividend dates (Rule 4.2A.3 Item No. 5)	Inside front cover and 51
Dividend reinvestment plan (Rule 4.2A.3 Item No. 6)	Page 51
Details of associated and joint venture entities (Rule 4.2A.3 Item No. 7)	Page 65
Foreign entities (Rule 4.2A.3 Item No. 8)	Not applicable
Independent audit report subject to modified opinion (Rule 4.2A.3 Item No. 9)	Not applicable

Details of associates and joint venture entities (Rule 4.2A.3 Item No. 7)	Ownership interest held (%)
Joint arrangements [(1)]	
Ocean Springs Pty Ltd (Brighton)	9.31
Dalyellup Beach Pty Ltd (Dalyellup)	17.08
East Busselton Estate Pty Ltd (Provence)	25.00
Coastview Nominees Pty Ltd (Margaret River)	5.81
Provence 2 Pty Ltd (Provence 2)	25.00

	As at		
Net tangible assets per security (Rule 4.2A.3 Item No. 3) [(2)]	Feb-22	Aug-21 [(3)]	Feb-21
Net tangible assets per ordinary shares ($)	**7.62**	7.32	7.67

(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. No change in ownership interest held since 31 August 2021.

(2) Represents net assets excluding intangible assets, preference shares and other equity instruments divided by ordinary shares on issue at the end of the year. Right-of-use assets of $196 million have been included in the net tangible asset calculation.

(3) Comparative information has been restated to reflect the prior period adjustments detailed in Note 6.4(a) in the Consolidated Interim Report.

GLOSSARY

TERM	DESCRIPTION
Alternative liquid assets (**ALA**)	Alternative liquid assets are alternative treatments for holdings in the stock of HQLA. These treatments are made available in jurisdictions where there is insufficient supply of HQLA1 (or both HQLA1 and HQLA2) in the domestic currency to meet the aggregate demand of banks with significant exposures in the domestic currency in the LCR framework. Within Australia, a locally-incorporated ADI subject to LCR requirements is able to establish a CLF with the Reserve Bank of Australia, sufficient in size to cover any shortfall in Australian dollars between the ADI's holdings of HQLA and net cash outflows.
Anti-Bribery and Corruption (**AB&C**)	Laws put in place for the prohibition of bribery and corruption.
Anti-Money Laundering (**AML**)	Policies and Procedures put in place by Financial Institutions to prevent criminals from disguising illegally obtained funds as legitimate income.
APRA Prudential Standard (**APS**)	Prudential standards issued by APRA which are applicable to ADIs.
Asset backed securities (**ABS**)	A financial security which is pledged by a pool of assets such as but not limited to loans, leases and credit card debt.
AT1 Capital Notes	AT1 Capital Notes are perpetual, non-cumulative, subordinated and unsecured notes assumed on the acquisition of ME Bank.
Australian Accounting Standards Board (**AASB**)	The AASB produces a series of technical pronouncements that set out the measurement and recognition requirements when accounting for particular types of transactions and events, along with the preparation and presentation requirements of an entity's financial statements.
Australian Finance Industry Association (**AFIA**)	AFIA is the national association for the equipment leasing and financing industry. Formerly Australian Equipment Lessors Association.
Australian Prudential Regulation Authority (**APRA**)	APRA is the prudential regulator of the Australian financial services industry. APRA is an independent statutory authority that supervises institutions across banking, insurance and superannuation and promotes financial system stability in Australia.
Australian Securities & Investments Commission (**ASIC**)	ASIC is Australia's corporate, markets and financial services regulator.
Australian Securities Exchange (**ASX**)	Australian Securities Exchange or ASX Limited (ABN 98 008 624 691) and the market activities operated by ASX Limited.
Australian Transactions Reports and Analysis Centre (**AUSTRAC**)	Australian Government agency responsible for preventing, detecting and responding to criminal abuse of the financial system.
Authorised deposit-taking institution (**ADI**)	A corporation which is authorised under the *Banking Act 1959* and includes banks, building societies and credit unions.
Available stable funding (**ASF**)	ASF is the portion of capital and liabilities expected to be reliable over the time horizon considered by the NSFR, which extends to one year.
Average interest earning assets	Average balance over the period for a bank's assets that accrue interest income.
Banking Relief Package (**BRP**)	A form of Government assistance that gives eligible clients the option of deferring loan repayments for a period of time.
Bank of Queensland Limited (**the Bank** or **BOQ**)	The Bank is a for-profit entity primarily involved in providing retail banking, business banking and leasing finance products to its customers.
Basel II and III	A global regulatory framework to improve the regulation, supervision and risk management within the banking system developed by the Basel Committee on Banking Supervision.
Basis Points (**bps**)	One per cent of one per cent (0.01 per cent).
Bonus Interest savings Account (**BISA**)	BOQ's Bonus Interest Savings Account is a savings account with a variable base interest rate and a bonus interest rate calculated on a tiered basis.
BOQ Blue	BOQ Blue refers to the original BOQ brand and excludes brands such as Virgin Money, ME Bank, BOQ Specialist and BOQ Finance. It is predominantly represented as transactions and products serviced through our branch network, business bank relationship managers and Financial Markets.
Capital Notes (**BOQPE**) & Capital Notes 2 (**BOQPF**)	Capital Notes are perpetual, convertible, unguaranteed and unsecured notes issued by BOQ, with preferred, discretionary, non-cumulative distributions. Capital Notes may convert into common shares in certain circumstances as described in the offer documentation of the notes.
Cash earnings	Cash Earnings is a non-accounting standards measure commonly used in the banking industry to assist in presenting a clear view of underlying earnings.
Committed Liquidity Facility (**CLF**)	The RBA provides a CLF to ADIs as part of Australia's implementation of the Basel III liquidity standards. The facility is designed to ensure that participating ADIs have enough access to liquidity to respond to an acute stress scenario, as specified under APS 210 *Liquidity*. CLF assets include senior unsecured bank debt, covered bonds, asset backed securities and residential mortgage-backed securities that are eligible for repurchase with the RBA.

GLOSSARY

TERM	DESCRIPTION
Common Equity Tier 1 (**CET1**)	Capital that is recognised as the highest quality component of capital under APS.
Common Equity Tier 1 ratio (**CET1 ratio**)	CET1 capital divided by total RWA calculated in accordance with relevant APS.
Consolidated Entity (**the Group**)	BOQ and its subsidiaries.
Corporations Act 2001	The *Corporations Act 2001* (Cth).
Cost to income (**CTI**) ratio	Operating expenses divided by net operating income.
Counter Terrorism Financing (**CTF**)	Compliance procedures put in place by Financial Institutions to ensure money is not used for funding terrorist activity.
Covered bond guarantor	Perpetual Corporate Trust Limited ABN 99 000 341 533, incorporated with limited liability in the Commonwealth of Australia and having its registered office at Level 18, 123 Pitt Street, Sydney, NSW 2000, as trustee of the BOQ Covered Bond Trust (the Trustee).
Days Past Due (**dpd**)	A loan or lease payment that has not been made by a customer by the due date.
Dividend payout ratio	Dividends paid on ordinary shares divided by earnings.
Dividend reinvestment plan (**DRP**)	A plan which provides shareholders with the opportunity to convert all or part of their entitlement to a dividend into new shares.
Earnings per share (**EPS**)	Measure of earnings attributed to each equivalent ordinary share over a twelve month period. This is calculated by dividing the company's earnings by the weighted average number of shares on issue in accordance with AASB 133 *Earnings per share.*
Effective tax rate	Income tax expense divided by profit before tax.
Expected Credit Loss (**ECL**)	Estimated credit losses using a forward looking impairment methodology accounted for in accordance with AASB 9 *Financial Instruments*.
Fair value through other comprehensive income (**FVOCI**)	Measurement and classification of financial assets under AASB 9 *Financial Instruments*. A financial asset is measured at FVOCI if it is held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. The contractual cash flows must be solely payments of principal and interest.
Fair value through profit or loss (**FVTPL**)	Measurement and classification of financial assets under AASB 9 *Financial Instruments*. FVTPL include financial assets that are held for trading.
Full Time Equivalent (**FTE**)	A calculation based on number of hours worked by full and part time employees as part of their normal duties.
General reserve for credit losses (**GRCL**)	An estimate of the reasonable and prudent expected credit losses over the remaining life of the portfolio and on non-defaulted assets, not covered by provisions for impairment.
Gross Domestic Product (**GDP**)	Total monetary value of all goods and services produced in a country.
Gross Loans and Advances (**GLA**)	Gross loans and advances is the principal amount of loans and advances provided, gross of provisions and deferred fee income and including any accrued interest.
High Quality Liquid Asset (**HQLA1**)	Comprises of the Bank's notes and coins and marketable securities representing claims on or guaranteed by the Australian Government or Semi-Government authorities.
Impaired assets	Exposures that have deteriorated to the point where full collection of principal and interest is in doubt.
Interest bearing liabilities	The Bank's liabilities that accrue interest expense.
International Accounting Standards Board (**IASB**)	Independent, private-sector body that develops and approves International Financial Reports Standards.
International Financial Reporting Interpretations Committee (**IFRIC**)	Independent, private-sector body that provides guidance on financial reporting issues not specifically addressed in International Financial Reporting Standards (**IFRSs**).
International Financial Reporting Standards (**IFRS**)	IFRS and interpretations issued by the International Accounting Standards Board.
Issued capital	Value of securities allotted in a company to its shareholders.
Liquid assets	All unencumbered RBA repurchase eligible liquid assets. Liquid assets are comprised of HQLA1 (cash, Australian Semi-Government and Commonwealth Government securities) and alternative liquid assets covered under the CLF provided by the Reserve Bank of Australia.
Liquidity Coverage Ratio (**LCR**)	The LCR requires sufficient HQLA1 and alternative liquid assets, covered by the CLF, to meet net cash outflows over a 30 day period, under a regulator defined liquidity stress scenario.

GLOSSARY

TERM	DESCRIPTION
Loss Given Default (**LGD**)	Loss of money by a bank when a customer defaults on a loan represented as a percentage of the total exposure at the time of default.
Members Equity Bank Limited (**ME Bank** or **ME**)	ME Bank is a for profit entity that operated in the retail segment of the domestic market offering primarily home loan products and everyday transaction and online savings accounts. On 28 February 2022, ME Bank surrendered its ADI licence and ME Bank's assets and liabilities were transferred to BOQ.
Mortgage Net Promoter Score (**NPS**)	The Net Promoter Score is an index that measures the willingness of customers to recommend a company's products or services to others. It is used as a proxy for gauging the customer's overall satisfaction with a company's product or service and the customer's loyalty to the brand.
MyBOQ	BOQ digital bank platform, launched in March 2022, including transaction and savings accounts.
Net interest margin (**NIM**)	Net interest income divided by average interest-earning assets.
Net Stable Funding Ratio (**NSFR**)	The NSFR is defined as the amount of ASF relative to the amount of required stable funding. APRA requires ADIs to maintain an NSFR of at least 100 per cent. ASF is defined as the portion of capital and liabilities expected to be reliable over the time horizon considered by the NSFR, which extends to one year. The amount of such stable funding required of a specific institution is a function of the liquidity characteristics and residual maturities of the various assets held by that institution as well as those of its off-balance sheet exposures.
Net Tangible Assets (**NTA**)	Net assets excluding intangible assets, preference shares and other equity instruments divided by ordinary shares on issue at the end of the year. Right-of-use assets are included in net tangible assets per share.
Non-interest earning assets	The Bank's assets that do not accrue interest income.
Novel coronavirus disease (**COVID-19**)	The Novel Coronavirus disease that was declared as a global pandemic on 11 March 2020.
Owner-managed branch (**OMB**)	A branch which is run by a franchisee.
Probability of Default (**PD**)	An estimate of the likelihood of a default over a given time horizon.
REDS	Term to describe the BOQ securitisation programmes.
Reserve Bank of Australia (**RBA**)	Australia's central bank and drives its functions and powers from the *Reserve Bank Act 1959*.
Residential Mortgage-Backed Securities (**RMBS**)	BOQ's securitisation program which enables the trustee to issue debt securities backed by assets originated by the Group such as mortgages.
Return on Average Equity (**ROE**)	Net profit less other equity instruments' distributions divided by average shareholder equity, excluding other equity instruments.
Return on Average Tangible Equity (**ROTE**)	Net profit less other equity instruments' distributions divided by average shareholder equity, excluding other equity instruments, goodwill and identifiable intangible assets.
Risk weighted assets (**RWA**)	A quantitative measure of various risks including credit, operational, market and securitisation as defined by APS.
Software-as-a-Service (**SaaS**)	A cloud-based method of providing software to users, in which the software is owned, delivered and managed remotely by one or more software providers. SaaS users pay a subscription fee to access the software instead of purchasing it once and installing it on premises.
Term Funding Facility (**TFF**)	Funding Facility for authorised deposit-taking institutions established by the RBA to support the Australian economy.
Total capital adequacy ratio	Total capital divided by total RWA calculated in accordance with relevant APS.
Treasury shares	Shares that the Bank has issued but are held by a trust included within the Bank's consolidated results. Treasury shares are not considered shares outstanding and are not included in 'per share' calculations.
Virgin Money Australia (**VMA** or **Virgin Money**)	Virgin Money Australia is a business operated by BOQ, encompassing Virgin Money Australia Pty Ltd and its subsidiaries, as well as Virgin Money Australia products sold by the Bank. The VMA products offered by the Group include home loans, transaction and savings accounts and the provision of other financial services (e.g. credit cards, insurance and superannuation) on behalf of business partners.
Weighted Average Number of Shares (**WANOS**)	Calculated in accordance with AASB 133 *Earnings per share.*

Bank of Queensland Limited
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