BOQ GROUP

BOQ Investor Information

2020 HALF YEAR RESULTS

Incorporating the requirements of Appendix 4D

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BOQ GROUP - 2020 HALF YEAR RESULTS

ASX APPENDIX 4D

FOR THE HALF YEAR PERIOD ENDED 29 FEBRUARY 2020

RESULTS FOR ANNOUNCEMENT TO THE MARKET [1]

				$m
Revenues from ordinary activities [2]	In line		at	545
Profit from ordinary activities after tax attributable to members [2]	Down	40%	to	93
Profit for the year attributable to members [2]	Down	40%	to	93

Dividends	Record Date	Paid or payable on	Amounts per security
WHOLESALE CAPITAL NOTES (WCN)			
Final 2019 dividend – fully franked	18 November 2019	26 November 2019	$203.03
Half-yearly WCN dividend – fully franked [3]	17 May 2020	26 May 2020	$185.34
CAPITAL NOTES (BOQPE)			
November 2019 BOQPE distribution – fully franked	31 October 2019	15 November 2019	82.84 cents
February 2020 BOQPE distribution – fully franked	31 January 2020	17 February 2020	83.73 cents
May 2020 BOQPE distribution – fully franked [3]	29 April 2020	15 May 2020	78.59 cents

(1) Rule 4.2A.3. Refer to *Appendix 6.1* for the cross reference index for *ASX Appendix 4D*.

(2) On prior corresponding period (six months ended 28 February 2019). Based on statutory profit results.

(3) Expected dates and values only. The payment of any distribution is subject to the terms of the Wholesale Capital Notes (WCN) and Capital Notes (BOQPE).

BOQ GROUP - 2020 HALF YEAR RESULTS

BOQ GROUP - 2020 HALF YEAR RESULTS

OPERATING AND FINANCIAL REVIEW

1. HIGHLIGHTS AND STRATEGY

1.1 DISCLOSURE CONSIDERATIONS

Future performance

This document contains certain 'forward-looking statements' about Bank of Queensland Limited's (**the Bank** or **BOQ** or **BOQ Group**) business and operations, market conditions, results of operations, financial condition, capital adequacy and risk management practices which reflect BOQ's views held and current expectations as at the date of this document.

Forward-looking statements can generally be identified by the use of forward-looking words such as 'anticipate', 'believe', 'expect', 'project', 'forecast', 'estimate', 'likely', 'intend', 'should', 'will', 'could', 'may', 'target', 'plan' and other similar expressions.

Forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of BOQ and which may cause actual results to differ materially from those expressed or implied in such statements. Readers are cautioned not to place undue reliance on any forward-looking statements. Actual results or performance may vary from those expressed in, or implied by, any forward-looking statements.

BOQ does not undertake to update any forward-looking statements contained in this document, subject to disclosure requirements applicable to it.

Rounding

In accordance with applicable financial reporting regulations and current industry practices, amounts in this report have been rounded off to the nearest one million dollars, unless otherwise stated. Any discrepancies between total and sums of components in tables contained in this report are due to rounding.

Note on statutory profit and cash earnings

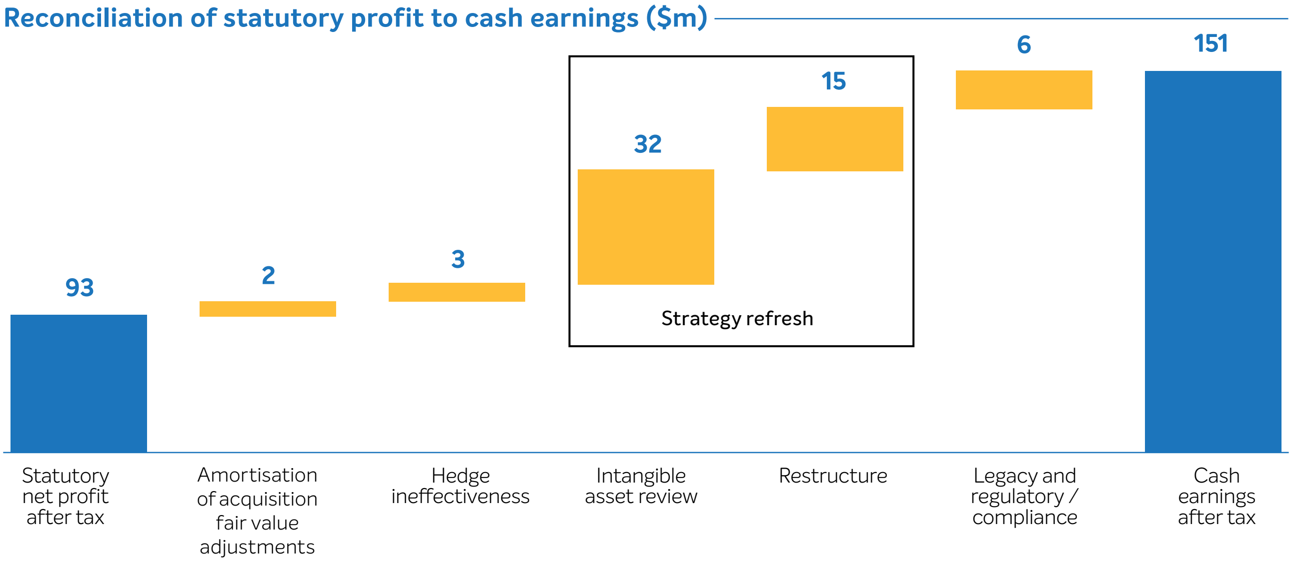
Statutory profit is prepared in accordance with the *Corporations Act 2001* and the Australian Accounting Standards, which comply with International Financial Reporting Standards (**IFRS**). Cash earnings is a non-accounting standards measure commonly used in the banking industry to assist in presenting a clear view of the Bank's underlying earnings. Refer to the chart below and Section 6.2 of the *Appendices* for the *Reconciliation of statutory profit to cash earnings*. The main exclusions relate to:

- Intangible asset review – this includes a non-recurring adjustment due to a change in the minimum threshold for the capitalisation of intangible assets and the amortisation acceleration and impairment of assets impacted by the BOQ Group's revised strategy within the next 24 months;
- Restructure – this relates to the structural productivity and operating model review. The expense largely relates to redundancy costs associated with business restructures; and
- Legacy and regulatory / compliance – this includes adjustments for prior year Goods and Services Tax (**GST**), and costs associated with remediation programs and regulatory matters of an extraordinary nature consistent with prior periods. These were partly offset by the recovery of expenses in relation to historical litigation.

Figures disclosed in this report are on a cash earnings basis unless stated as being on a statutory profit basis. Unless otherwise stated, all financial comparisons in this document refer to the prior half (**2H19**) and the prior corresponding period (**1H19**).

The non-statutory measures have not been subject to an independent audit or review.

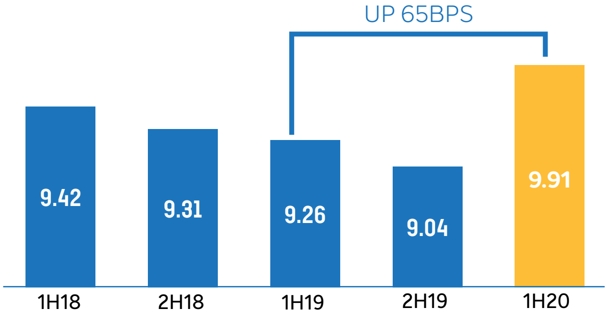
Reconciliation of statutory profit to cash earnings ($m)



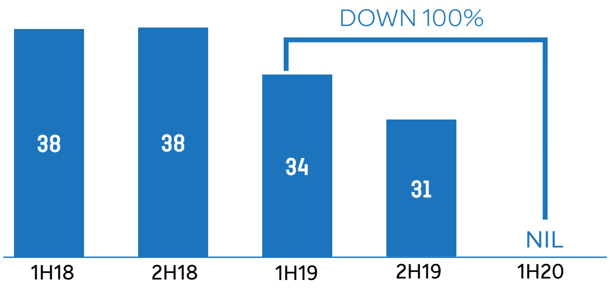
BOQ GROUP - 2020 HALF YEAR RESULTS

1.2 FINANCIAL SUMMARY

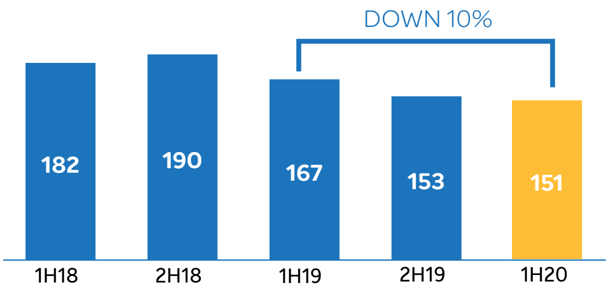
Common equity tier 1 (**CET1**) (%)



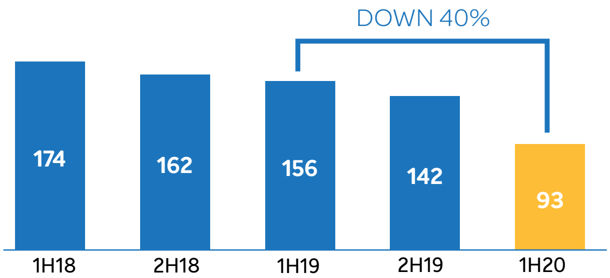
Dividends per ordinary share (cents) (1)



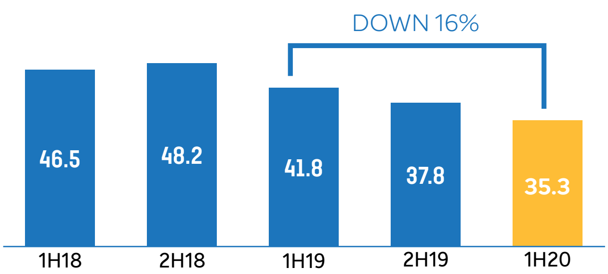
Cash earnings after tax ($m)



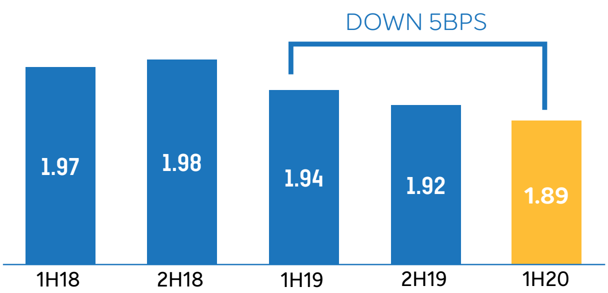
Statutory profit after tax ($m)



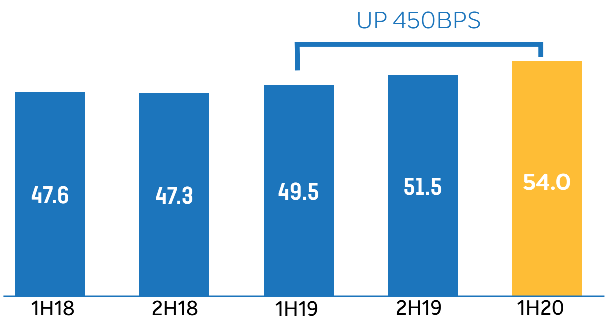
Cash basic earnings per share (**EPS**) (cents)



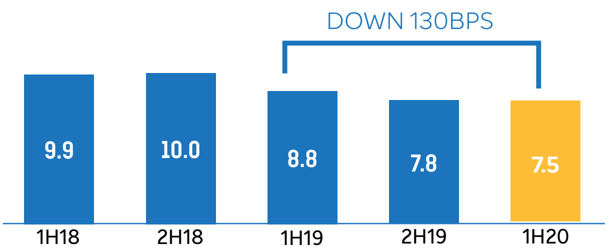
Cash net interest margin (**NIM**) (%)



Cash cost to income (**CTI**) (%)



Cash return on average equity (**ROE**) (%)



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

BOQ GROUP - 2020 HALF YEAR RESULTS

1.2 FINANCIAL SUMMARY (CONTINUED)

CASH EARNINGS AFTER TAX

$151m

Decreased by 10 per cent on 1H19. Statutory profit down 40 per cent on 1H19.

CASH NET INTEREST MARGIN

1.89%

Down by five basis points on 1H19 driven by the impact of the lower interest rate environment on deposit spreads and the return on capital.

CASH OPERATING EXPENSES

$292m

Nine per cent increase from 1H19, primarily driven by investments in risk and regulatory programs and strategic technology projects.

LOAN IMPAIRMENT EXPENSE

$30m

13 basis points of lending and in line with 1H19.

CET1

9.91%

Unquestionably strong with an increase of 87 basis points on 2H19.

CASH ROE

7.5%

130 basis points reduction on 1H19 primarily due to lower earnings .

As at the date of publishing this report, the novel coronavirus (**COVID-19**) pandemic has resulted in significant health, societal and economic impacts across the globe. This was an emerging issue as at reporting date, 29 February 2020, and is reflected in an adjustment within the collective provision, to the extent appropriate based on the facts and circumstances existing at that date. Since 29 February 2020 and up until the date of publishing this report, 8 April 2020, the situation has worsened. For more detailed assessments on the impacts of COVID-19, refer to the Consolidated interim financial report - Directors' Report, Note 5.3.4 Loans and advances and Note 5.5.4 Events subsequent to balance date.

BOQ's cash earnings after tax for 1H20 was $151 million, 10 per cent below the 1H19 result. Statutory net profit after tax was $93 million, a 40 per cent reduction on 1H19. The reduction in earnings was the result of lower non-interest income, and higher operating expenses. Statutory earnings were further impacted by restructuring expenses and costs associated with the intangible asset review.

Net interest income

Net interest income benefitted from the higher FY19 closing gross loans and advances (**GLA**), as well as the additional $781 million in GLA growth in 1H20. 1H20 growth was particularly strong in Virgin Money (Australia) (**VMA** or **Virgin Money**) ($489 million), BOQ Specialist ($502 million), and the BOQ Commercial portfolio ($189 million), noting this was partially offset by contraction of $441 million in the BOQ branded housing portfolio.

The five basis point reduction in net interest margin from 1H19 was primarily driven by increased funding costs, reduced returns on the replicating portfolio, and an increase in third party costs. This was offset by improved asset pricing and portfolio mix and reduced hedging costs as basis spreads improved.

Non-interest income

Non-interest income decreased by 11 per cent on 1H19. This was a result of industry trends towards lower or no fee products, a new third party arrangement for BOQ's merchant offering, the sale of the debtor finance business in 2H19, and a reduction in St Andrew's income following the decision to cease sales of consumer credit insurance.

Operating expenses

Operating expenses increased nine per cent to $292 million in 1H20 compared to 1H19, primarily due to increased expenses from risk and regulatory programs and investment in strategic technology projects. The productivity review has delivered a three per cent reduction in full-time equivalent (**FTE**) headcount levels at 29 February 2020 compared to 31 August 2019 and is expected to deliver further benefits into 2H20.

Loan impairment expense

Loan impairment expense remained in line with 1H19 and loan impairment expense to GLAs remained constant at 13 basis points. The 1H20 results included a $10 million overlay in recognition of the expected impact of COVID-19 on the collective provision as at 29 February 2020. The provision was calculated based on the facts and circumstances existing at 29 February 2020 and forecasts of future economic conditions and supportable information that was available at that date and includes significant management judgement.

Capital management

BOQ CET1 ratio of 9.91 per cent is unquestionably strong and BOQ remains well capitalised to withstand shocks from the prevailing economic uncertainty. This was an increase of 87 basis points from 2H19. This was primarily the result of an additional 110 basis points of capital delivered through the capital raising and underlying capital generation of six basis points, offset by increased investment and restructure charges related to the strategic reset as well as reduced securitisation activity.

Shareholder returns

On 7 April 2020, the Australian Prudential Regulation Authority (**APRA**) provided a letter to all authorised deposit-taking institutions (**ADIs**) and Insurers regarding capital management. APRA advised they expect that, during at least the next couple of months, ADIs will defer dividend decisions until the outlook is clearer and robust stress testing results have been discussed with APRA. Based on this guidance, BOQ has determined to defer the decision on payment of an interim dividend.

BOQ GROUP - 2020 HALF YEAR RESULTS

1.3 RESPONSE TO COVID-19

Australians are currently facing challenging circumstances as a result of the COVID-19 pandemic. While this is foremost a health crisis, the virus is also having a significant economic impact for many of the Bank's customers. This is when the Bank's purpose and values of empathy, integrity and making a difference act as its compass. BOQ has partnered with the Australian Banking Association (**ABA**), Treasury, regulators and the Reserve Bank of Australia (**RBA**) to discuss what the Bank can do to help its customers, the critical role banks play in supporting the economy and the frameworks to allow all banks to provide support to both their business and personal customers.

Supporting our customers

As a bank, BOQ has a responsibility to maintain confidence in the economy and support its customers in any way it can. In these challenging times, BOQ has made a number of announcements to support business customers:

- Signed up to the ABA's recently announced industry-wide small business response, under which small business customers can access a deferred repayment period of up to six months.
- Small business customers will also be able to access an unsecured overdraft of up to $250,000, with no repayments for the first six months. Interest rates on these loans will be reduced by 200 basis points, and by 300 basis points for customers operating in the healthcare sector.
- Monthly account maintenance fees on business transactional bank accounts will be waived for the next six months, and customers can apply for a three month waiver of merchant terminal fees.
- Making it easier for customers to earn bonus interest on Business Performance Saver Accounts by temporarily removing the need for them to meet bonus criteria.

BOQ is also aware of the pressures many of its personal customers are facing, and has introduced the following initiatives to support them:

- Customers experiencing difficulty can opt to either defer their mortgage repayments or switch to Interest Only repayments for an initial period of three months. At the end of this period, BOQ will work with these customers to assess if further assistance is required.
- Making it easier to save by temporarily removing bonus interest spending criteria from its Fast Track accounts.
- Monthly account fees on Cash Management Accounts are being temporarily paused.

BOQ also continues to offer Fast Track Hardship Assistance, through which impacted customers can urgently access a range of other financial relief measures, which may include:

- Special arrangements in relation to arrears;
- Early access to Term Deposit funds with waiver of redemption fee; or
- Waiver of other fees and charges related to non-payment.

Business continuity

BOQ has established a dedicated business continuity team that is meeting regularly to ensure the Bank is following the latest guidance from the Australian Department of Health and the World Health Organisation (**WHO**).

In line with Government advice, staff who can work from home are encouraged to do so. BOQ has implemented a split teams approach in all corporate offices for critical roles, and the branches remain open to serve BOQ customers.

Well-being of employees

BOQ remains committed to keeping its employees and families safe and ensuring ongoing health and wellbeing during this trying time. BOQ Group has:

- Implemented a dedicated BOQ COVID-19 Health Hotline number. This medical service is free to employees and their families, with nurses and doctors available when it's not possible to connect with a doctor or the national information line;
- Temperature checks with a nurse in locations where employees are required to come to work; and
- Additional supplies of face masks, gloves, antibacterial wipes and hand sanitiser for the branches.

Resilience of the Bank

Funding and liquidity: BOQ has a robust liquidity risk management framework including Board approved liquidity risk tolerances, detailed strategy and policy governing the management of liquidity and funding, together with annual Board approved funding and contingency funding plans. The Bank has a strong liquidity position with regulatory liquidity ratios in excess of target management ranges and regulatory limits.

In addition to the strong regulatory liquidity position on 19 March 2020, the RBA announced that it was establishing a facility that would offer authorised deposit taking institutions three year funding at a subsidised rate of 25 basis points to combat the effects of the COVID-19 virus. The Bank estimates that it will have access to the equivalent of 1 year's senior funding requirements.

On 25 March 2020, APRA notified all ADIs that the Term Funding Facility could be considered a committed funding facility and from 31 March 2020 can be included in an ADI's reporting of liquidity coverage ratio (**LCR**) and net stable funding ratio (**NSFR**) which will further strengthen BOQ's liquidity positions.

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

The Board has set the CET1 capital target range to be between 9.0 and 9.5 per cent of risk weighted assets and the total capital range to be between 11.75 and 13.5 per cent of risk weighted assets. Refer to Section 3.3 Capital management for further information.

BOQ GROUP - 2020 HALF YEAR RESULTS

1.4 STRATEGY

Bank of Queensland Limited (ABN 32 009 656 740) is a financial institution whose primary function is gathering deposits and lending. It is listed on the Australian Securities Exchange (**ASX**) and regulated by APRA as an ADI, BOQ was established in 1874 as the First Permanent Building Society in Queensland. The BOQ Group (BOQ and its controlled entities) has evolved into a national institution and is now comprised of a number of brands including BOQ, BOQ Specialist, BOQ Finance, Virgin Money and St Andrew's Insurance operating across Australia.

As one of Australia's leading regional banks, BOQ aims to build a differentiated position in the Australian financial services sector by focusing on niche customer segments that value a more intimate banking relationship. Through specialisation and deep industry knowledge in niche commercial segments, including medical & dental, corporate healthcare & retirement living, hospitality & tourism and agribusiness, BOQ provides a unique level of support to business banking customers. In addition, BOQ operates a retail banking business across branch, broker, digital, and contact centre channels. Many of BOQ's retail branches are operated by owner managers who are franchisees and owners of their own small business. As small business owners themselves, the owner managers know what it means to deliver a superior customer experience and provide BOQ with a point of differentiation.

BOQ's corporate strategy is based on five strategic pillars: Our empathetic culture sets us apart; distinctive brands serving attractive niche customer segments; digital bank of the future with a personal touch; simple and intuitive business with strong execution capability; and maintaining a strong financial and risk position with attractive returns.

- **Our empathetic culture sets us apart** is about distinguishing BOQ from its competitors through connected and empathetic bankers who understand the needs and feelings of the customers. BOQ's purpose is creating prosperity for its customers, shareholders and people through empathy, integrity and by making a difference. This provides a strong compass for the Bank's decisions and actions. A focus on exceptional customer and people experiences together with growing capability and talent will enable BOQ to delight its customers by helping them save, getting them into their new homes and their family business to grow.
- **Distinctive brands serving attractive niche customer segments** will see BOQ focus on the niche areas that provide the greatest opportunity to grow sustainable returns. The portfolio of distinctive brands encompassing BOQ, Virgin Money Australia, BOQ Business, BOQ Specialist and BOQ Finance provides it with the ability to target complementary segments through niche offerings. BOQ's strategy also includes a focus on the small and medium enterprise (**SME**) segment, supported by highly experienced bankers with strong relationship banking skills, deep SME capability across the owner managed branches, industry expertise delivered through BOQ Specialist and a leading asset finance capability in the BOQ Finance business line.
- **Digital bank of the future with a personal touch** will see digital underpin BOQ's business transformation. BOQ aims to deliver a comprehensive digital transformation, which will utilise cloud based technologies to build a next generation core platform to support its growth. The digital transformation will also enable BOQ to provide richer customer experiences through leveraging intelligent data and analytics to provide differentiated experiences for the customer at the digital front end, and will drive efficiencies across the business lines. In addition to the BOQ digital transformation, the strategy will see BOQ build a digital bank of the future under the Virgin Money Australia brand. This will see Virgin Money Australia become one of Australia's leading digital challenger banks, and will lay the foundations for the BOQ Group's future banking platform.
- **Simple and intuitive business, with strong execution capability** focuses on the program of work aimed at reducing the product set, streamlining processes, and leveraging technology to improve the customer experience, drive efficiencies, and reduce costs. This pillar of the strategy includes a key focus on the home buying transformation program, which incorporates an uplift in culture and capability, optimisation of the distribution channels, and simplification of process, products and systems. The strategy includes a significant transformation agenda and enhancing BOQ's execution capability is critical to the success of delivering this program of work.
- **Maintaining a strong financial and risk position, with attractive returns** ensures BOQ's growth is underpinned by a strong balance sheet and a robust risk and regulatory compliance framework.

BOQ is continuing its progress on sustainability but recognises that more work needs to be done. Recently it reinforced its commitment to ethical conduct by encouraging employees to sign up to the Banking and Finance Oath. This builds on internal ethics training and regular conduct reporting as well as a range of initiatives that bring BOQ's purpose and values to life. BOQ continues to demonstrate its commitment to a diverse and inclusive workforce through a number of internal diversity initiatives and by making significant progress on its reconciliation journey. By focusing on the five strategic pillars, BOQ aims to deliver robust and sustainable financial performance, consistent growth in returns to shareholders and superior service to customers and the wider community.

BOQ is committed to engaging positively with all stakeholders in a fair and transparent way to create value for customers, employees, investors and the communities in which it operates. More information on BOQ's approach to sustainability is available in the sustainability section of the BOQ website *https://www.boq.com.au/Shareholder-centre/sustainability*.

Information on BOQ's Corporate Governance Statement is available on the corporate governance page of the BOQ website *https://www.boq.com.au/About-us/corporate-governance.*

BOQ GROUP - 2020 HALF YEAR RESULTS

2. GROUP PERFORMANCE ANALYSIS

2.1 INCOME STATEMENT AND KEY METRICS

	Half Year Performance				
$ million	Feb-20	Aug-19	Feb-19	Feb-20 vs Aug-19	Feb-20 vs Feb-19
Net interest income	**483**	485	476	–	1%
Non-interest income	**58**	63	65	(8%)	(11%)
Total income	**541**	548	541	(1%)	–
Operating expenses	**(292)**	(282)	(268)	4%	9%
Underlying profit	**249**	266	273	(6%)	(9%)
Loan impairment expense	**(30)**	(44)	(30)	(32%)	-
Profit before tax	**219**	222	243	(1%)	(10%)
Income tax expense	**(68)**	(69)	(76)	(1%)	(11%)
Cash earnings after tax	151	153	167	(1%)	(10%)
Statutory net profit after tax (1)	93	142	156	(35%)	(40%)

(1) Refer to Section 6.2 *Reconciliation of statutory profit to cash earnings* of the *Appendices* for a reconciliation of cash earnings to statutory net profit after tax.

		Half Year Performance				
Key metrics		Feb-20	Aug-19	Feb-19	Feb-20 vs Aug-19	Feb-20 vs Feb-19
SHAREHOLDER RETURNS						
Share price	($)	**7.49**	9.17	9.01	(18%)	(17%)
Market capitalisation	($ million)	**3,403**	3,721	3,620	(9%)	(6%)
Dividends per ordinary share (fully franked) (1)	(cents)	**-**	31	34	(100%)	(100%)
CASH EARNINGS BASIS						
Basic EPS (2)	(cents)	**35.3**	37.8	41.8	(7%)	(16%)
Diluted EPS (2)	(cents)	**32.2**	35.2	38.9	(9%)	(17%)
Dividend payout ratio (1)	(%)	**-**	82.2	81.8	–	–
STATUTORY BASIS						
Basic EPS (2)	(cents)	**21.7**	35.2	38.9	(38%)	(44%)
Diluted EPS (2)	(cents)	**20.5**	32.9	36.4	(38%)	(44%)
Dividend payout ratio (1)	(%)	**-**	88.6	87.6	–	–

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

(2) Comparatives for basic and diluted earnings per share have been adjusted for the effects of the institutional share placement and share purchase plan that occurred during the current financial period.

BOQ GROUP - 2020 HALF YEAR RESULTS

2.1 INCOME STATEMENT AND KEY METRICS (CONTINUED)

Key metrics		Half Year Performance Feb-20	Aug-19	Feb-19	Feb-20 vs Aug-19	Feb-20 vs Feb-19
PROFITABILITY AND EFFICIENCY MEASURES						
CASH EARNINGS BASIS						
Net profit after tax	($ million)	151	153	167	(1%)	(10%)
Underlying profit [(1)]	($ million)	249	266	273	(6%)	(9%)
NIM [(2)]	(%)	1.89	1.92	1.94	(3bps)	(5bps)
CTI	(%)	54.0	51.5	49.5	250bps	450bps
Loan impairment expense / GLA	(bps)	13	19	13	(6bps)	-
ROE	(%)	7.5	7.8	8.8	(30bps)	(130bps)
ROTE [(3)]	(%)	9.8	10.2	11.4	(40bps)	(160bps)
STATUTORY BASIS						
Net profit after tax	($ million)	93	142	156	(35%)	(40%)
Underlying profit [(1)]	($ million)	168	252	257	(33%)	(35%)
NIM [(2)]	(%)	1.89	1.92	1.94	(3bps)	(5bps)
CTI	(%)	69.2	54.3	52.8	1490bps	1640bps
Loan impairment expense to GLA	(bps)	13	19	13	(6bps)	-
ROE	(%)	4.6	7.3	8.2	(270bps)	(360bps)
ROTE [(3)]	(%)	6.0	9.5	10.7	(350bps)	(470bps)
ASSET QUALITY						
30 days past due (**dpd**) arrears	($ million)	525	499	505	5%	4%
90 dpd arrears	($ million)	291	312	287	(7%)	1%
Impaired assets	($ million)	196	197	152	(1%)	29%
Total provision and GRCL[(4)] coverage / GLA	(bps)	69	70	66	(1bp)	3bps
CAPITAL						
CET1 ratio	(%)	9.91	9.04	9.26	87bps	65bps
Total capital adequacy ratio	(%)	13.21	12.40	12.68	81bps	53bps
Risk weighted assets (**RWA**)	($ million)	31,164	30,533	29,978	4% [(5)]	4%

(1) Profit before loan impairment expense and tax.
(2) NIM net of offset accounts.
(3) Based on after tax earnings applied to average shareholders' equity – excluding treasury shares less goodwill and identifiable intangible assets (customer related intangibles/brands and computer software).
(4) General reserve for credit losses.
(5) Growth rates have been annualised.

BOQ GROUP - 2020 HALF YEAR RESULTS

2.2 NET INTEREST INCOME

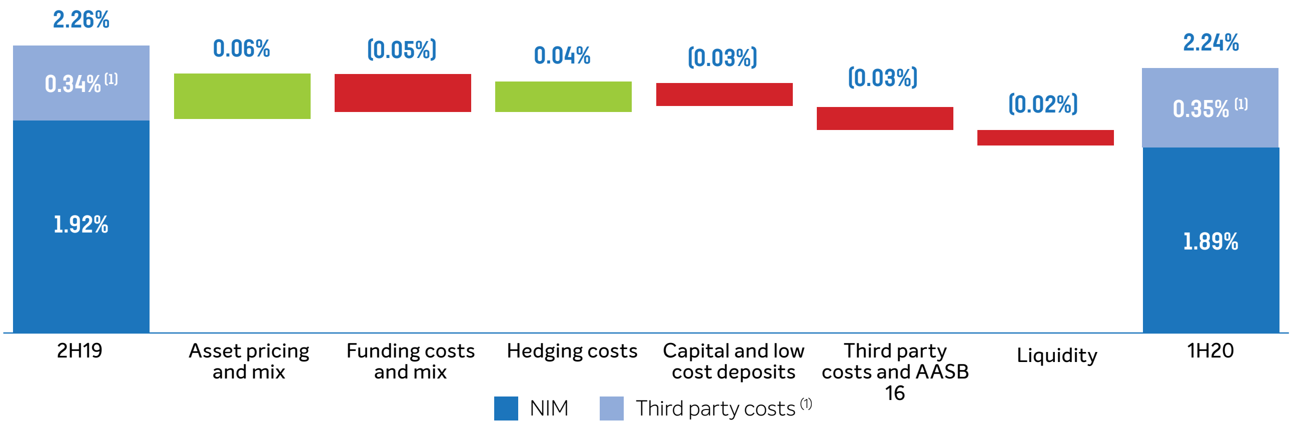
	Half Year Performance				
$ million	Feb-20	Aug-19	Feb-19	Feb-20 vs Aug-19	Feb-20 vs Feb-19
Net interest income	483	485	476	-	1%
Average interest earning assets	51,407	50,220	49,441	2%	4%
NIM	1.89	1.92	1.94	(3bps)	(5bps)

Net interest income decreased by $2 million from 2H19, driven by a three basis point decrease in NIM from 2H19. Adjusting for the lower number of days in 1H20 compared to 2H19 (182 days compared to 184 days), NIM would contribute an additional $5 million or a one per cent increase in underlying net interest income in 1H20.

Margin pressure in 1H20 resulted from intensified competition for new lending, and a lower interest rate environment placing pressure on funding costs, returns on capital and low cost deposits. These impacts were partially mitigated by mortgage repricing undertaken in July and October 2019 and improved hedging costs resulting from a lower basis.

Net interest income increased $7 million from 1H19, driven by a four per cent increase in average interest earning assets. This was partially offset by a five basis point decrease in NIM.

Net interest margin - August 2019 to February 2020



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

The Bank's net interest margin decreased by three basis points on the prior half to 1.89 per cent. The key drivers of this movement are set out below.

Asset pricing and mix: Increased margin of six basis points primarily due to housing and commercial loan repricing actions, which contributed eight basis points. NIM also benefitted by improved margins on fixed mortgages and asset finance as a result of a lower interest rate environment. Offsetting the repricing impact was the Bank's competition for new business by applying retention discounting which drove four basis points of front to back margin degradation in the variable housing portfolio. The reporting period timing meant a one basis point decrease in NIM from cash rate delays compared to 2H19. Finally, lower ancillary interest income via break costs and renewal income on finance facilities contributed to a one basis point reduction in NIM.

Funding costs and mix: Decreased margin of five basis points was due to competition for retail and middle market term deposits, lower cash rate, and higher wholesale funding costs driven by a more expensive mix of funding (longer duration issuances).

Hedging costs: Increased margin of four basis points largely due to basis portfolio spreads decreasing from an average of 39 basis points to 24 basis points compared to 2H19. This drove a four basis points improvement in NIM.

Capital and low cost deposits: Decreased margin of three basis points as the lower interest rate environment impacted the $4.5 billion replicating portfolio (covering BOQ's capital and invested low cost deposits), uninvested capital and low cost deposits, causing a four basis point reduction. This was partially offset by a one basis point improvement from higher capital balances following a capital issuance in 1H20.

Third party costs: Decreased margin of two basis points due to third party costs are a reflection of higher commission payments, due to increased volumes through the broker channel and owner managed branches.

AASB 16 Leases (AASB 16): Decreased margin of one basis point due to the implementation of AASB 16, which resulted in the recognition of interest expense on lease liabilities.

Liquidity: Decreased margin of two basis points due to higher average liquidity balances as a result of the Bank's issuance of $1 billion residential mortgage backed securities late August 2019, and the investment of the capital raising proceeds.

BOQ GROUP - 2020 HALF YEAR RESULTS

2.3 NON-INTEREST INCOME

	Half Year Performance				
$ million	**Feb-20**	Aug-19	Feb-19	Feb-20 vs Aug-19	Feb-20 vs Feb-19
Banking income	**36**	39	43	(8%)	(16%)
Insurance income	**6**	4	7	50%	(14%)
Other income (1)	**14**	15	15	(7%)	(7%)
Trading income	**2**	5	-	(60%)	-
Total non-interest income (2)	**58**	63	65	(8%)	(11%)

(1) VMA third party income and expenses are included in other income as a net result.

(2) Refer to Section 6.2 (B) *Non-cash earnings reconciling items* of the *Appendices* for a reconciliation of cash non-interest income to statutory non-interest income.

Non-interest income decreased by $7 million compared to 1H19 and $5 million to 2H19.

Banking income was $7 million and 16 per cent below 1H19. The reduction was due to the transition of the BOQ Business merchant offering to a new third party arrangement in 1H19 and the reduction in debtor finance fees with the sale of the debtor finance business in 2H19. This was combined with the ongoing customer trends towards lower or no fee products in both Retail and BOQ Business Banking.

Included within other income is the Virgin Money third party product distribution business. This business contributed $4 million to the result in 1H20 and was 15 per cent higher than 1H19.

Trading income levels seen at the end of 2H19 continued, to a lesser extent, into 1H20 with $2 million in gains. This was a result of improved credit spreads, improved short end funding conditions, basis performance and heightened volatility, which was not experienced in 1H19.

The St Andrew's Insurance business contribution is discussed in section 2.4 below.

2.4 INSURANCE OVERVIEW

	Half Year Performance				
$ million	**Feb-20**	Aug-19	Feb-19	Feb-20 vs Aug-19	Feb-20 vs Feb-19
Gross written premium (net of refunds)	**25**	29	31	(14%)	(19%)
Net earned premium	**26**	26	29	-	(10%)
Underwriting result	**5**	2	6	150%	(17%)
Other insurance income	**1**	2	1	(50%)	-
Group insurance result	**6**	4	7	50%	(14%)

St Andrew's contributed $6 million to non-interest income in 1H20, a $1 million decrease from 1H19 and a $2 million increase from 2H19.

Gross written premium continues to decline compared to prior periods due to St Andrew's materially closing to new business in 1H20.

The 1H20 contribution was $1 million lower than 1H19 driven predominantly by lower sales of consumer credit insurance with sales ceasing in 1H20. The improved contribution on 2H19 was driven by lower claims experience.

BOQ GROUP - 2020 HALF YEAR RESULTS

2.5 OPERATING EXPENSES

	Half Year Performance				
$ million	Feb-20	Aug-19	Feb-19	Feb-20 vs Aug-19	Feb-20 vs Feb-19
Salaries and on costs	133	125	125	6%	6%
Employee share programs	4	4	4	-	-
Other	3	3	3	-	-
EMPLOYEE EXPENSES	140	132	132	6%	6%
Data processing	57	44	40	30%	43%
Amortisation - intangible assets	18	21	19	(14%)	(5%)
Depreciation - fixed assets	-	-	1	-	(100%)
TECHNOLOGY EXPENSES	75	65	60	15%	25%
Marketing	8	9	7	(11%)	14%
Commissions to owner managed branches (**OMB**)	2	3	2	(33%)	-
Communications, print and stationery	11	11	11	-	-
Processing costs	6	7	8	(14%)	(25%)
Other	14	17	16	(18%)	(13%)
OPERATIONAL EXPENSES	41	47	44	(13%)	(7%)
Depreciation - right-of-use assets and lease expenses (1)	13	15	15	(13%)	(13%)
Depreciation - fixed assets	5	5	5	-	-
Other	1	1	1	-	-
OCCUPANCY EXPENSES	19	21	21	(10%)	(10%)
Professional fees	12	12	6	-	100%
Directors' fees	1	1	1	-	-
Other	4	4	4	-	-
ADMINISTRATION EXPENSES	17	17	11	-	55%
Total operating expenses (2) (3)	292	282	268	4%	9%
CTI	54.0	51.5	49.5	250bps	450bps
Number of employees (FTE) (3)	2,021	2,098	2,073	(4%)	(3%)

(1) 1H20 reflects the impact of the implementation of AASB16, prior periods have not been restated. Prior periods reflect lease expenses.

(2) Refer to Section 6.2 (B) *Non-cash earnings reconciling items* of the *Appendices* for a reconciliation of cash operating expenses to statutory operating expenses.

(3) FTE numbers and operating expenses exclude VMA third party costs as the net result is included in non-interest income. Expenses relating to the VMA mortgage offering have been included in the above table.

BOQ GROUP - 2020 HALF YEAR RESULTS

2.5 OPERATING EXPENSES (CONTINUED)

Summary

Total operating expenses of $292 million for 1H20 increased nine per cent from $268 million in 1H19. This increase was mainly driven by investments in risk and regulatory programs and strategic technology projects. Excluding these uplifts, underlying operating expenses were up approximately one per cent.

Employee expenses

Employee expenses of $140 million for 1H20 increased six per cent from 1H19 largely due to investments in risk and regulatory programs. The increase on 2H19 of six per cent was primarily driven by a higher expense for short term incentives as the expense in the prior half reflected that Key Management Personnel and many other senior employees received no award under the Short Term Incentive Plan in FY19.

Average headcount was largely unchanged across all periods, however, headcount at 29 February 2020 has fallen three per cent since 28 February 2019 and four per cent since 31 August 2019, primarily as a result of restructuring.

Technology expenses

Technology expenses of $75 million for 1H20 increased 25 per cent from $60 million in 1H19. The increase was mainly driven by investments in systems to comply with regulatory obligations including anti-money laundering, in technology infrastructure as part of the Bank's infrastructure modernisation program and in new technology services resulting from the Bank's technology transformation programs.

Amortisation expense of $18 million for 1H20 decreased five per cent from $19 million in 1H19. This was mainly driven by a reduction in amortisation due to the intangible asset review outlined in Section 6.2 of the *Appendices*. The reduction was partly offset by new or additional amortisation as a consequence of the elevated levels of capital investment in FY18 and FY19 to deliver the Bank's transformation program.

Operational expenses

Operational expenses of $41 million for 1H20 decreased seven per cent from $44 million in 1H19. The primary drivers were an impairment in 1H19 that did not recur, lower communication costs due to benefits from loyalty credits, and lower network data rates and lower processing costs as a result of declining ATM transaction volumes.

Occupancy expenses

Occupancy expenses of $19 million for 1H20 decreased 10 per cent from $21 million in 1H19. Occupancy expenses were impacted by the implementation of AASB 16 from 1 September 2019 with depreciation on the right-of-use asset and interest expense on the lease liability replacing the straight line lease expense.

Administration expenses

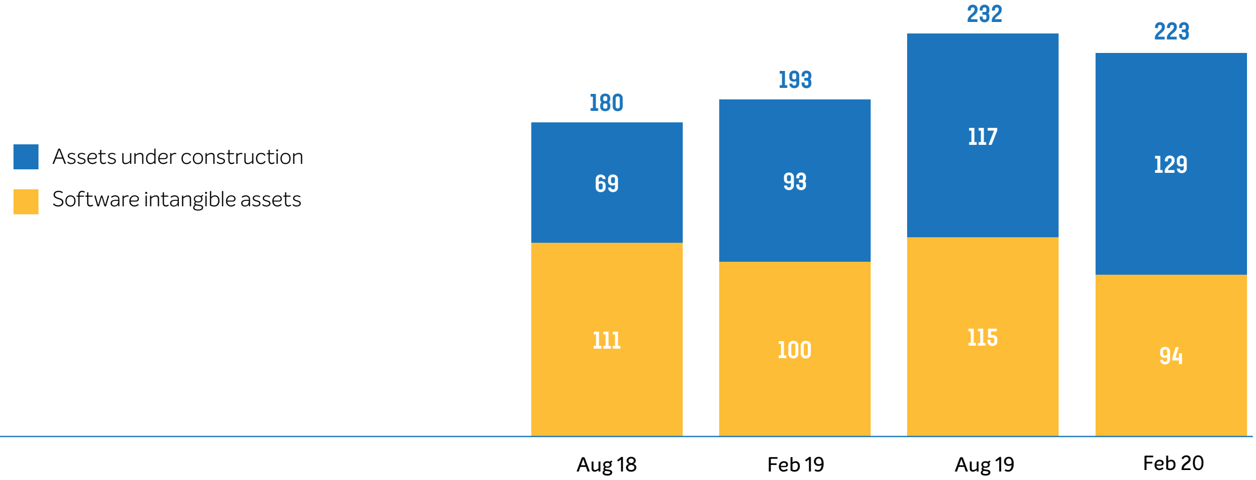
Administration expenses of $17 million for 1H20 increased 55 per cent from $11 million in 1H19, although expenses were in line with 2H19. The increase on 1H19 was mainly driven by external support on risk and regulatory programs.

2.6 CAPITALISED INVESTMENT SPEND

BOQ's comprehensive digital transformation plan includes investment in modernising the existing core infrastructure through migrating key data centres to a private cloud along with building a next generation core platform through Virgin Money in order to provide a richer customer experience. Phase 1 of the Virgin Money cloud based digital bank is well underway, and will deliver transaction accounts, savings accounts and credit cards. Phase 2 is due to commence later this year, expanding the offering to include term deposits and lending. Continuing to strengthen risk management and controls remains a high focus, along with building an intelligent data and analytics platform.

The carrying value of intangible assets has reduced in comparison to 2H19. This was a result of a change in the minimum threshold for the capitalisation of intangible expenses and the amortisation acceleration and impairment of assets impacted by BOQ's revised strategy within the next 24 months. Refer to Section 6.2 (B) *Non-cash earnings reconciling items* of the *Appendices* for information on the statutory earnings impact. The composition change between assets under construction and software intangible assets reflects the delivery of programs, offset by new investment during 1H20.

Carrying value of IT intangible assets ($m)



BOQ GROUP - 2020 HALF YEAR RESULTS

2.7 LENDING

Lending growth was three per cent (annualised) in 1H20, in comparison to two per cent in FY19. In a market characterised by slowing credit growth, strong competition and a shifting regulatory landscape, BOQ continues to balance growth with margin and asset quality. The strategy of targeting niche customer segments has delivered strong growth across BOQ Specialist and the BOQ branded commercial portfolio. The Virgin Money mortgage portfolio continues to grow, with the home loan portfolio exceeding $3 billion at 1H20 (39 per cent annualised growth).

$ million	As at Feb-20	Aug-19	Feb-19	Feb-20 vs Aug-19[1]	Feb-20 vs Feb-19
Housing lending	28,555	27,702	28,330	6%	1%
Housing lending – APS 120 qualifying securitisation [2]	2,599	2,945	2,215	(24%)	17%
	31,154	30,647	30,545	3%	2%
Commercial lending	10,240	10,008	10,040	5%	2%
BOQ Finance	5,295	5,262	4,898	1%	8%
Consumer	309	299	296	7%	4%
Gross loans and advances	46,998	46,216	45,779	3%	3%
Provision for impairment	(235)	(233)	(214)	2%	10%
Net loans and advances	46,763	45,983	45,565	3%	3%

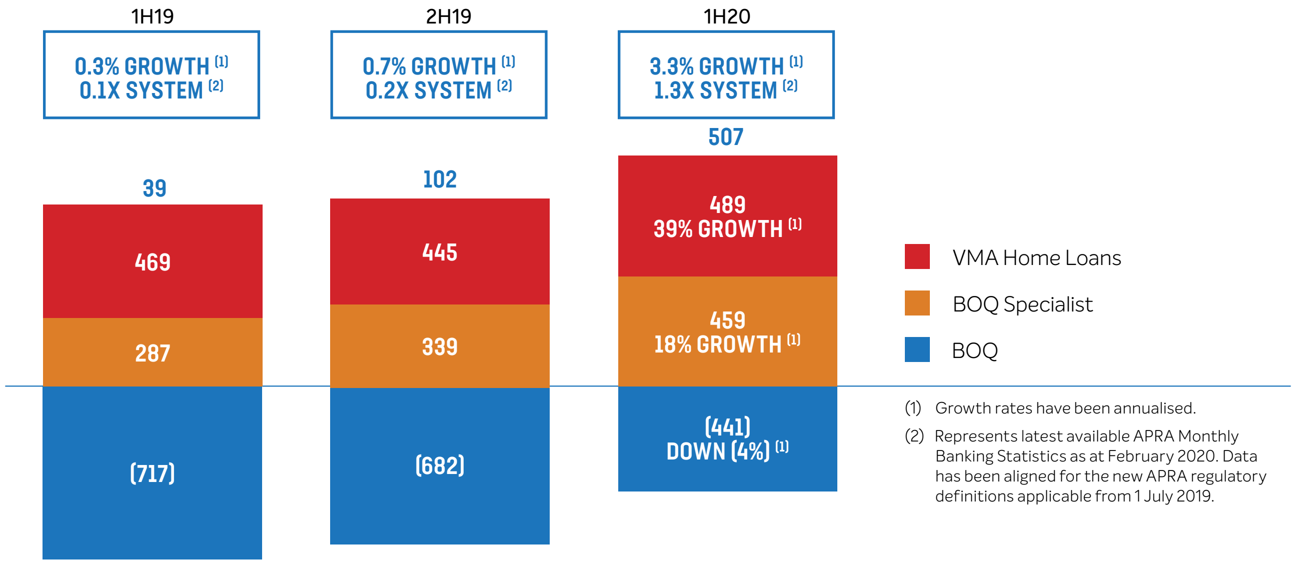
(1) Growth rates have been annualised.

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

BOQ GROUP - 2020 HALF YEAR RESULTS

2.7 LENDING (CONTINUED)

Growth in housing gross loans & advances ($m)



(1) Growth rates have been annualised.

(2) Represents latest available APRA Monthly Banking Statistics as at February 2020. Data has been aligned for the new APRA regulatory definitions applicable from 1 July 2019.

Housing

Momentum has been created through the BOQ Retail Banking housing portfolio in 1H20 due to streamlining and simplifying the mortgage lending process. These changes have delivered for both customers and the business, with our time to conditional 'yes' reducing from five days to approximately one day. Growth has been balanced with margin gains in the period. Credit quality has been maintained and there was also a corresponding improvement in the BOQ branch and broker Net Promoter Scores.

Improved performance was seen in the BOQ Retail branch network, with a reduction of $0.2 billion in the rate of decline in the portfolio. This was achieved through higher acquisition volumes of 23 per cent compared to 2H19, as both owner managed and corporate branches benefitted from the more streamlined end to end mortgage process. The owner managed network has been supported by the revised franchise agreement, which was introduced during 1H20. Corporate branches were aided by the rollout of a new lender training program to lift capability of front line staff.

BOQ's growth through the mortgage broker channel improved in 1H20 by $0.1 billion. Retention rates improved and brokers began to see the improvements in processing times, which has constrained the broker channel in the past.

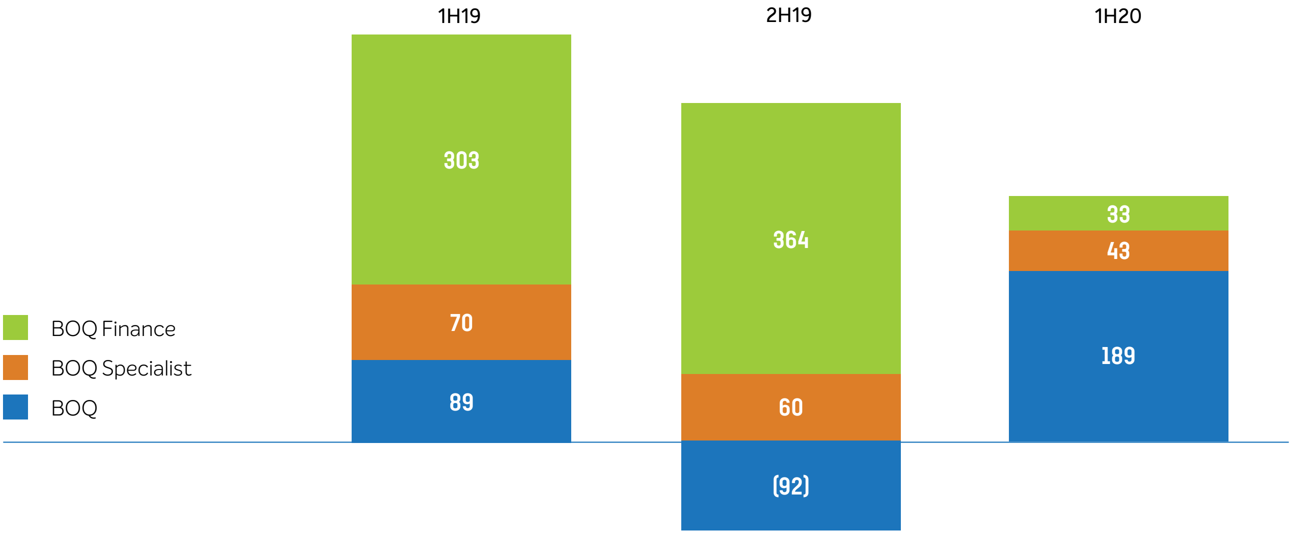
The Virgin Money mortgage offering continues to perform strongly with growth of $0.5 billion in 1H20 taking the portfolio to over $3 billion. The Virgin Money brand is a globally recognised brand, which appeals to a different customer segment group to that of BOQ. It tends to attract a younger, more tech savvy customer base, which will leverage the digital transformation that Virgin Money is leading for the BOQ Group.

The BOQ Specialist mortgage offering to its professional client base, grew by 18 per cent (annualised) in 1H20, continuing the strong momentum from prior periods with increased settlement volumes covering the run-off from a maturing book. BOQ Specialist continues to deliver sound, above system growth by focusing on building relationships with professionals in the early stages of their careers or at university. The diversity offered through this portfolio in geography, profession and age improves the overall risk profile of the housing portfolio. The mortgage offering also creates future opportunities to meet the commercial lending needs of the targeted health professional market segments well into the future stages of career progression.

BOQ GROUP - 2020 HALF YEAR RESULTS

2.7 LENDING (CONTINUED)

Growth in Commercial & BOQ Finance ($m)



		Feb-19		Aug-19		**Feb-20**	
		Commercial [1]	BOQ Finance	Commercial [1]	BOQ Finance	**Commercial [1]**	**BOQ Finance**
Growth	($ million)	159	303	(32)	364	**232**	**33**
Growth rate [2]	%	3.2	13.3	(0.6)	14.7	**4.7**	**1.3**
System growth [3] [4]	%	5.4	(0.5)	1.2	8.9	**2.1**	**(3.1)**
Growth vs System		0.6X	n/a	n/a	1.7X	**2.2X**	**n/a**

(1) Includes BOQ Specialist and BOQ.

(2) Growth rates have been annualised.

(3) Commercial system growth represents latest available APRA Monthly Banking Statistics as at February 2020. Data has been aligned for the new APRA regulatory definitions applicable from 1 July 2019.

(4) BOQ Finance system growth represents latest available Australian Finance Industry Association (**AFIA**) system growth statistics as at February 2020.

BOQ Business

The commercial lending portfolio grew five per cent (annualised) in 1H20, with increased settlement activity driving above system growth in both 1H19 and 2H19.

The BOQ branded commercial portfolio grew by $189 million in 1H20 (five per cent annualised). The niche segment strategy focused the business efforts in corporate healthcare and retirement living, hospitality and tourism, and the agribusiness segments. Agribusiness recovered to growth in 1H20 following favourable weather and continued focus on supporting customers for long term financial stability. Corporate lending, including property and other business areas, continued to grow with new clients and higher settlement volumes than 1H19 and 2H19. The small business lending strategy continued to evolve and settlement activity increased in 1H20, however this did not cover the run-off in the mature book. Geographic diversification remains strong with the Queensland concentration in the BOQ branded commercial book sitting at 49 per cent.

BOQ Specialist delivered commercial loan book growth of three per cent annualised. Offering bespoke solutions to medical, dental, and veterinary professionals results in building deeper customer relationships from graduation through to retirement. BOQ Specialist has captured a large part of the medical graduate market and is expected to sustain growth in the future as the lending needs of these customers transition through home lending to commercial lending over time.

BOQ Finance asset growth of one per cent (annualised) is slower than 1H19 and 2H19. This reflects a greater focus on pricing for risk and a slower system growth for 1H20.

BOQ GROUP - 2020 HALF YEAR RESULTS

3. BUSINESS SETTINGS

3.1 ASSET QUALITY

		Half Year Performance				
		Feb-20	Aug-19	Feb-19	Feb-20 vs Aug-19	Feb-20 vs Feb-19
Loan impairment expense	($ million)	**30**	44	30	(32%)	-
Loan impairment expense / GLA	bps	**13**	19	13	(6bps)	-
Impaired assets	($ million)	**196**	197	152	(1%)	29%
30 dpd arrears	($ million)	**525**	499	505	5%	4%
90 dpd arrears	($ million)	**291**	312	287	(7%)	1%
Total provision and GRCL coverage / GLA	bps	**69**	70	66	(1bp)	3bps

Strong performance in asset quality was evident across the portfolio. Loan impairment expense decreased $14 million to $30 million, or 13 basis points of gross loans and advances in 1H20. Impaired assets decreased by one per cent from 2H19 as BOQ continues to maintain prudent provisioning coverage.

30 day arrears increased $26 million but 90 day arrears decreased $21 million over the half. The arrears results were considered favourable given the recent drought and bushfire events and the seasonality impact following the holiday period, which typically recovers through the second half.

BOQ Group's collective provision increased one per cent on 2H19, which was driven by a $10 million overlay in response to COVID-19, as at 29 February 2020. However, this was offset by net run-offs in retail loans, amortisation of the loan book in the asset finance portfolio and an improvement in the quality of underlying model data.

Loan impairment expense

	Half Year Performance					
	Feb-20		Aug-19		Feb-19	
	Expense ($m)	**Expense/GLA (bps)**	Expense ($m)	Expense/GLA (bps)	Expense ($m)	Expense/GLA (bps)
Retail lending [(1)]	**10**	**6**	7	5	11	7
Commercial lending	**5**	**10**	20	40	4	8
BOQ Finance	**15**	**57**	17	65	15	61
Total loan impairment expense	**30**	**13**	44	19	30	13

(1) Retail lending includes housing and consumer lending

BOQ loan impairment expense was in line with 1H19 and decreased against 2H19. Of the $30 million impairment expense in 1H20, $10 million was attributable to the COVID-19 collective provision overlay.

Retail loan impairment expense of $10 million (six basis points) was down $1 million on 1H19 and up $3 million on 2H19. Retail specific provisioning activity drove this increase, particularly in the regional housing portfolio. Collective provisioning was negligible, supported by stable house prices in the Eastern Australian capital cities.

Commercial loan impairment expense of $5 million (10 basis points) for 1H20 was up $1 million against 1H19 and down $15 million on 2H19. Driving the decrease were two large facilities, which were impaired in 2H19, totalling more than $8 million. Specific and collective provision activity in 1H20 was low with the largest single specific provision being $2 million. Following recent improvements in drought conditions and the agricultural outlook, a $3 million overlay to the Collective Provision was released. This was offset by a $3 million overlay for COVID-19.

BOQ Finance impairment expense of $15 million (57 basis points) was comparable to 1H19 and down $2 million on 2H19. The 1H20 expense included a $7 million COVID-19 overlay. Specific provisioning expense for 1H20 was $1 million lower than 2H19 and underlying collective provision expense (excluding the COVID-19 overlay) was immaterial due to amortisation of the loan book in the asset finance portfolio and stable arrears.

BOQ GROUP - 2020 HALF YEAR RESULTS

3.1 ASSET QUALITY (CONTINUED)

Impaired assets

	As at				
$ million	Feb-20	Aug-19	Feb-19	Feb-20 vs Aug-19	Feb-20 vs Feb-19
Retail lending [(1)]	74	73	60	1%	23%
Commercial lending	94	98	69	(4%)	36%
BOQ Finance	28	26	23	8%	22%
Total impaired assets	196	197	152	(1%)	29%
Impaired assets / GLA	42bps	43bps	33bps	(1bp)	9bps

(1) Retail lending includes housing and consumer lending

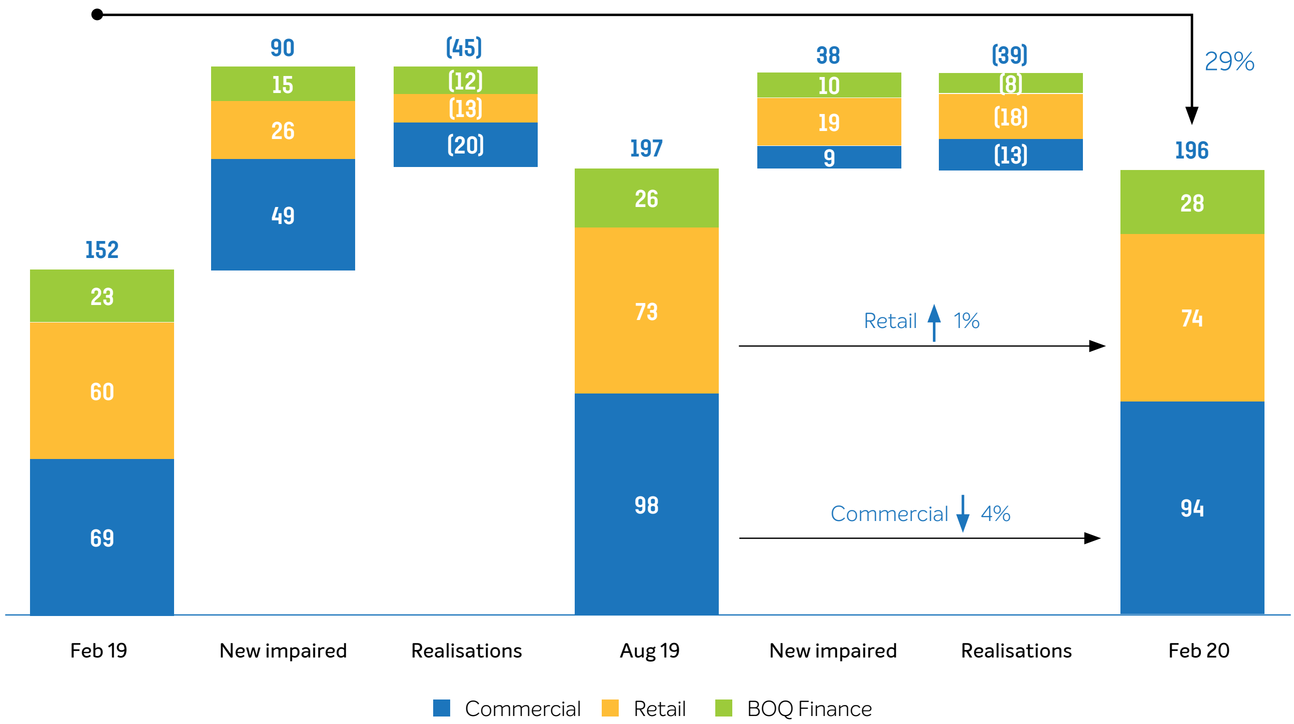
Impaired assets have decreased by $1 million (one per cent) from 2H19 to $196 million in 1H20 and increased $44 million (29 per cent) from 1H19, following the impairment of three large facilities in 2H19.

Retail impaired assets increased by $1 million (one per cent) from 2H19 with no material movements over 1H20. The Commercial portfolio decreased by $4 million (four per cent) from 2H19, largely due to one facility of $4 million being realised in 1H20. BOQ Finance impaired levels increased by $2 million (eight per cent) compared to 2H19.

BOQ Group holds five exposures with impaired balances greater than $5 million for a combined total of $57 million. Two of these exposures, greater than $10 million ($40 million combined), remained unchanged from 2H19.

The following chart outlines the movements in impaired assets since February 2019.

Impaired assets ($m)



BOQ GROUP - 2020 HALF YEAR RESULTS

3.1 ASSET QUALITY (CONTINUED)

Provision coverage

$ million	As at Feb-20	Aug-19	Feb-19	Feb-20 vs Aug-19	Feb-20 vs Feb-19
Specific provision	85	85	77	-	10%
Collective provision [(1)]	150	148	137	1%	9%
Total provisions	235	233	214	1%	10%
GRCL	64	62	60	3%	7%
Specific provisions to impaired assets	43%	43%	51%	-	(800bps)
Total provisions and GRCL coverage / impaired assets [(2)]	166%	163%	197%	300bps	(3100bps)
Total provisions and GRCL coverage / GLA	69bps	70bps	66bps	(1bp)	3bps

(1) The collective provision increased by $2 million or one per cent from 2H19 and includes an overlay of $10 million for COVID-19. For an assessment of potential impacts following the reporting date see Note 5.5.4 Events subsequent to balance date.

(2) GRCL gross of tax effect.

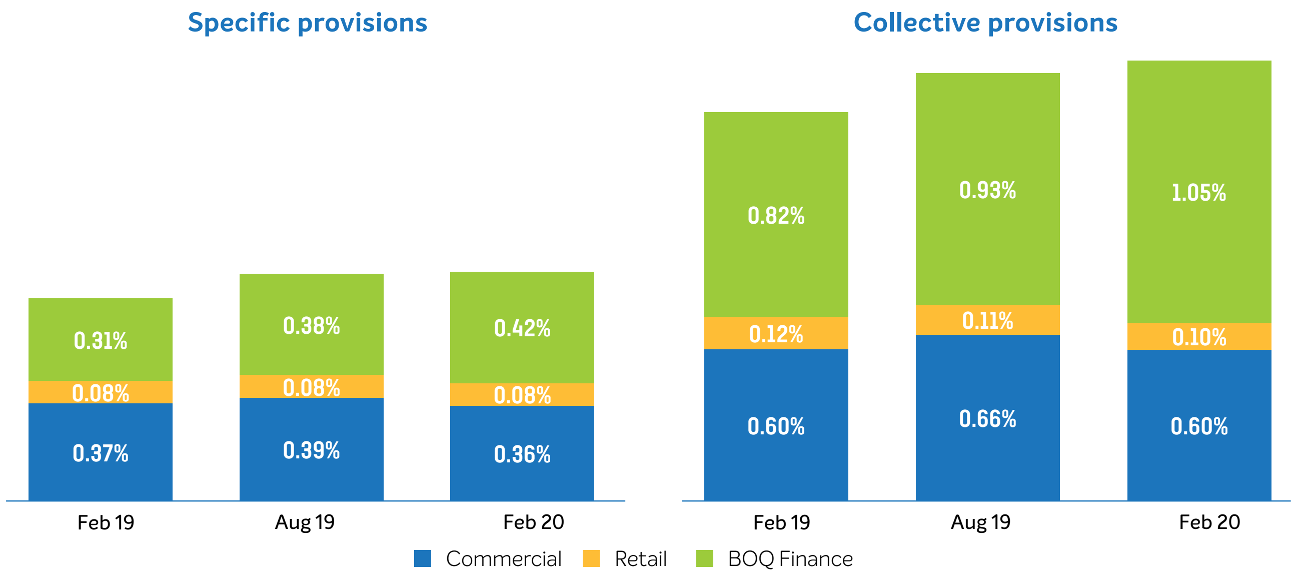
Specific provision balances at 1H20 remained flat to 2H19 at $85 million and increased by $8 million from 1H19. The specific provisioning to impaired asset coverage ratio remained flat at 43 per cent during 1H20, reflecting low specific provisioning activity, which was supported by a low interest rate environment.

The collective provision increased by $2 million or one per cent from 2H19 and includes an overlay of $10 million for COVID-19, based on the facts and circumstances as at 29 February 2020.

Offsetting this uplift were reductions resulting from net run-offs in retail loans, amortisation of the loan book in the asset finance portfolio, data quality improvements in the collective provision model and stable overall arrears. The net increase resulted in a five basis point uplift in the 1H20 collective provision to GLA coverage ratio.

Total provisions and GRCL coverage to GLA remained relatively stable across all halves.

GLA Coverage



BOQ GROUP - 2020 HALF YEAR RESULTS

3.1 ASSET QUALITY (CONTINUED)

Arrears

Key metrics	Portfolio balance ($m) Feb-20	Feb-20	Aug-19	Feb-19	Feb-20 vs Aug-19	Feb-20 vs Feb-19
Total lending - portfolio balance ($ million)		46,998	46,216	45,779	2%	3%
30 dpd ($ million)		525	499	505	5%	4%
90 dpd ($ million)		291	312	287	(7%)	1%
		Proportion of portfolio				
30 dpd: GLAs		1.12%	1.08%	1.10%	4bps	2bps
90 dpd: GLAs		0.62%	0.68%	0.63%	(6bps)	(1bp)
By product						
30 dpd: GLAs (Retail) (1)	31,463	1.07%	1.11%	1.07%	(4bps)	-
90 dpd: GLAs (Retail) (1)		0.59%	0.69%	0.58%	(9bps)	1bp
30 dpd: GLAs (Commercial)	10,240	1.47%	1.19%	1.29%	28bps	18bps
90 dpd: GLAs (Commercial)		0.96%	0.90%	1.02%	6bps	(6bps)
30 dpd: GLAs (BOQ Finance)	5,295	0.68%	0.68%	0.90%	-	(22bps)
90 dpd: GLAs (BOQ Finance)		0.13%	0.17%	0.13%	(4bps)	-

(1) Retail lending includes housing and consumer lending

Retail

30 day arrears and 90 day arrears decreased from 2H19 by four and nine basis points respectively, indicative of the underlying portfolio credit strength and supported by the low interest rate environment. The continued softness in the regional Queensland and Western Australian property market had minimal impact on the overall portfolio payment performance.

Commercial

Commercial arrears increased by 28 basis points (30 day arrears) and six basis points (90 day arrears) from 2H19. Despite this increase the portfolio remained strong and comparable to previously observed trends. The arrears position was exacerbated by some performing commercial loan facilities reaching their contract end date and considered to be in arrears until the formal extension is processed. These are expected to clear in early 2H20.

BOQ Finance

30 day arrears remained flat from 2H19, while 90 day arrears decreased by four basis points reflecting a sound portfolio that has weathered the drought and bushfire conditions, remaining resilient and demonstrative of strong credit metrics.

BOQ GROUP - 2020 HALF YEAR RESULTS

3.2 FUNDING AND LIQUIDITY

BOQ's liquidity strategy and risk appetite are designed to ensure it has the ability to meet financial obligations as they fall due in all market conditions. BOQ has developed a robust liquidity risk management framework including Board approved liquidity risk tolerances, detailed strategy and policy governing the management of liquidity and funding, together with annual Board approved funding and contingency funding plans. Management of liquidity risk at BOQ includes a focus on developing a stable customer deposit base, access to diversified wholesale funding markets and disciplined management of maturity profiles. The Bank also maintains a portfolio of unencumbered, high quality liquid assets, giving BOQ a buffer to withstand a range of stress events, including those involving the loss or impairment of both unsecured and secured funding sources. BOQ regularly stress tests its liquidity risk framework to identify vulnerabilities under a diverse range of market scenarios.

Liquidity coverage ratio (LCR)

APRA requires LCR ADIs to maintain a minimum 100 per cent LCR. 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 management ranges.

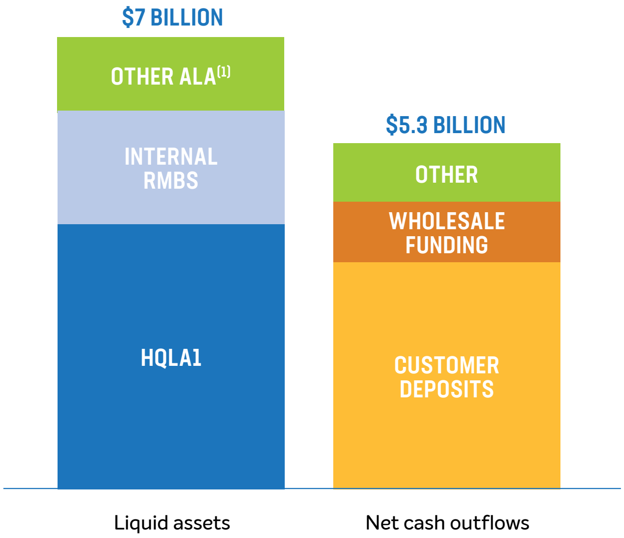
The Bank's LCR at 29 February 2020 was 133 per cent, which was 12 per cent lower than 31 August 2019 (145 per cent), however, nine per cent higher than 28 February 2019 (124 per cent). BOQ's average LCR for 1H20 was 135 per cent, which is five per cent lower than the average for 2H19 of 140 per cent. The decrease on the average LCRs from 2H19 to 1H20 was a result of increased retail at call deposits, which attract a higher LCR run-off factor when compared to the term deposits they replaced.

Net stable funding ratio (NSFR)

APRA's stated objective in implementing the NSFR is to strengthen funding and liquidity resilience. The NSFR encourages ADIs to fund their lending activities with more stable sources of funding, and thereby promoting greater balance sheet resilience. BOQ manages its NSFR on a daily basis and actively maintains a buffer above the regulatory minimum in line with BOQ's prescribed risk appetite and management ranges.

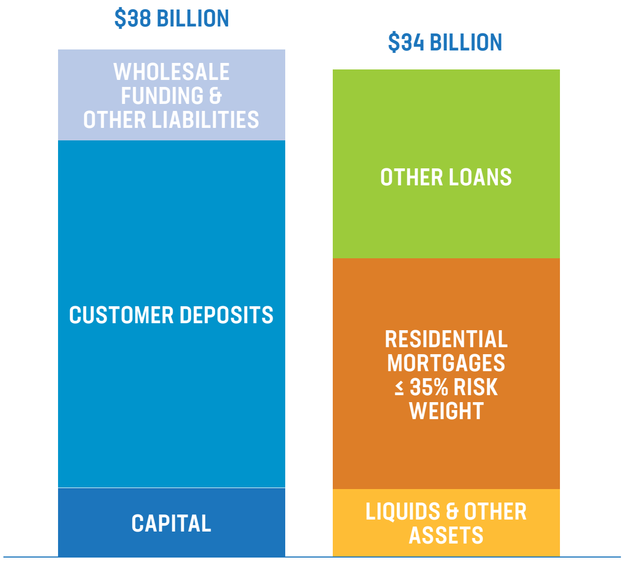
BOQ's NSFR as at 29 February 2020 was 112 per cent, which remains broadly unchanged from 31 August 2019, however, two per cent higher than 28 February 2019 (110 per cent). The NSFR has been relatively flat from 2H19 to 1H20 with an increase in capital, offset by an increase in residential mortgages that are subject to a 35 per cent risk weight under APS 112 *Capital Adequacy: Standardised Approach to Credit Risk* (**APS 112**). The average NSFR for 1H20 was 111.6 per cent, a 0.8 per cent increase from the 2H19 average NSFR.

LCR – February 2020 (133%)



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

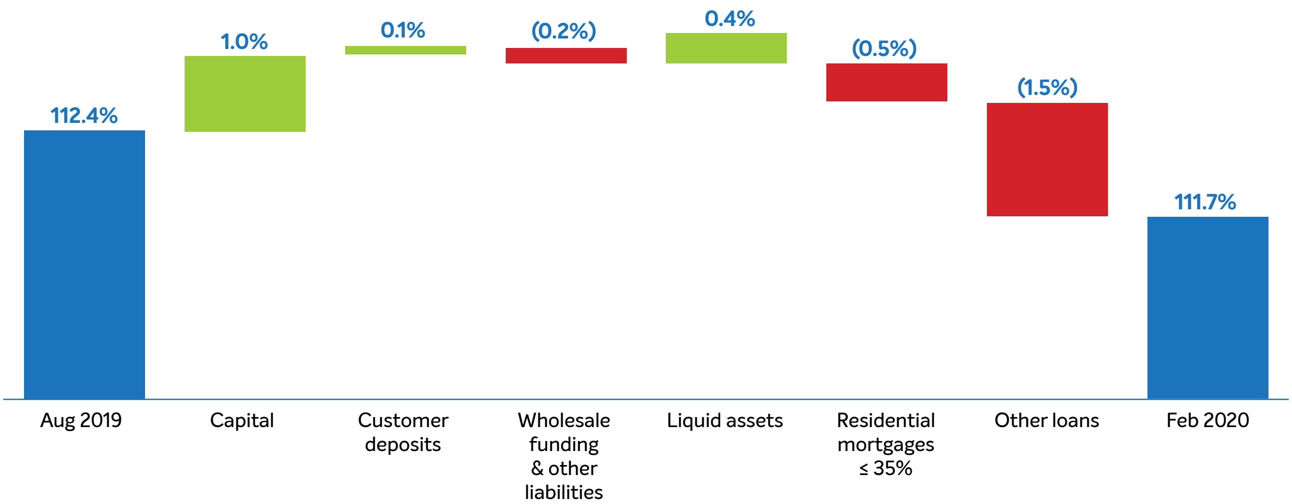
NSFR – February 2020 (112%)



BOQ GROUP - 2020 HALF YEAR RESULTS

3.2 FUNDING AND LIQUIDITY (CONTINUED)

NSFR waterfall 31 August 2019 – 29 February 2020



Liquid assets

BOQ maintains a portfolio of high quality, diversified liquid assets to facilitate balance sheet liquidity and meet internal and regulatory requirements.

BOQ was granted a $3.4 billion Reserve Bank of Australia CLF for the 2020 calendar year, enabling the Bank to meet its minimum regulatory requirement of greater than 100 per cent LCR. BOQ's contingent liquidity, through its internal RMBS, remained unchanged ensuring it maintains a sufficient buffer to its physical liquidity.

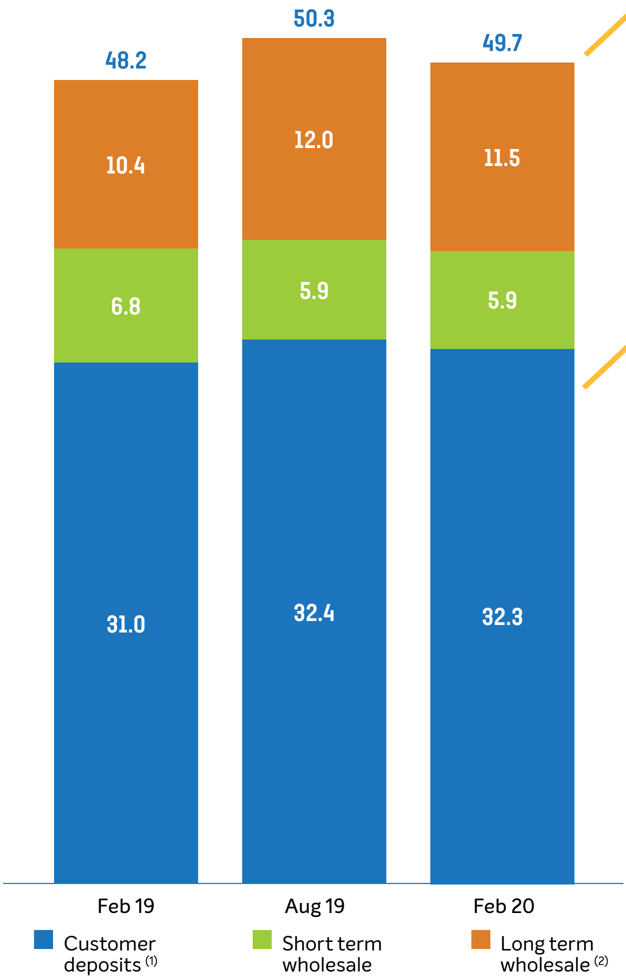
BOQ GROUP - 2020 HALF YEAR RESULTS

3.2 FUNDING AND LIQUIDITY (CONTINUED)

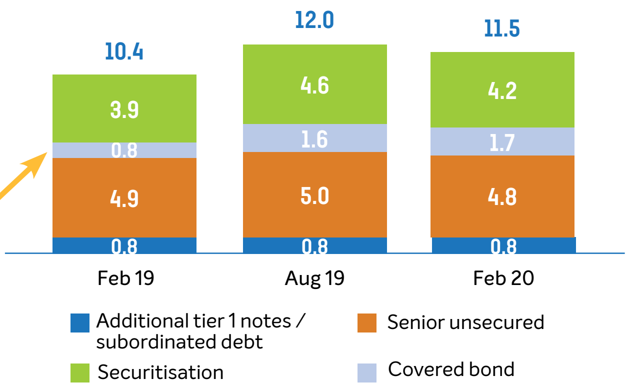
Funding

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

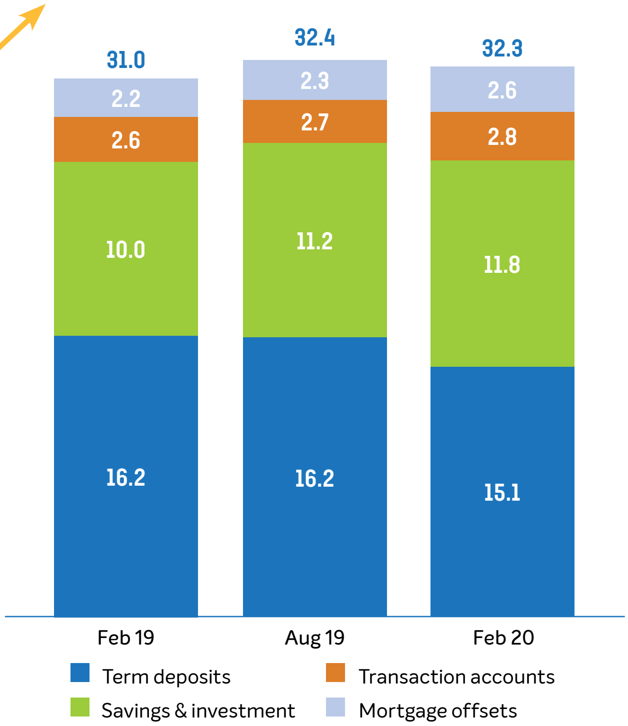
Funding mix ($billion)



Long term wholesale ($billion)



Customer deposits ($billion)



(1) The classification of customer deposits is defined as all deposits excluding those from financial institutions as defined under APS 210 *Liquidity*.

(2) Foreign currency balances have been translated at end of day spot rates.

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. The Bank continues to focus on increasing longer dated, stable funding sources whilst tactically reducing reliance on short dated wholesale funding.

In 1H20, loan growth was predominantly funded using the proceeds of a $1 billion REDS RMBS issuance in August 2019, coupled with the capital raising in November 2019. The Bank continues to focus on gathering retail deposits through a variety of channels, with the deposit to loan ratio ending 1H20 at 69 per cent.

BOQ GROUP - 2020 HALF YEAR RESULTS

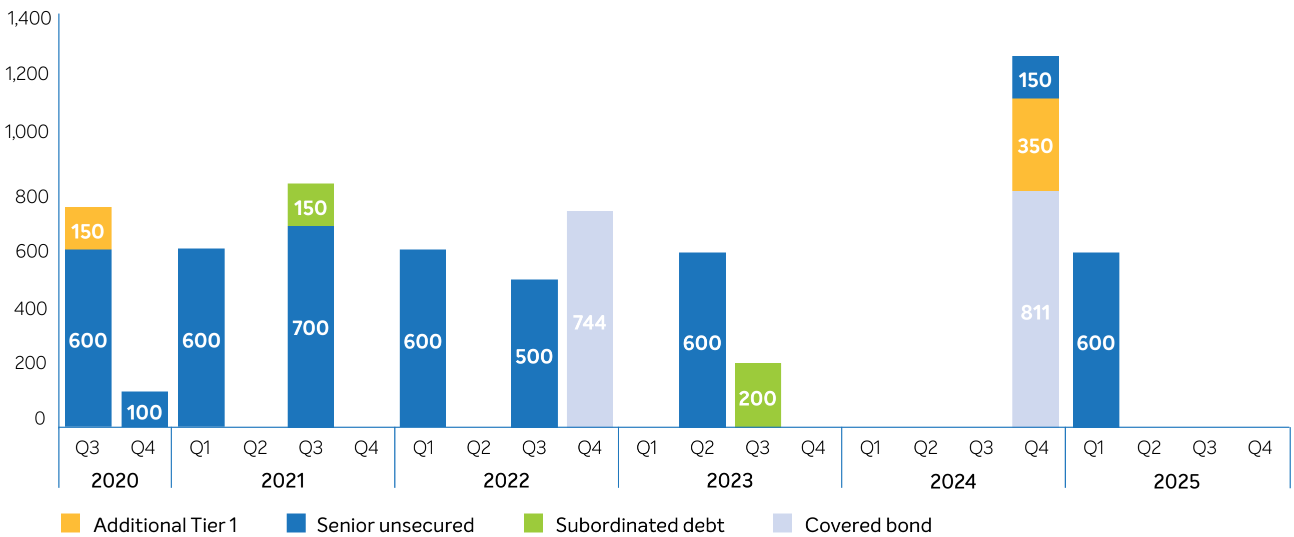
3.2 FUNDING AND LIQUIDITY (CONTINUED)

Term funding issuance

BOQ issued only a modest amount of wholesale funding in 1H20, including a domestic $600 million senior unsecured deal for five years.

The Bank continues to use a range of debt programmes to access both secured and unsecured long term wholesale funding markets, which provides diversification benefits whilst also allowing for manageable refinancing towers over the next five years.

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



(1) Any transaction issued in a currency other than AUD is shown in the applicable AUD equivalent hedged amount.

(2) Senior unsecured maturities greater than or equal to $50 million shown, excludes private placements.

(3) Redemption of subordinated debt notes and additional tier 1 notes at the scheduled call date is at BOQ's option and is subject to obtaining prior written approval from APRA.

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

3.3 CAPITAL MANAGEMENT

Capital adequacy

	As at				
$ million	Feb-20	Aug-19	Feb-19	Feb-20 vs Aug-19 (1)	Feb-20 vs Feb-19
CET1	3,088	2,761	2,776	24%	11%
Additional tier 1 capital	500	500	500	-	-
Total tier 2	529	525	524	2%	1%
Total capital base	4,117	3,786	3,800	18%	8%
Total RWA	31,164	30,533	29,978	4%	4%
CET1 ratio	9.91%	9.04%	9.26%	87bps	65bps
Total capital adequacy ratio	13.21%	12.40%	12.68%	81bps	53bps

(1) Growth rates have been annualised.

BOQ GROUP - 2020 HALF YEAR RESULTS

3.3 CAPITAL MANAGEMENT (CONTINUED)

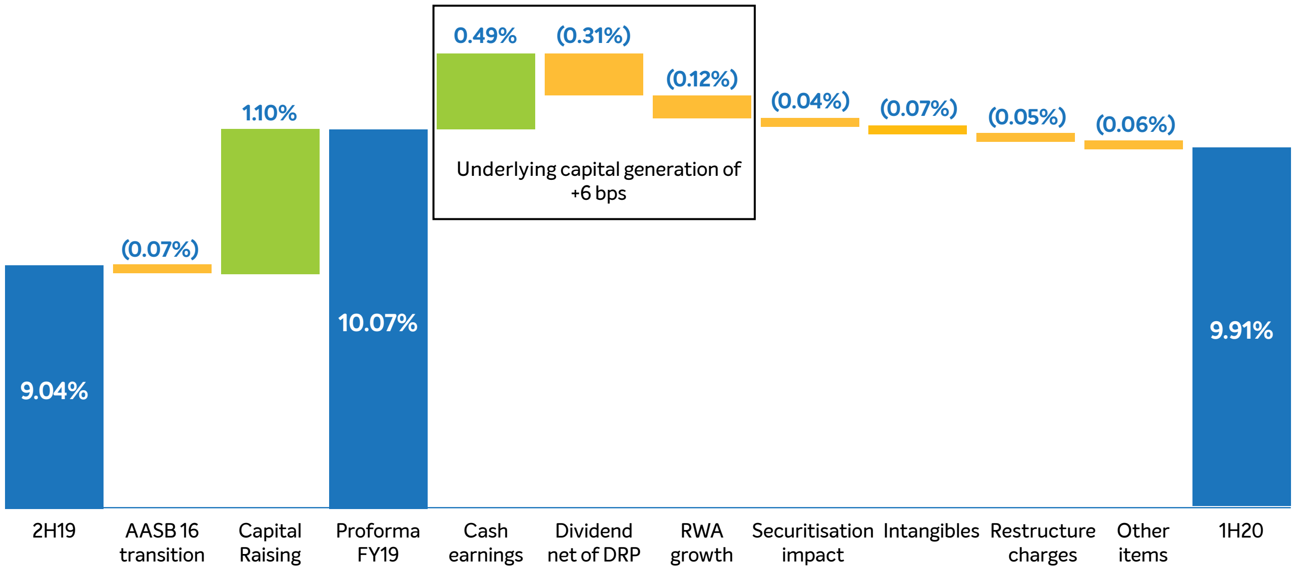
CET1 1H20 VS 2H19

The Bank's CET1 ratio increased by 87 basis points during 1H20 from 9.04 per cent to an unquestionably strong 9.91 per cent.

The Bank took the opportunity in November 2019 to recapitalise whilst markets were strong, leading to the successful completion of the Institutional Placement in November 2019 of $250 million. This was followed by strong support in a share purchase plan of $90 million. This improved the CET 1 ratio by 110 basis points and sees the Bank in an unquestionably strong position. On a proforma basis (and including the AASB 16 transition) FY19 CET1 was 10.07 per cent.

The Bank saw underlying capital generation of six basis points for 1H20, due to cash earnings partly offset by the payment of the dividend and growth in RWAs. 2H19 growth in RWAs of 23 basis points reduced to 12 basis points in 1H20, as a result of growth in lower capital intensive housing exposures and reductions in off balance sheet credit RWA. This was due to the Bank actively managing limits to ensure greater capital efficiency.

CET1 was reduced by an additional 22 basis points, primarily due to increased capital investment and restructure charges related to the strategic reset and reduced securitisation activity.



3.4 TAX EXPENSE

Tax expense arising on cash earnings for 1H20 amounted to $68 million. This represented an effective tax rate of 31 per cent, which is above the corporate tax rate of 30 per cent primarily due to the non-deductibility of interest payable on Wholesale Capital Notes issued in FY15 and Capital Notes issued in FY18.

BOQ GROUP - 2020 HALF YEAR RESULTS

4. DIVISIONAL PERFORMANCE

4.1 RETAIL BANKING

Overview

Retail Banking provides banking products and services to personal customers. The division supports customers through owner managed and corporate branch networks, third party intermediaries, Virgin Money distribution channels, more than 1500 ATM's, an Australian based customer call centre, digital services as well as mobile banking specialists.

Half Year Performance

$ million	Feb-20	Aug-19	Feb-19	Feb-20 vs Aug-19	Feb-20 vs Feb-19
Net interest income	214	217	215	(1%)	-
Non-interest income	29	31	32	(6%)	(9%)
Total income	243	248	247	(2%)	(2%)
Operating expenses	(154)	(146)	(141)	5%	9%
Underlying profit	89	102	106	(13%)	(16%)
Loan impairment expense	(9)	(4)	(10)	125%	(10%)
Profit before tax	80	98	96	(18%)	(17%)
Income tax expense	(25)	(31)	(30)	(19%)	(17%)
Cash earnings after tax	55	67	66	(18%)	(17%)

Key metrics (1)

		Feb-20	Aug-19	Feb-19	Feb-20 vs Aug-19	Feb-20 vs Feb-19
PERFORMANCE INDICATORS (2)						
CTI	(%)	63.4	58.9	57.1	450bps	630bps
Net interest income / average GLA (3)	(%)	1.85	1.84	1.84	1bp	1bp
ASSET QUALITY						
90dpd arrears	($ million)	185	210	177	(12%)	5%
Impaired assets	($ million)	69	67	54	3%	28%
Loan impairment expense / GLA	(bps)	7	3	8	4bps	(1bp)
BALANCE SHEET						
GLA (4)	($ million)	25,042	24,973	25,197	1%	(1%)
Housing (4)	($ million)	24,980	24,907	25,123	1%	(1%)
Other retail	($ million)	62	66	74	(12%)	(16%)
CREDIT RWA	($ million)	8,604	8,664	8,775	(1%)	(2%)
CUSTOMER DEPOSITS (4)	($ million)	15,723	15,792	15,362	(1%)	2%
Term deposits	($ million)	5,713	6,295	6,711	(19%)	(15%)
Mortgage offsets	($ million)	1,642	1,511	1,455	17%	13%
Savings & investment (4)	($ million)	6,792	6,443	5,729	11%	19%
Transaction accounts (4)	($ million)	1,576	1,543	1,467	4%	7%
DEPOSIT TO LOAN RATIO (4)	(%)	63	64	61	(100bps)	200bps

(1) Balance sheet key metrics have been annualised.
(2) Calculated on a cash earnings basis.
(3) Net of offset accounts.
(4) GLA and customer deposits include a reclassification transfer from BOQ Business Banking to Retail Banking. Prior period has been restated for comparative purposes.

BOQ GROUP - 2020 HALF YEAR RESULTS

4.1 RETAIL BANKING (CONTINUED)

Business review

1H20 profits softened on prior periods reflecting a lower cash rate environment and increased investment in regulatory activities and transformational initiatives. The Retail Bank returned to positive asset growth for the first time since 1H16, following the streamlining of the end-to-end mortgage process with further simplification expected in the second half of the year.

The Retail Bank remains the primary source of customer deposits for the BOQ Group, with the majority of deposits being generated through the branch network. The success of a new savings product released to market in December 2018 ("Fast track") has continued and is a stable funding source allowing the BOQ Group to prudently manage industry wide funding pressures.

The Retail Bank is focused on executing the strategic initiatives announced to market in late February 2020. A number of material changes have already been made through the home buying transformation program; a new retail leadership team with significant retail, banking and lending experience; increased lending capability through new mobile lending bankers; and a focus on expanding owner managers who are experienced relationship bankers. In addition, improved customer experiences will be delivered through executing the VMA digital transformation.

The BOQ branch network consists of 95 owner managed and 63 corporate branches, as well as seven transaction centres. Whilst the branch network saw a decline in asset growth over 1H20, there was a significant shift in performance with acquisition volumes increasing by 23 per cent and growth improving by $0.2 billion against 2H19 performance. Nine per cent (annualised) transactional account growth was achieved in 1H20 through branches, offset by run-off in higher margin term deposits.

The BOQ Broker channel achieved a $0.1 billion improvement in growth in 1H20 compared to 2H19 and remains a channel with significant opportunity.

The Virgin Money brand is a globally recognised brand that appeals to a different segment group to that of the proprietary channels. It tends to attract a younger, more tech savvy customer base and continues to contribute to the Bank's geographical diversification by targeting Sydney and Melbourne markets. VMA has a proven track record in executing on strong customer value-led propositions. This is evidenced by more than 200,000 existing customers, a home loan portfolio which has grown to more than $3 billion since the mid-2016 launch and the success across other business lines, including credit cards and insurance.

Financial performance review

Retail Banking cash earnings after tax decreased $11 million compared to 1H19.

Net interest income

Net interest income for 1H20 was in line with 1H19, benefitting from a reduction in basis spreads. Home lending margins held stable with front to back book margin contraction being offset by repricing actions and a one-off benefit from the timing of passing on decreases in the cash rate to customers. These benefits were offset by lower margins due to the falling interest rate environment, which impacted transaction and saving deposit accounts. Third party costs increased as a result of increased brokerage costs and higher share of margin due to improved performance through the owner managed channel.

Non-interest income

Non-interest income for 1H20 decreased $3 million or nine per cent compared to 1H19. The reduction in income reflected lower banking income as customers continued to trend towards low or no fee products. This included home lending acquisitions now coming through key product lines, including Clear Path and VMA standard variable, which attract lower monthly fees compared to older package products. Account keeping fees also reduced as customers and industry shift to fee free transaction account deposits while commission income was impacted by the cessation of mortgage protection insurance sales through the St Andrew's business.

Operating expenses

Operating expenses increased nine per cent compared to 1H19. The uplift in operating costs reflected higher investment spend across risk and regulatory programs, including meeting anti-money laundering and regulatory reporting requirements. In addition, there were increased technology and transformation costs including investment in VMA and the home lending simplification program.

Loan impairment expense

Loan impairment expense for 1H20 was $9 million or 7 basis points of GLAs, a $1 million reduction compared to 1H19. Specific provisioning levels in 1H20 were primarily through regional Queensland and Western Australia. Collective provisioning remained relatively flat over 1H20, evidenced by the improved arrears profile, which reflects the Bank's robust underwriting standards and collection practices and solid economic conditions. Impaired assets increased slightly over 1H20 as Retail Banking continued to remain prudently provisioned and experienced benign levels of new impaired exposures.

BOQ GROUP - 2020 HALF YEAR RESULTS

4.2 BOQ BUSINESS BANKING

Overview

BOQ Business includes the 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 commercial customers. The division also provides home loans and consumer banking for BOQ Specialist customers.

Half Year Performance

$ million	Feb-20	Aug-19	Feb-19	Feb-20 vs Aug-19	Feb-20 vs Feb-19
Net interest income	271	266	261	2%	4%
Non-interest income	21	24	26	(13%)	(19%)
Total income	292	290	287	1%	2%
Operating expenses	(127)	(124)	(118)	2%	8%
Underlying profit	165	166	169	(1%)	(2%)
Loan impairment expense	(21)	(40)	(20)	(48%)	5%
Profit before tax	144	126	149	14%	(3%)
Income tax expense	(45)	(39)	(47)	15%	(4%)
Cash earnings after tax	99	87	102	14%	(3%)

Key metrics [1]

		Feb-20	Aug-19	Feb-19	Feb-20 vs Aug-19	Feb-20 vs Feb-19
PERFORMANCE INDICATORS [2]						
CTI	(%)	43.5	42.8	41.1	70bps	240bps
Net interest income / average GLA [3]	(%)	2.61	2.60	2.67	1bp	(6bps)
ASSET QUALITY						
90dpd arrears	($ million)	106	102	110	4%	(4%)
Impaired assets	($ million)	128	130	98	(2%)	31%
Loan impairment expense / GLA	(bps)	19	38	19	(19bps)	-
BALANCE SHEET						
GLA [4]	($ million)	21,956	21,243	20,582	7%	7%
Housing [4]	($ million)	6,175	5,739	5,422	15%	14%
Commercial and other	($ million)	10,486	10,242	10,262	5%	2%
BOQ Finance	($ million)	5,295	5,262	4,898	1%	8%
CREDIT RWA	($ million)	17,611	17,291	16,873	4%	4%
CUSTOMER DEPOSITS [4]	($ million)	8,575	8,243	7,695	8%	11%
Term deposits	($ million)	1,467	1,512	1,609	(6%)	(9%)
Mortgage offsets	($ million)	933	838	781	23%	19%
Savings & investment [4]	($ million)	4,910	4,738	4,249	7%	16%
Transaction accounts [4]	($ million)	1,265	1,155	1,056	19%	20%
DEPOSIT TO LOAN RATIO [4]	(%)	39	39	37	-	200bps

(1) Balance sheet key metrics have been annualised.

(2) Calculated on a cash earnings basis.

(3) Net of offset accounts.

(4) GLA and customer deposits include a reclassification transfer from BOQ Business Banking to Retail Banking. Prior period has been restated for comparative purposes.

BOQ GROUP - 2020 HALF YEAR RESULTS

4.2 BOQ BUSINESS BANKING (CONTINUED)

Business review

BOQ Business continued to focus on its niche segment strategy providing a tailored relationship offering to customers.

BOQ branded commercial loan growth of $189 million was underpinned by an ongoing focus on quality and appropriate return for risk. The depth of client relationships in the niche segments and our traditional corporate property segment have continued to drive above system growth. This has led to increasing deposit balances and other banking solutions such as trade finance contributing to the diversification of the portfolio. Queensland concentration for BOQ branded commercial lending was 49 per cent. The SME portfolio remains a significant part of this book underpinned by solid deposit growth and a slowing of the asset run-off experienced in previous periods.

BOQ Specialist had higher loan settlement activity on the previous year and aggregate asset growth was $502 million in 1H20. The mortgage offering delivered new customer acquisition with housing loans growing well above system at an annualised growth rate of 18 per cent in 1H20. This provides a pipeline of customers with potential commercial lending needs in the future.

BOQ Specialist focuses on very clearly defined niches and has developed a distinct competitive advantage offering tailored consumer and commercial products and services to assist professionals through their practicing life cycles. Continued innovation in mobile and internet banking for retail and merchant customers has driven increased deposits from BOQ Specialist clients.

BOQ Finance lending grew slowly in 1H20 at one per cent (annualised) or $33 million, reflecting slower system growth compared to prior periods. BOQ Finance remained focused on its existing market proposition and pricing appropriately for risk across multiple portfolios maintaining diversification of product mix.

Financial performance review

BOQ Business cash earnings after tax decreased $3 million compared to 1H19.

Net interest income

Net interest income for 1H20 increased $10 million or four per cent compared to 1H19. The increase was primarily driven by growth of seven per cent in assets and 11 per cent in deposits – with growth in all business divisions. Net interest income / GLAs was down six basis points on 1H19. Pricing adjustments have assisted in stopping the decline that occurred during 2H19 and the margin has stabilised in 1H20.

Non-interest income

Non-interest income was $5 million or 19 per cent lower compared to 1H19. This was due to the sale of the debtor finance book in 2H19, the loss of merchant terminal income related to the outsourcing arrangement to provide superior technology to our customers and the reduction in bank guarantee income related to lower take up. Financial markets' revenue returned to 1H19 levels after a decline in 2H19 due to interest rate risk management solutions.

Operating expenses

Operating expenses increased eight per cent compared to 1H19. The increase was primarily driven by strategic technology projects, and investment in risk and regulatory programs, including anti-money laundering and regulatory reporting requirements.

Loan impairment expense

Impairment expenses were up $1 million or five per cent from 1H19. This was the result of a $10 million collective provision overlay for COVID19, which was offset by improved quality of model data inputs, amortisation of the asset finance book and an improved outlook for agribusiness. Impairment expense decreased $19 million from 2H19, which saw a number of large specific provisions and reflected rapid growth in the asset finance book.

BOQ GROUP - 2020 HALF YEAR RESULTS

4.3 OTHER SEGMENT

Overview

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

	Half Year Performance				
$ million	Feb-20	Aug-19	Feb-19	Feb-20 vs Aug-19	Feb-20 vs Feb-19
Net interest income / (expense)	(2)	2	-	(200%)	-
Non-interest income	8	8	7	-	14%
Total income	6	10	7	(40%)	(14%)
Operating expenses	(11)	(12)	(9)	(8%)	22%
Underlying profit / (loss)	(5)	(2)	(2)	150%	150%
Loan impairment expense	-	-	-	-	-
Loss before tax	(5)	(2)	(2)	150%	150%
Income tax expense	2	1	1	100%	100%
Cash loss after tax	(3)	(1)	(1)	200%	200%

Financial performance review

Cash loss after tax of $3 million for 1H20 increased from a loss of $1 million for 1H19 reflecting both lower income and higher expenses in the St Andrew's insurance business.

Net interest income / (expense)

Net interest income in 1H20 was a $2 million loss (expense), primarily reflecting the recognition of interest expense on lease liabilities following the introduction of AASB 16, which was not allocated out to the operating divisions.

Non-interest income

Non-interest income largely comprises St Andrew's insurance revenue and trading income. Non-interest income of $8 million for 1H20 increased 14 per cent from $7 million in 1H19. This was mainly driven by higher trading income, partly offset by lower sales of Consumer Credit Insurance, with sales ceasing during 1H20.

Operating expenses

Operating expenses of $11 million for 1H20 increased 22 per cent from $9 million in 1H19. This mainly reflected an increase in St Andrew's acquisition related expenses, which were no longer recognised on a deferred basis following its closure to new business in 1H20.

5. CONSOLIDATED INTERIM FINANCIAL REPORT

For the half year ended 29 February 2020

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 29 February 2020 together with the independent auditor's report.

Directors' details

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

Name	Period of directorship
Patrick Allaway	Director since May 2019 / Chairman since October 2019
Roger Davis	Director since August 2008 / Chairman since May 2013 (retired October 2019)
Kathleen Bailey-Lord	Director since May 2019
Bruce Carter	Director since February 2014
Richard Haire	Director since April 2012
John Lorimer	Director since January 2016
Warwick Negus	Director since September 2016
Karen Penrose	Director since November 2015
Michelle Tredenick	Director since February 2011
David Willis	Director since February 2010 (retired December 2019)
George Frazis	Managing Director & Chief Executive Officer (**CEO**) since September 2019

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.

Review of operational and financial results

There is no doubt that with the impacts of novel coronavirus (**COVID-19**) many of the Bank's customers and stakeholders are currently experiencing challenging and uncertain times. Whilst this situation is evolving, BOQ remains confident that it is bringing to life its purpose and values and that by continuing to do so, is in the best possible position to continue to support its shareholders, customers and employees. The Bank has invoked business continuity plans, developed support packages for its business and personal customers and has made sure that it is in a strong and resilient position.

During the first half ended 29 February 2020, the Consolidated Entity implemented its refreshed five year strategy to generate enhanced customer experience, sustainable and profitable growth and to create long term shareholder value. This included structural productivity and operating model reviews as well as strategic reset of the technology roadmap.

The Group delivered a statutory net profit after tax of $93 million for 1H20, a decrease of 40 per cent compared to 1H19. The decrease in profit was mainly due to a number of one off costs associated with the delivery of the revised strategy.

Net operating income before impairment and operating expenses was in line with the prior corresponding period at $545 million. Net interest income for 1H20 increased by one per cent to $483 million from 1H19. Other operating income (excluding net insurance operating income) decreased 8 per cent compared to 1H19 due to the transition of the BOQ Business merchant offering to a new third party arrangement combined with the ongoing customer trends towards lower or no fee products. Net insurance operating income decreased to $6 million in 1H20 from $7 million in 1H19 due to St Andrew's closing new business in 1H20.

Net interest margin of 1.89 per cent in 1H20 represented a decrease of five basis points from 1H19. The reduction in net interest margin was primarily attributable to higher funding costs, lower return on BOQ's portfolio and an increase in third party costs.

Operating expenses increased by 31 per cent to $377 million compared to 1H19 mainly driven by non-recurring expenses incurred in delivering the revised strategy. Strategy refresh costs included $32 million of intangible asset review and $15 million of restructure costs. Intangible asset review included an adjustment to the minimum threshold for the capitalisation of intangible assets and the amortisation acceleration and impairment of assets impacted by the BOQ Group's revised strategy. Restructure costs largely related to redundancy costs associated with the business restructure. The underlying expense growth, excluding strategy refresh costs, increased mainly due to investments in risk and regulatory programs and strategic technology projects across a number of different areas including core infrastructure modernisation.

DIRECTORS' REPORT

For the half year ended 29 February 2020

Review of operational and financial results (continued)

The statutory cost to income ratio during the period was 69.2 per cent. The cost to income ratio, excluding one-off strategy refresh costs and other normalised items, was 54 per cent.

Loan impairment expense remained in line with the prior corresponding period at $30 million, or 13 basis points (annualised) of gross loans and advances. During 1H20, an increase for the estimated impact of the outbreak of the COVID-19, based on the facts and circumstances as at 29 February 2020, was recognised and this was predominantly offset by net run-offs in retail loans, amortisation of the loan book in the asset finance portfolio and an improvement in the quality of underlying model data. For an assessment of potential impacts following the reporting date, see Note 5.5.4 Events subsequent to balance date. Overall provision coverage across Gross Loans and Advances is on par with 2H19 and 3 basis points higher than 1H19.

The Bank's Common Equity Tier 1 (**CET1**) ratio increased by 87 basis points to 9.91 per cent compared to 2H19.

On 7 April 2020, APRA provided a letter to all ADIs and Insurers regarding capital management. APRA advised they expect that, during at least the next couple of months, ADIs will defer dividend decisions until the outlook is clearer and robust stress testing results have been discussed with APRA. Based on this guidance, BOQ has determined to defer the decision on payment of an interim dividend.

Risk and regulatory developments

Changing Regulatory Environment

Legislative action resulting from the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry has had, and will have, significant regulatory and compliance cost implications for the industry and the Bank in the years ahead.

Examples of this legislative action include the following current and future activities:

- Update of the Banking Code of Practice
- Proposal to replace current BEAR scheme with a broader Financial Accountability Regime
- Open Banking scheme to reflect Consumer Data Rights legislation
- Product Design and Distribution Obligations to target marketing of bank products
- Proposal for a Compensation Scheme of Last Resort for financial firm misconduct.

The heightened regulatory focus is resulting in increased resourcing and investment requirements for the Bank, including investments in new systems, advisory services and costs of regulatory reporting. These investments are expected to be considerable and will be over and above the Bank's existing cost of maintaining and ensuring compliance. The Bank remains committed to ensuring that the delivery of products and services meets the needs of its customers and broader community expectations.

Anti-Money Laundering and Counter Terrorism Financing Act 2006 Compliance

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

In the past 12 months, the Bank has continued to enhance and strengthen its AML/CTF systems and controls. The 2020 deployment of a new platform for AML/CTF controls will continue to uplift the Bank's capability to prevent, detect and mitigate financial crime risks across the Bank.

The Bank continues to engage with Australian Transaction Reports and Analysis Centre (**AUSTRAC**) in relation to the Bank's AML/CTF program and in response to the findings of a scheduled AUSTRAC on-site review of the Bank's AML/CTF systems and controls in July 2018.

The Bank has a long history of working co-operatively with regulators and law enforcement agencies to prevent money laundering and terrorism financing. The Bank is committed to meeting AML/CTF regulatory requirements and will continue to monitor compliance with AML/CTF legislation in conjunction with AUSTRAC.

Director and management changes

On 5 September 2019, George Frazis was appointed Managing Director & CEO. Anthony Rose ceased being Interim CEO on 4 September 2019 and his last day of employment was 31 December 2019.

Roger Davis retired as Chairman on 17 October 2019 and from the Board on 31 October 2019. Patrick Allaway was appointed Chairman on 18 October 2019.

On 25 October 2019, it was announced that Richard Haire would retire from the Board in April 2020 following the 2020 half year results.

On 11 November 2019, Ewen Stafford was appointed to the role of Chief Financial Officer and Chief Operating Officer. Matthew Baxby's last date as Chief Financial Officer was 31 October 2019.

Director and management changes (continued)

On 10 December 2019, David Willis retired from his role as Director and Chair of the Human Resources & Remuneration Committee. He will retain his role as a Director of St Andrew's Australia Services Pty Ltd, St Andrew's Insurance (Australia) Pty Ltd and St Andrew's Life Insurance Pty Ltd.

On 13 December 2019, Donna-Maree Vinci ceased being Chief Digital and Information Officer with her last day of employment being 13 December 2019. Adam McAnalen was appointed as Interim Chief Digital and Information Officer, in addition to retaining his role as Chief Risk Officer.

On 20 January 2020, Peter Sarantzouklis tendered his resignation as Group Executive BOQ Business with his last day of employment being 20 January 2020. Doug Snell, Verity Gilpin and Hugh Lander will share the responsibilities of leading BOQ Business pending an executive search.

Subsequent events

Subsequent to 29 February 2020, the Consolidated Entity has been further impacted by COVID-19 and the measures taken by governments and the private sector to respond to the outbreak. On 11 March 2020, the World Health Organisation characterised COVID-19 as a pandemic. In addition to health and societal issues, this has begun to cause disruptions to businesses and economic activity. Further to the $10 million overlay included in the collective provision as at 29 February 2020, the Consolidated Entity has updated its modelling of the financial impact of COVID-19 on the collective provision. Based on the information available as at 7 April 2020, the impact of COVID-19 on the collective provision is estimated to be in the range of $49-$71 million (inclusive of the $10 million overlay taken in 1H20).

Consistent with the estimate developed at 29 February 2020, the overlay has been determined based on possible forward-looking scenarios, considering the facts, circumstances and forecasts of future economic conditions and supportable information that is available as at 7 April 2020.

Forward-looking economic assumptions included in the model include a fall in Gross Domestic Product (**GDP**) of three per cent, increase in unemployment to 8.5 per cent and a decrease in property values of five per cent in 2020. In 2021, the Consolidated Entity has assumed GDP to increase between 1.3 to four per cent, unemployment to be between 6.5 and 8.5 per cent and property price growth to be in a range of zero to five per cent. In assessing forecast economic conditions, consideration has been given to both the significant government support measures being undertaken and relief offered to borrowers by the Group. This includes deferred repayment periods of up to six months on small business loans and three months for retail customers and also the Reserve Bank of Australia (**RBA**) Term funding facility providing a three year facility at 25 basis points.

As outlined in Note 5.3.4 Loans and advances, BOQ's commercial portfolios have lending to the at-risk industries. The credit risk implications are considered more severe for hospitality and accommodation, tourism and education, whereas the impact to manufacturing, trade, transport, construction and mining are considered milder. Scenario analysis reflects downgrades to the internal customer credit risk grade assumptions by a range of zero to four notches. Retail lending will be impacted by rising unemployment and the decline in property prices.

In calculating the estimate, the Consolidated Entity has applied judgement in determining when a Significant Increase in Credit Risk (**SICR**) has occurred. For example, the extension of payment holidays to borrowers as part of a COVID-19 support package will not, in all cases, mean a SICR has occurred or the loan has been restructured.

The calculation of the collective provision in this current environment is subject to significant uncertainty. This section provides a possible range for the outcomes of COVID-19 on the Entity, however, this range may move materially as events unfold. Consequently, this number should not be seen as firm guidance or a forecast as to the final financial impacts expected. The impact of COVID-19 on the collective provision has been calculated based on the Consolidated Entity's best estimate of the impacts of the COVID-19 outbreak using information available at the time of preparation and by its nature, includes forward-looking assumptions. In the event the impacts are more severe or prolonged than anticipated in the scenarios, this will have a corresponding impact on the collective provision, the financial position and performance of the Consolidated Entity. Notwithstanding this expected increase in the collective provision, the Group is expected to remain in a solid capital position, and within the board target of 9.0 - 9.5 per cent.

No further matters or circumstances have arisen since the end of the financial half year and up until the date of this report which significantly affect the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity in subsequent years.

Based on APRA guidance issued on 7 April 2020, BOQ has determined to defer the decision on payment of an interim dividend.

DIRECTORS' REPORT

For the half year ended 29 February 2020

Management attestation

The Board has been provided with a joint written statement from the Group's CEO and Chief Financial 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 Consolidated Entity's financial position and performance as at and for the half year ended 29 February 2020.

Further, that in their opinion financial records for the Consolidated Entity have been properly maintained for the half year ended 29 February 2020.

The Directors' Declaration can be found on page 57 of this document.

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

The lead auditor's independence declaration is set out on page 35 and forms part of the Directors' Report for the half year ended 29 February 2020.

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 off to the nearest million dollars, unless otherwise stated.

Signed in accordance with a resolution of the Directors:

Patrick Allaway

Chairman
7 April 2020

George Frazis

Managing Director & CEO
7 April 2020

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

To the Directors of Bank of Queensland Limited

I declare that, to the best of my knowledge and belief, in relation to the review of Bank of Queensland Limited for the half-year ended 29 February 2020 there have been:

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

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

KPMG	Robert Warren *Partner* Sydney 7 April 2020

CONSOLIDATED INCOME STATEMENT

For the half year ended 29 February 2020

	Note	Feb-20 [(1)] $m	Feb-19 $m
Interest income:		932	1,034
Effective interest income		867	961
Other		65	73
Interest expense		(449)	(558)
Net interest income		483	476
Other operating income	5.2.1	56	61
Net banking operating income		539	537
Net insurance operating income	5.2.1	6	7
Net operating income before impairment and operating expenses		545	544
Expenses		(377)	(287)
Impairment on loans and advances		(30)	(30)
Profit before income tax		138	227
Income tax expense	5.2.2	(45)	(71)
Profit for the period		93	156
Profit attributable to:			
Equity holders of Bank of Queensland Limited		93	156
Earnings per share [(2)]			
Basic earnings per share – Ordinary shares (cents)		21.7	38.9
Diluted earnings per share – Ordinary shares (cents)		20.5	36.4

(1) The February 2020 financial results reflect the adoption of AASB 16 on 1 September 2019. The Consolidated Entity has applied the modified retrospective approach and as permitted by AASB 16, comparative information has not been restated. The cumulative effect of applying AASB 16 is recognised in retained profits at 1 September 2019. Refer to Note 5.1.4 for the impact on the Consolidated Entity's initial adoption of AASB 16.

(2) Comparatives for basic and diluted earnings per share have been adjusted for the effects of the institutional share placement and share purchase plan that occurred during the current financial period. Refer to Note 5.3.2 for further information.

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the half year ended 29 February 2020

	Feb-20 [(1)] $m	Feb-19 $m
Profit for the period	93	156
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	16	(16)
Net movement transferred to profit or loss	10	11
Debt instruments at fair value through other comprehensive income (**FVOCI**):		
Net change in fair value	-	7
Net movement transferred to profit or loss	(5)	(7)
Items that will not be reclassified subsequently to profit or loss		
Equity instruments at FVOCI:		
Net change in fair value	-	(1)
Other comprehensive income, net of income tax	21	(6)
Total comprehensive income for the period	114	150
Total comprehensive income attributable to:		
Equity holders of Bank of Queensland Limited	114	150

(1) The February 2020 financial results reflect the adoption of AASB 16 on 1 September 2019. The Consolidated Entity has applied the modified retrospective approach and as permitted by AASB 16, comparative information has not been restated. The cumulative effect of applying AASB 16 is recognised in retained profits at 1 September 2019. Refer to Note 5.1.4 for the impact on the Consolidated Entity's initial adoption of AASB 16.

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

CONSOLIDATED BALANCE SHEET

As at 29 February 2020

	Note	Feb-20 (1) $m	Aug-19 $m
ASSETS			
Cash and cash equivalents		1,134	1,274
Due from other financial institutions		725	708
Derivative financial assets	5.3.3 (b)	275	229
Financial assets at fair value through profit or loss (**FVTPL**)	5.3.3 (b)	1,197	2,586
Debt instruments at FVOCI	5.3.3 (b)	3,952	3,569
Equity instruments at FVOCI	5.3.3 (b)	6	6
Loans and advances	5.3.3 (a); 5.3.4	46,763	45,983
Other assets		174	158
Current tax assets		3	7
Property, plant and equipment		168	52
Deferred tax assets		84	85
Intangible assets		914	924
Investments in joint arrangements and associates		13	16
Total assets		55,408	55,597
LIABILITIES			
Due to other financial institutions – accounts payable at call		242	285
Deposits	5.3.3 (a)	38,171	38,337
Derivative financial liabilities	5.3.3 (b)	708	687
Accounts payable and other liabilities		512	394
Provisions		43	40
Insurance policy liabilities		7	9
Borrowings	5.3.3 (a); 5.3.5	11,514	11,986
Total liabilities		51,197	51,738
Net assets		4,211	3,859
EQUITY			
Issued capital		3,868	3,497
Reserves		178	213
Retained profits		165	149
Total equity		4,211	3,859

(1) The February 2020 financial results reflect the adoption of AASB 16 on 1 September 2019. The Consolidated Entity has applied the modified retrospective approach and as permitted by AASB 16, comparative information has not been restated. The cumulative effect of applying AASB 16 is recognised in retained profits at 1 September 2019. Refer to Note 5.1.4 for the impact on the Consolidated Entity's initial adoption of AASB 16.

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the half year ended 29 February 2020

	Ordinary shares $m	Employee benefits reserve $m	Equity reserve for credit losses $m	Other reserves $m	Retained profits $m	Total equity $m
HALF YEAR ENDED 29 FEBRUARY 2020						
Balance at beginning of the period	3,497	26	62	125	149	3,859
Change on adoption of new accounting standards (1)	-	-	-	-	(6)	(6)
Restated balance at beginning of the year	3,497	26	62	125	143	3,853
Total comprehensive income for the period						
Profit for the period	-	-	-	-	93	93
Transfers to profit reserve	-	-	-	69	(69)	-
Other comprehensive income, net of income tax:						
Cash flow hedges:						
Net movement taken to equity	-	-	-	16	-	16
Net movement transferred to profit or loss	-	-	-	10	-	10
Debt instruments at FVOCI						
Net change in fair value	-	-	-	-	-	-
Net movement transferred to profit or loss	-	-	-	(5)	-	(5)
Equity instruments at FVOCI:						
Net change in fair value	-	-	-	-	-	-
Transfers from equity reserve for credit losses	-	-	2	-	(2)	-
Total other comprehensive income	-	-	2	21	(2)	21
Total comprehensive income for the period	-	-	2	90	22	114
Transactions with owners, recorded directly in equity / contributions by and distributions to owners						
Issues of ordinary shares (2)	4	-	-	-	-	4
Dividend reinvestment plan	31	-	-	-	-	31
Dividends to shareholders	-	-	-	(126)	-	(126)
Institutional share placement (3)	250	-	-	-	-	250
Costs of capital issue	(4)	-	-	-	-	(4)
Share purchase plan (4)	90	-	-	-	-	90
Treasury shares revaluation	-	-	-	(1)	-	(1)
Total contributions by and distributions to owners	371	-	-	(127)	-	244
Balance at the end of the period	3,868	26	64	88	165	4,211

(1) The February 2020 financial results reflect the adoption of AASB 16 on 1 September 2019. The Consolidated Entity has applied the modified retrospective approach and as permitted by AASB 16, comparative information has not been restated. The cumulative effect of applying AASB 16 is recognised in retained profits at 1 September 2019. Refer to Note 5.1.4 for the impact on the Consolidated Entity's initial adoption of AASB 16.

(2) On 29 November 2019, 440,000 ordinary shares were issued at $8.33 to the trustee of the Bank of Queensland Limited Employee Share Plans Trust to satisfy the exercise of award rights and issue of shares under the Award Rights Plan, and the issue of shares under the BOQ Restricted Share Plan and the BOQ Employee Share Plan.

(3) On 26 November 2019, the Bank completed a capital raising by way of institutional share placement of new fully paid ordinary shares at an issue price of $7.78 per share. The shares were issued on 29 November 2019.

(4) On 30 December 2019, the Bank completed the share purchase plan of new fully paid ordinary shares at an issue price of $7.27 per share. The shares were issued on 2 January 2020.

The 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 29 February 2020

	Ordinary shares $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 2019						
Balance at beginning of the period	3,418	26	59	(47)	400	3,856
Change on adoption of new accounting standards (1)	–	–	–	3	(13)	(10)
Restated balance at beginning of the year	3,418	26	59	(44)	387	3,846
Total comprehensive income for the period						
Profit for the period	–	–	–	–	156	156
Other comprehensive income, net of income tax:						
Cash flow hedges:						
Net movement taken to equity	–	–	–	(16)	–	(16)
Net movement transferred to profit or loss	–	–	–	11	–	11
Debt instruments at FVOCI						
Net change in fair value	–	–	–	7	–	7
Net movement transferred to profit or loss	–	–	–	(7)	–	(7)
Equity instruments at FVOCI:						
Net change in fair value	–	–	–	(1)	–	(1)
Transfers from equity reserve for credit losses	–	–	1	–	(1)	–
Total other comprehensive income	–	–	1	(6)	(1)	(6)
Total comprehensive income for the period	–	–	1	(6)	155	150
Transactions with owners, recorded directly in equity / contributions by and distributions to owners						
Treasury shares (2)	(3)	–	–	–	–	(3)
Dividend reinvestment plan	43	–	–	–	–	43
Dividends to shareholders	–	–	–	–	(151)	(151)
Total contributions by and distributions to owners	40	–	–	–	(151)	(111)
Balance at the end of the period	3,458	26	60	(50)	391	3,885

(1) The February 2019 financial results reflect the adoption of AASB 9 and AASB 15 ***Revenue from contracts with customers*** (**AASB 15**) on 1 September 2018.

(2) Treasury shares represent the value of shares held by a subsidiary that the Bank is required to include in the Consolidated Entity's financial statements. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Bank's own equity instruments.

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 29 February 2020

	Feb-20 $m	Feb-19 $m
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest received	890	1,048
Fees and other income received	62	69
Interest paid	(426)	(537)
Cash paid to suppliers and employees	(298)	(246)
Income tax paid	(44)	(72)
	184	262
(Increase)/decrease in operating assets:		
Loans and advances at amortised cost	(804)	(532)
Other financial assets	1,026	529
Decrease in operating liabilities:		
Deposits	(198)	(366)
Net cash inflow/ (outflow) from operating activities	208	(107)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for property, plant and equipment	(5)	(2)
Proceeds from sale of property, plant and equipment	2	4
Payments for intangible assets	(52)	(41)
Net cash outflow from investing activities	(55)	(39)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	1,001	897
Repayments of borrowings	(1,515)	(584)
Proceeds from issue of ordinary shares	336	-
Payments for treasury shares	-	(7)
Dividends paid	(95)	(108)
Payment of lease liabilities (1)	(20)	-
Net cash (outflow)/ inflow from financing activities	(293)	198
Net (decrease)/increase in cash and cash equivalents	(140)	52
Cash and cash equivalents at beginning of the period	1,274	1,218
Cash and cash equivalents at end of the period	1,134	1,270
Cash and cash equivalents included in assets held for sale	-	(6)
Cash and cash equivalents as presented in the Balance Sheet	1,134	1,264

(1) The February 2020 financial results reflect the adoption of AASB 16 on 1 September 2019. The Consolidated Entity has applied the modified retrospective approach and as permitted by AASB 16, comparative information has not been restated. The cumulative effect of applying AASB 16 is recognised in retained profits at 1 September 2019. Refer to Note 5.1.4 for the impact on the Consolidated Entity's initial adoption of AASB 16.

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 29 February 2020

5.1. BASIS OF PREPARATION

5.1.1. REPORTING ENTITY

The Bank is a for-profit company domiciled in Australia. The address of the Bank's registered office is Level 6, 100 Skyring Terrace, Newstead QLD 4006.

The consolidated interim financial report of the Bank as at and for the half year ended 29 February 2020 comprises the Consolidated Entity and the Consolidated Entity's interest in equity accounted investments. The principal activity of the Bank is the provision of financial services to the community.

5.1.2. 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 Consolidated Entity as at and for the financial year ended 31 August 2019, 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 Consolidated Entity 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 off 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 Consolidated Entity.

The consolidated interim financial report was approved by the Board of Directors on 7 April 2020.

5.1.3. SIGNIFICANT ACCOUNTING POLICIES

Except as described below, the accounting policies applied by the Consolidated Entity in this consolidated interim financial report are the same as those applied by the Consolidated Entity in its consolidated financial report as at and for the year ended 31 August 2019.

Changes in accounting policies

The Consolidated Entity has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 September 2019. These changes in accounting policies are also expected to be reflected in the Consolidated Entity's financial statements as at and for the year ending 31 August 2020.

- AASB 16 *Leases* – the impact of implementing this new standard is disclosed in Note 5.1.4;

The following new standards and amendments to standards have been adopted with no material impact on the Consolidated Entity:

- AASB Interpretation 23 *Uncertainty over Income Tax Treatments;*
- AASB 2017-4 *Amendments to Australian Accounting Standards – Uncertainty over Income Tax Treatments;*
- AASB 2017-6 *Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation;*
- AASB 2017-7 *Amendments to Australian Accounting Standards – Long-term Interests in Associates and Joint Ventures;*
- AASB 2018-1 *Amendments to Australian Accounting Standards – Annual Improvements 2015–2017 Cycle*; and
- AASB 2018-2 *Amendments to Australian Accounting Standards – Plan Amendment, Curtailment or Settlement.*

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 29 February 2020

5.1.4. IMPLEMENTATION OF NEW AUSTRALIAN ACCOUNTING STANDARDS

The Group applied AASB 16 from 1 September 2019 for the first time. The impact of this standard is described below. The Group has not yet adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

AASB 16 *Leases* (**AASB 16**)

AASB 16 replaced AASB 117 ***Leases*** (**AASB 117**) for the Consolidated Entity's financial year commencing on 1 September 2019.

The standard requires identification of leases that provide the Consolidated Entity the right to control the use of an identified asset for a period of time as a lessee. For these leases, the Consolidated Entity is required to recognise on-balance sheet a right-of-use (**ROU**) asset, representing the right to use the underlying asset, and a lease liability, representing the future lease payment obligations. Exemptions exist for leases of less than 12 months or for low value leases. Lessor accounting under AASB 16 remains largely unchanged from AASB 117.

Transition

The Consolidated Entity has applied AASB 16 from 1 September 2019 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under AASB 117. The cumulative effect of initial application is recognised in retained profits at 1 September 2019. The details of the change in accounting policy is disclosed below. The ROU asset has been calculated as if the standard has always been applied for all leases.

At transition the Consolidated Entity recognised ROU assets of $127 million as part of 'Property, plant and equipment' and a lease liability in 'Accounts payable and other liabilities' of $192 million . After adjusting related amounts previously recorded on the balance sheet, this resulted in a reduction to retained profits of $6 million (post tax). As permitted by the standard practical expedients were applied at transition and adjustments were not made for leases of low value assets and for short-term leases (less than 12 months).

Judgement has been applied by the Consolidated Entity in determining the transition adjustment, which includes the determination of which contractual arrangements represent a lease, the period over which the lease exists and the incremental borrowing rate of the Consolidated Entity to be applied to each lease based on the lease term.

Identification of a lease

Under AASB 16 a contract is, or contains a lease, if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. On transition the Consolidated Entity undertook an assessment of all applicable contracts to determine if a lease exists as defined in AASB 16. This assessment will also be completed for each new contract or change in contract going forward.

During this assessment the Consolidated Entity has identified 3 types of leases: property leases, vehicle leases and equipment leases. Where practical the Consolidated Entity separates consideration in a contract between lease and non-lease components, only accounting for the lease component under AASB 16 and the non-lease component under other relevant accounting standards. For some equipment leases the Consolidated Entity has elected not to separate the consideration.

The Consolidated Entity has further elected not to recognise ROU assets and lease liabilities for leases of low value assets (mainly IT equipment). The Consolidated Entity recognises these lease payments as an expense on a straight-line basis.

As a lessee

The Consolidated Entity recognises a ROU asset and a lease liability at the lease commencement date.

The ROU asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses. Lease incentives received at commencement reduce the ROU asset value. Depreciation is calculated on a straight-line basis.

The lease liability is measured as the present value of the lease payment outstanding at commencement date, discounted using the Consolidated Entity's incremental borrowing rate applied to the lease term. The lease liability is then increased by the interest expense on the lease liability and decreased by lease payments made. The determination of the lease term relies on judgement as to whether any extension options or termination options are likely to be exercised. These options are assessed 6-18 months prior to the lease expiry. When the lease liability is remeasured, a corresponding adjustment is made to the carrying value of the ROU asset, or, in the income statement, where the carrying value of the ROU asset has been fully written down.

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 29 February 2020

5.1.4. IMPLEMENTATION OF NEW AUSTRALIAN ACCOUNTING STANDARDS (CONTINUED)

The table below presents a reconciliation of the operating lease commitments as disclosed in the Consolidated Entity's 31 August 2019 financial statements, to the lease liabilities recognised on the transition date:

Consolidated	$m
Operating lease commitments as at 31 August 2019	195
Add: assets not recognised as a lease under previous Accounting Standard (AASB 117)	9
(Less): Impact of discounting the future lease cash flows at the incremental borrowing rate (weighted average rate of 1.91%)	(12)
Lease liability recognised as at 1 September 2019	192

As a lessor

The accounting policies applicable to the Consolidated Entity as a lessor are not different to those of AASB 117 except in the case where the Consolidated Entity is an intermediate lessor and a sublease exists. Previously sublease arrangements were classified by the Consolidated Entity as operating leases, however on transition to AASB 16 the ROU asset for those properties with a sublease have been derecognised from the ROU asset to other assets.

5.1.5. 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 Consolidated Entity'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 2019, except for those relating to AASB 16 as outlined in Note 5.1.4 and the recognition of the potential impact of COVID-19 in the Consolidated Entity's collective provision as outlined in Notes 5.3.4 and 5.5.4.

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 29 February 2020

5.2. FINANCIAL PERFORMANCE

5.2.1. OTHER OPERATING INCOME

	Feb-20 $m	Feb-19 $m
INCOME FROM OPERATING ACTIVITIES		
Customer fees and charges [(1)]	32	39
Share of fee revenue paid to owner managed branches	(3)	(3)
Commissions	19	18
Foreign exchange income – customer based	6	6
Net profit on sale of property, plant and equipment	1	3
Net loss from financial instruments and derivatives at fair value	(2)	(5)
Other income	3	3
Total other operating income	56	61
INCOME FROM INSURANCE ACTIVITIES		
Premiums from insurance contracts	26	29
Investment revenue	-	1
Claims and policyholder liability expense from insurance contracts	(20)	(23)
Net insurance operating income	6	7
Total	62	68

(1) Customer charges on lending, banking and leasing products.

5.2.2. INCOME TAX EXPENSE

The Consolidated Entity's effective tax rate for the half year ended 29 February 2020 was 32.6 per cent and for the half year ended 28 February 2019 was 31.4 per cent. This is above the corporate tax rate of 30 per cent, which is primarily attributable to the non-deductibility of interest payable on capital notes (refer to note 5.3.5 for details).

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 29 February 2020

5.2.3. DIVIDENDS

	Feb-20		Feb-19	
	Cents per share	$m	Cents per share	$m
ORDINARY SHARES				
Final 2019 dividend paid 27 November 2019 (2018: 14 November 2018)	31	126	38	151

All dividends paid on ordinary shares have been fully franked.

Since the end of the period, the Bank has determined to defer the decision on payment of an interim dividend, in line with APRA's announcement of 7 April 2020.

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 Directors have approved changes to the DRP rules which are effective from 8 April 2020.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 29 February 2020

5.2.4. OPERATING SEGMENTS

The Consolidated Entity 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. Segment results that are reported to the Managing Director & CEO include items directly attributable to a segment, as well as those that can be allocated on a reasonable basis.

The Bank's operating segments comprise the following:

Retail Banking – retail banking solutions to customers managed through our owner managed and corporate branch network, third party intermediaries, Virgin Money distribution channels, ATMs, an Australian based customer call centre, digital services as well as mobile banking specialists;

BOQ Business – includes the 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 commercial customers. The division also provides home loans and consumer banking for BOQ Specialist customers; and

Other – Treasury, St Andrew's Insurance and Group head office.

	Half year ended 29 February 2020 (3)			
	Retail Banking $m	BOQ Business $m	Other $m	Segment total $m
Net interest income / (expense) (1)	214	271	(2)	483
Non-interest income	29	21	8	58
Total income	243	292	6	541
Operating expenses	(154)	(127)	(11)	(292)
Underlying profit	89	165	(5)	249
Loan impairment expense	(9)	(21)	-	(30)
Segment profit before tax	80	144	(5)	219
Income tax expense	(25)	(45)	2	(68)
Segment profit after tax (2)	55	99	(3)	151
STATUTORY BASIS ADJUSTMENTS:				
Amortisation of acquisition fair value adjustments	-	-	(2)	(2)
Hedge ineffectiveness	-	-	(3)	(3)
Intangible asset review (4)	-	-	(32)	(32)
Restructure	-	-	(15)	(15)
Legacy and regulatory / compliance	-	-	(6)	(6)
Statutory net profit after tax	55	99	(61)	93

(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) The February 2020 financial results reflect the adoption of AASB 16 on 1 September 2019.

(4) Intangible asset review includes a non-recurring adjustment due to a change in the minimum threshold for the capitalisation of intangible assets and the accelerated amortisation and impairment of intangible assets.

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

All inter-segment profits are eliminated on consolidation.

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 29 February 2020

5.2.4. OPERATING SEGMENTS (CONTINUED)

	Half year ended 28 February 2019 [3]			
	Retail Banking $m	BOQ Business $m	Other $m	Segment total $m
Net interest income [1]	215	261	–	476
Non-interest income	32	26	7	65
Total income	247	287	7	541
Operating expenses	(141)	(118)	(9)	(268)
Underlying profit	106	169	(2)	273
Loan impairment expense	(10)	(20)	–	(30)
Cash profit before tax	96	149	(2)	243
Income tax expense	(30)	(47)	1	(76)
Segment cash profit after tax [2]	66	102	(1)	167
STATUTORY BASIS ADJUSTMENTS:				
Amortisation of acquisition fair value adjustments	–	–	(4)	(4)
Hedge ineffectiveness	–	–	(3)	(3)
Legacy and regulatory / compliance	–	–	(4)	(4)
Statutory net profit after tax	66	102	(12)	156

(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) The February 2019 financial results reflect the adoption of AASB 9 and AASB 15 on 1 September 2018.

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 29 February 2020

5.3. CAPITAL AND BALANCE SHEET MANAGEMENT

5.3.1. CAPITAL MANAGEMENT

The Bank and Consolidated Entity'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.

The Board has set the CET1 capital target range to be between 9.0 and 9.5 per cent of risk weighted assets and the total capital range to be between 11.75 and 13.5 per cent of risk weighted assets.

Qualifying capital for Level 2 entities (1)	Feb-20 $m	Aug-19 $m
Common Equity Tier 1 Capital		
Paid-up ordinary share capital	3,868	3,497
Reserves	131	171
Retained profits, including current half profits	149	132
Total Common Equity Tier 1 Capital	4,148	3,800
Regulatory adjustments		
Goodwill and intangibles	(914)	(923)
Deferred expenditure	(187)	(183)
Other deductions	41	67
Total regulatory adjustments	(1,060)	(1,039)
Net Common Equity Tier 1 Capital	3,088	2,761
Additional Tier 1 Capital	500	500
Net Tier 1 Capital	3,588	3,261
Tier 2 Capital		
Tier 2 Capital	350	350
General reserve for credit losses	179	175
Net Tier 2 Capital	529	525
Capital base	4,117	3,786
Risk weighted assets	31,164	30,533
Common Equity Tier 1 Capital	9.91%	9.04%
Net Tier 1 Capital ratio	11.51%	10.68%
Total Capital Adequacy ratio	13.21%	12.40%

(1) APRA Prudential Standard ***APS 001*** 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 measurement at 29 February 2020 are:

- Bank of Queensland Limited Employee Share Plans Trust;
- Home Credit Management Pty Ltd;
- St Andrew's Australia Services Pty Ltd;
- St Andrew's Life Insurance Pty Ltd;
- St Andrew's Insurance (Australia) Pty Limited;
- 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; and
- Series 2019-1 REDS Trust.

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 29 February 2020

5.3.2. ISSUED CAPITAL

	Feb-20 Number	Feb-19 Number
MOVEMENTS DURING THE PERIOD		
Balance at the beginning of the period – fully paid	405,784,809	397,311,850
Dividend reinvestment plan (1)	3,642,826	4,476,254
Issue of ordinary shares (2)	440,000	-
Institutional share placement (3)	32,133,677	-
Share purchase plan (4)	12,334,101	-
Balance at the end of the period – fully paid	454,335,413	401,788,104
Treasury shares (included in ordinary shares above)		
Balance at the beginning of the period	644,034	587,515
Net acquisitions and disposals during the period	84,026	281,767
Balance at the end of the period	728,060	869,282

(1) 25 per cent of the dividend paid on 27 November 2019 was reinvested by shareholders as part of the dividend reinvestment plan.

(2) On 29 November 2019, 440,000 ordinary shares were issued at $8.33 to the trustee of the Bank of Queensland Limited Employee Share Plans Trust to satisfy the exercise of award rights and issue of shares under the Award Rights Plan, and the issue of shares under the BOQ Restricted Share Plan and the BOQ Employee Share Plan.

(3) On 26 November 2019, the Bank completed a capital raising by way of institutional share placement of new fully paid ordinary shares at an issue price of $7.78 per share. The shares were issued on 29 November 2019.

(4) On 30 December 2019, the Bank completed the share purchase plan of new fully paid ordinary shares at an issue price of $7.27 per share. The shares were issued on 2 January 2020.

5.3.3. FINANCIAL INSTRUMENTS

(a) Comparison of fair value to carrying amounts

The table below discloses the fair value of financial instruments where their carrying values are not a reasonable approximation of their fair value:

	Carrying value		Fair value	
	Feb-20 $m	Aug-19 $m	Feb-20 $m	Aug-19 $m
ASSETS				
Loans and advances	46,763	45,983	46,967	46,225
	46,763	45,983	46,967	46,225
LIABILITIES				
Deposits	(38,171)	(38,337)	(38,191)	(38,372)
Borrowings	(11,514)	(11,986)	(11,516)	(11,981)
	(49,685)	(50,323)	(49,707)	(50,353)

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 29 February 2020

5.3.3. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Fair value hierarchy

The Consolidated Entity 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 in note 5.3.3 (a) are as follows:

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

The table below analyses financial instruments carried at fair value, by the fair value hierarchy.

	Feb-20			
	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial instruments measured at fair value				
Derivative financial assets	–	275	–	275
Financial assets at FVTPL	–	1,197	–	1,197
Debt instruments at FVOCI	3,483	469	–	3,952
Equity instruments at FVOCI	–	–	6	6
	3,483	1,941	6	5,430
Derivative financial liabilities	–	(708)	–	(708)
	3,483	1,233	6	4,722

	Aug-19			
	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial instruments measured at fair value				
Derivative financial assets	–	229	–	229
Financial assets at FVTPL	1,013	1,573	–	2,586
Debt instruments at FVOCI	3,097	472	–	3,569
Equity instruments at FVOCI	–	–	6	6
	4,110	2,274	6	6,390
Derivative financial liabilities	–	(687)	–	(687)
	4,110	1,587	6	5,703

There were no transfers between Level 1 and 2 during the period.

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 29 February 2020

5.3.3. FINANCIAL INSTRUMENTS (CONTINUED)

(c) 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.

5.3.4. LOANS AND ADVANCES

	Feb-20 $m	Aug-19 $m
Gross loans and advances	47,099	46,322
Less:		
Unearned leasing finance income	(101)	(106)
Provisions for impairment	(235)	(233)
Total loans and advances	46,763	45,983

Provision for impairment

The following table discloses the reconciliation of the Expected Credit Loss (**ECL**) model for the half year ended 29 February 2020.

	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 2019	81	44	23	85	233
Transfers during the period to:					
Stage 1	10	(8)	(1)	(1)	–
Stage 2	(2)	4	(2)	–	–
Stage 3	(1)	(6)	2	5	–
New/increased provisions	26	20	12	22	80
Write-back of provisions no longer required	(28)	(16)	(8)	(1)	(53)
Amounts written off, previously provided for	–	–	–	(22)	(22)
Unwind discount	–	–	–	(3)	(3)
Balance at the end of the period	86	38	26	85	235

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 29 February 2020

5.3.4. LOANS AND ADVANCES (CONTINUED)

Included within Provisions for Impairment is a $10 million overlay in recognition for the expected impact of COVID-19 on the collective provision as at 29 February 2020. This overlay is consistent with the outcomes from the base case scenario modelling that was performed by the Consolidated Entity in response to APRA's Financial Services Industry preparedness review over the COVID-19 outbreak. The base case scenario was modelled based on the facts and circumstances existing at 29 February 2020 and forecasts of future economic conditions and supportable information that was available at that date and includes significant management judgement. Based on the information available at the 29 February 2020, the base case scenario was modelled to be largely contained to the Asia region but with an economic fallout spreading across the globe impacting businesses dependent on global supply chains and industries dependent on international travel and immigration (i.e. tourism and education).

Forward-looking economic assumptions in the model included a fall in GDP of 0.5 per cent and an increase in unemployment of 0.3 per cent. Credit deterioration in the commercial lending portfolio was modelled assuming an increase in the internal customer risk rating, higher probability of default (**PD**) estimates and incidents of SICR. Customer risk rating downgrades in the commercial lending portfolio ranged from a 1 notch downgrade in the most affected sectors, Accommodation & Food and Education & Training, to a quarter notch downgrade in the less impacted sectors, such as Construction & Mining sector. The impact on the retail lending portfolio was modelled based on an increase in unemployment of 0.3 per cent.

For an assessment of potential impacts of COVID-19 following the reporting date, see Note 5.5.4 Events subsequent to balance date.

	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 2019	69	46	22	77	214
Transfers during the period to:					
Stage 1	1	(1)	-	-	-
Stage 2	(2)	-	1	1	-
Stage 3	(1)	(1)	1	1	-
New/increased provisions	22	5	3	24	54
Write-back of provisions no longer required	(8)	(5)	(4)	6	(11)
Amounts written off, previously provided for	-	-	-	(22)	(22)
Unwind discount	-	-	-	(2)	(2)
Balance at 31 August 2019	81	44	23	85	233

The table below discloses the effect of movements in the gross carrying value of loans and advances in the different stages of the ECL model during the half year ended 29 February 2020.

	Stage 1 – 12 month ECL $m	Stage 2 – Lifetime ECL $m	Stage 3 – Lifetime ECL $m	Stage 3 – Specific provision $m	Total $m
Gross carrying amount as at 1 September 2019	43,233	2,425	351	207	46,216
Transfers during the period to:					
Stage 1	589	(574)	(12)	(3)	-
Stage 2	(917)	939	(21)	(1)	-
Stage 3	(48)	(80)	94	34	-
New loans and advances originated or purchased	6,460	23	5	-	6,488
Loans and advances derecognised during the period including write-offs	(5,130)	(448)	(86)	(42)	(5,706)
Balance at the end of the period	44,187	2,285	331	195	46,998
Provision for impairment	(86)	(38)	(26)	(85)	(235)
Net carrying amount as at 29 February 2020	44,101	2,247	305	110	46,763

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 29 February 2020

5.3.4. LOANS AND ADVANCES (CONTINUED)

	Stage 1 – 12 month ECL $m	Stage 2 – Lifetime ECL $m	Stage 3 – Lifetime ECL $m	Stage 3 – Specific provision $m	Total $m
Gross carrying amount as at 1 March 2019	42,677	2,658	292	152	45,779
Transfers during the period to:					
Stage 1	61	(60)	2	(3)	–
Stage 2	(141)	122	18	1	–
Stage 3	(118)	(49)	96	71	–
New loans and advances originated or purchased	5,439	53	6	6	5,504
Loans and advances derecognised during the period including write-offs	(4,685)	(299)	(63)	(20)	(5,067)
Balance at the end of the period	43,233	2,425	351	207	46,216
Provision for impairment	(81)	(44)	(23)	(85)	(233)
Net carrying amount as at 31 August 2019	43,152	2,381	328	122	45,983

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 29 February 2020

5.3.5. BORROWINGS

The Consolidated Entity recorded the following movements on borrowings:

	Securitisation liabilities (1) $m	Covered bonds liabilities (2) $m	Debt issues (3) $m	Subordinated notes $m	Capital notes(4) (5) $m	Total $m
HALF YEAR ENDED 29 FEBRUARY 2020						
Balance at the beginning of the period	4,617	1,649	4,876	349	495	11,986
Proceeds from issues	366	-	635	-	-	1,001
Repayments	(831)	-	(684)	-	-	(1,515)
Deferred establishment costs	-	-	(1)	-	-	(1)
Amortisation of deferred costs	2	1	1	-	-	4
Foreign exchange translation (6)	-	35	4	-	-	39
Balance at the end of the period	**4,154**	**1,685**	**4,831**	**349**	**495**	**11,514**

	Securitisation liabilities (1) $m	Covered bonds liabilities (2) $m	Debt issues (3) $m	Subordinated notes $m	Capital notes(4) (5) $m	Total $m
HALF YEAR ENDED 28 FEBRUARY 2019						
Balance at the beginning of the period	3,576	804	4,855	349	493	10,077
Proceeds from issues	779	-	120	-	-	899
Repayments	(494)	-	(90)	-	-	(584)
Deferred establishment costs	(2)	-	-	-	-	(2)
Amortisation of deferred costs	1	-	2	-	1	4
Foreign exchange translation (6)	-	(10)	(2)	-	-	(12)
Balance at the end of the period	3,860	794	4,885	349	494	10,382

(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) On 26 May 2015, the Bank issued 15,000 Wholesale Capital Notes (**WCN**) at a price of $10,000 per note. WCN are non-cumulative, fully paid and are issued by the Bank on a perpetual and subordinated basis. They are not guaranteed or secured. As at 29 February 2020, 15,000 WCN were outstanding with accrued distributions of $1.5 million. WCN must convert to ordinary shares on a mandatory conversion date of 26 May 2022 if certain mandatory conversion conditions are satisfied. Upon conversion, WCN holders will receive a number of ordinary shares based on the value weighted average price during a specified period. The WCN must also convert to ordinary shares of the Bank with the occurrence of a non-viability event, a capital trigger event or an acquisition event. BOQ may elect to redeem or resell the WCN on 26 May 2020 or following a regulatory or tax event. These options are subject to APRA's prior written approval and certain conditions being satisfied. In a winding up of the Bank, if the WCN have not been converted or written off on account of a non-viability trigger event or capital trigger event, the WCN will rank for payment of capital ahead of ordinary shareholders, equally with other securities or instruments ranking equally with WCN, but behind all other securities or instruments ranking ahead of WCN, and behind all senior creditors.

(5) On 28 December 2017, the Bank issued 3,500,000 Capital Notes (BOQPE) 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 29 February 2020, 3,500,000 Capital Notes were outstanding with accrued distributions of $0.4 million. Capital Notes must convert into ordinary shares on 15 August 2026 if certain mandatory conversion conditions are satisfied, unless they are converted or redeemed earlier. Where the mandatory conversion conditions are satisfied, a holder will receive a number of ordinary shares per Capital Note based on the value weighted average price of ordinary shares during a specified period. The Capital Notes must also convert to ordinary shares of the Bank with the occurrence of a loss absorption event or an acquisition event. BOQ may elect to convert, redeem or resell Capital Notes on 15 August 2024 or following a regulatory or tax event. BOQ may also elect to convert all Capital Notes following a potential acquisition event. These options are subject to APRA's prior written approval and certain conditions being satisfied. In a winding up of the Bank, Capital Notes will rank for payment of capital ahead of ordinary shares, equally with CPS, WCN and other equal ranking instruments, but behind the claims of all senior ranking creditors, including depositors and unsubordinated and subordinated creditors.

(6) Foreign exchange translation is a non-cash movement which is 100 per cent hedged.

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 29 February 2020

5.4. CONTROLLED ENTITIES

5.4.1. DISPOSAL OF CONTROLLED ENTITIES

Series 2009-1 REDS Trust was closed on 23 September 2019.

5.5. OTHER NOTES

5.5.1. INTANGIBLE ASSETS

Following the Consolidated Entity's strategic review, an adjustment of $26 million has been recognised, driven by an increase to the capitalisation threshold. This is in addition to $16 million of accelerated amortisation and impairment on assets impacted by the revised strategy.

No impairment of goodwill has been recognised for the half year ended 29 February 2020.

5.5.2. RELATED PARTIES

During the half year ended 29 February 2020, a loan was advanced to a Director in the ordinary course of business amounting to $770,000. At 29 February 2020, the balance outstanding was $768,769 and interest earned was $3,270. All other terms of arrangements for related parties are consistent with those disclosed in the 31 August 2019 Annual Report.

5.5.3. CONTINGENT LIABILITIES

As at 29 February 2020, the Group does not have any contingent liabilities.

5.5.4. EVENTS SUBSEQUENT TO BALANCE DATE

Subsequent to 29 February 2020, the Consolidated Entity has been further impacted by COVID-19 and the measures taken by governments and the private sector to respond to the outbreak. On 11 March 2020, the World Health Organisation characterised COVID-19 as a pandemic. In addition to health and societal issues, this has begun to cause disruptions to businesses and economic activity. Further to the $10 million overlay included in the collective provision as at 29 February 2020, the Consolidated Entity has updated its modelling of the financial impact of COVID-19 on the collective provision. Based on the information available as at 7 April 2020, the impact of COVID-19 on the collective provision is estimated to be in the range of $49-$71 million (inclusive of the $10 million overlay taken in 1H20).

Consistent to the estimate developed at 29 February 2020, the overlay has been determined based on possible forward-looking scenarios, considering the facts, circumstances and forecasts of future economic conditions and supportable information that is available as at 7 April 2020.

Forward-looking economic assumptions included in the model include a fall in GDP of three per cent, increase in unemployment to 8.5 per cent and a decrease in property values of five per cent in 2020. In 2021, the Consolidated Entity has assumed GDP to increase between 1.3 to four per cent, unemployment to be between 6.5 and 8.5 per cent and property price growth to be in a range of zero to five per cent. In assessing forecast economic conditions, consideration has been given to both the significant government support measures being undertaken and relief offered to borrowers by the Group. This includes deferred repayment periods of up to six months on small business loans and three months for retail customers and also the RBA Term funding facility providing a three year facility at 25 basis points.

As outlined in Note 5.3.4 Loans and advances, BOQ's commercial portfolios have lending to the at-risk industries. The credit risk implications are considered more severe for hospitality and accommodation, tourism and education, whereas the impact to manufacturing, trade, transport, construction and mining are considered milder. Scenario analysis reflects downgrades to the internal customer credit risk grade assumptions by a range of zero to four notches. Retail lending will be impacted by rising unemployment and the decline in property prices.

In calculating the estimate, the Consolidated Entity has applied judgement in determining when a SICR has occurred. For example, the extension of payment holidays to borrowers as part of a COVID-19 support package will not, in all cases, mean a SICR has occurred or the loan has been restructured.

The calculation of the collective provision in this current environment is subject to significant uncertainty. This note provides a possible range for the outcomes of COVID-19 on the Entity, however, this range may move materially as events unfold. Consequently, this number should not be seen as firm guidance or a forecast as to the final financial impacts expected. The impact of COVID-19 on the collective provision has been calculated based on the Consolidated Entity's best estimate of the impacts of the COVID-19 outbreak using information available at the time of preparation and by its nature, includes forward-looking assumptions. In the event the impacts are more severe or prolonged than anticipated in the scenarios, this will have a corresponding impact on the collective provision, the financial position and performance of the Consolidated Entity. Notwithstanding this expected increase in the collective provision, the Group is expected to remain in a solid capital position, and within the board target of 9.0 - 9.5 per cent.

No further matters or circumstances have arisen since the end of the financial half year and up until the date of this report which significantly affect the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity in subsequent years.

Based on APRA guidance issued on 7 April 2020, BOQ has determined to defer the decision on payment of an interim dividend.

DIRECTORS' DECLARATION

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 36 to 56 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 29 February 2020 and of its performance, for the half-year ended on that date;

(ii) comply with Australian Accounting Standards 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
7 April 2020

George Frazis

Managing Director & CEO
7 April 2020

KPMG

Independent Auditor's Review Report

To the shareholders of Bank of Queensland Limited

Report on the Consolidated Interim Financial Report

Conclusion

We have reviewed the accompanying ***Consolidated Interim Financial Report*** of Bank of Queensland Limited.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Consolidated Interim Financial Report of Bank of Queensland Limited is not in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Consolidated Entity's*** financial position as at 29 February 2020 and of its financial performance for the ***half-year*** ended on that date; and
- complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

The ***Consolidated Interim Financial Report*** comprises:

- Consolidated Balance Sheet as at 29 February 2020;
- Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows for the half-year ended on that date;
- Notes 5.1.1 to 5.5.4 comprising a summary of significant accounting policies and other explanatory information; and
- The Directors' Declaration.

The ***Consolidated Entity*** comprises Bank of Queensland Limited (the Company) and the entities it controlled at the half-year's end or from time to time during the half-year period.

Uncertainties emerging subsequent to half- year end – Emphasis of Matter

We draw attention to Note 5.5.4 in the Consolidated Interim Financial Report, which describes events subsequent to half-year end, specifically as they relate to the potential impact to the Consolidated Entity of COVID-19. These disclosures include potential associated impacts to the Consolidated Entity's future financial position and performance.

In our view, this issue is fundamental to the users' understanding of the Consolidated Interim Financial Report and the financial position and performance of the Consolidated Entity.

Our conclusion is not modified with respect of this matter.

KPMG

Responsibilities of the Directors for the Consolidated Interim Financial Report

The Directors of the Company are responsible for:

- the preparation of the Consolidated 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 Consolidated Interim Financial Report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility for the review of the Consolidated Interim Financial Report

Our responsibility is to express a conclusion on the Consolidated Interim Financial Report based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Consolidated Interim Financial Report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Consolidated Entity's financial position as at 29 February 2020 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Bank of Queensland Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a Consolidated 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.

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

KPMG

Robert Warren
Partner
Sydney
7 April 2020

BOQ GROUP - 2020 HALF YEAR RESULTS

6. APPENDICES

6.1 ASX APPENDIX 4D

Cross reference index	Page
Details of reporting period and previous period (Rule 4.2A.3 Item No. 1)	Page 1
Results for announcement to the market (Rule 4.2A.3 Item No. 2)	Page 1
Net tangible assets per security (Rule 4.2A.3 Item No. 3)	Page 60
Details of entities over which control has been gained or lost (Rule 4.2A.3 Item No. 4)	Page 56
Dividends and dividend dates (Rule 4.2A.3 Item No. 5)	Page 1 and 46
Dividend reinvestment plan (Rule 4.2A.3 Item No. 6)	Page 46
Details of associated and joint venture entities (Rule 4.2A.3 Item No. 7)	Page 60
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 associated 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
Associates	
MiFund Pty Ltd	35.00

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

	As at		
Net tangible assets per security (Rule 4.2A.3 Item No. 3)	**Feb-20**	Aug-19	Feb-19
Net tangible assets per ordinary shares ($) (1)	**7.26**	7.23	7.46

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

BOQ GROUP - 2020 HALF YEAR RESULTS

6.2 RECONCILIATION OF STATUTORY PROFIT TO CASH EARNINGS

Cash earnings is used to present a clear view of BOQ's underlying operating results. This 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:

- Amortisation of acquisition fair value adjustments – this arises from the historical acquisition of subsidiaries;
- 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.
- Intangible asset review– this includes a non-recurring adjustment due to a change in the minimum threshold for the capitalisation of intangible assets and the amortisation acceleration and impairment of assets impacted by the BOQ Group's revised strategy within the next 24 months;
- Restructure – this relates to the structural productivity and operating model review. The expense largely relates to redundancy costs associated with business restructures; and
- Legacy and regulatory / compliance – this includes adjustments for prior year GST, and costs associated with remediation programs and regulatory matters of an extraordinary nature consistent with prior periods. These were partly offset by the recovery of expenses in relation to historical litigation.

(A) RECONCILIATION OF CASH EARNINGS TO STATUTORY NET PROFIT AFTER TAX

	Half Year Performance				
$ million	Feb-20	Aug-19	Feb-19	Feb-20 vs Aug-19	Feb-20 vs Feb-19
Cash earnings after tax	151	153	167	(1%)	(10%)
Amortisation of acquisition fair value adjustments	(2)	(2)	(4)	-	(50%)
Hedge ineffectiveness	(3)	(5)	(3)	(40%)	-
Integration / transaction costs	-	(1)	-	(100%)	-
Intangible asset review	(32)	-	-	-	-
Restructure	(15)	-	-	-	-
Legacy and regulatory / compliance	(6)	(3)	(4)	100%	50%
Statutory net profit after tax	93	142	156	(35%)	(40%)

(B) NON-CASH EARNINGS RECONCILING ITEMS

$ million	Cash earnings Feb-20	VMA allocation	Amortisation of acquisition fair value adjustments	Hedge in-effectiveness	Intangible asset review	Restructure	Legacy and regulatory / compliance	Statutory net profit Feb-20
Net interest income	483	-	-	-	-	-	-	483
Non-interest income	58	8	-	(4)	-	-	-	62
Total income	541	8	-	(4)	-	-	-	545
Operating expenses	(292)	(8)	(2)	-	(46)	(21)	(8)	(377)
Underlying profit	249	-	(2)	(4)	(46)	(21)	(8)	168
Loan impairment expense	(30)	-	-	-	-	-	-	(30)
Profit before tax	219	-	(2)	(4)	(46)	(21)	(8)	138
Income tax expense	(68)	-	-	1	14	6	2	(45)
Profit after tax	151	-	(2)	(3)	(32)	(15)	(6)	93

BOQ GROUP - 2020 HALF YEAR RESULTS

6.3 CASH EPS CALCULATIONS

		Half Year Performance				
		Feb-20	Aug-19 (1)	Feb-19 (1)	Feb-20 vs Aug-19	Feb-20 vs Feb-19
Basic EPS	(cents)	**35.3**	37.8	41.8	(7%)	(16%)
Diluted EPS	(cents)	**32.2**	35.2	38.9	(9%)	(17%)
Reconciliation of cash earnings for EPS						
Cash earnings available for ordinary shareholders	($ million)	**151**	153	167	(1%)	(10%)
Add: WCN	($ million)	**3**	4	3	(25%)	-
Add: Capital Notes	($ million)	**6**	7	7	(14%)	(14%)
Cash diluted earnings available for ordinary shareholders	($ million)	**160**	164	177	(2%)	(10%)
Basic weighted average number of shares (**WANOS**)	(million)	**428**	405	400	6%	7%
Add: Effect of award rights	(million)	**2**	1	2	100%	-
Add: Effect of WCN	(million)	**20**	17	16	18%	25%
Add: Effect of Capital Notes	(million)	**47**	39	38	21%	24%
Diluted WANOS for cash earnings EPS	(million)	**497**	462	456	8%	9%

(1) Comparatives for basic and diluted earnings per share have been adjusted for the effects of the institutional share placement and share purchase plan that occurred during the current financial period.

6.4 ISSUED CAPITAL

Ordinary shares

	Consolidated	
	Feb-20 Number	Feb-19 Number
Movements during the period		
Balance at the beginning of the year – fully paid	**405,784,809**	397,311,850
Dividend reinvestment plan (1)	**3,642,826**	4,476,254
Issue of ordinary shares (2)	**440,000**	-
Institutional share placement (3)	**32,133,677**	-
Share purchase plan (4)	**12,334,101**	-
Balance at the end of the period – fully paid	**454,335,413**	401,788,104

(1) 25 per cent of the dividend paid on 27 November 2019 was reinvested by shareholders as part of the dividend reinvestment plan.

(2) On 29 November 2019, 440,000 ordinary shares were issued at $8.33 to the trustee of the Bank of Queensland Limited Employee Share Plans Trust to satisfy the exercise of award rights and issue of shares under the Award Rights Plan, and the issue of shares under the BOQ Restricted Share Plan and the BOQ Employee Share Plan.

(3) On 26 November 2019, the Bank completed a capital raising by way of institutional share placement of new fully paid ordinary shares at an issue price of $7.78 per share. The shares were issued on 29 November 2019.

(4) On 30 December 2019, the Bank completed the share purchase plan of new fully paid ordinary shares at an issue price of $7.27 per share. The shares were issued on 2 January 2020.

BOQ GROUP - 2020 HALF YEAR RESULTS

6.5 AVERAGE BALANCE SHEET AND MARGIN ANALYSIS

	February 2020 (Half Year)			August 2019 (Half Year)		
$ million	Average balance $m	Interest $m	Average rate %	Average balance $m	Interest $m	Average rate %
INTEREST EARNING ASSETS						
Gross loans & advances at amortised cost	44,285	867	3.94	43,781	952	4.31
Investments & other securities	7,122	65	1.84	6,439	71	2.19
Total interest earning assets	51,407	932	3.65	50,220	1,023	4.04
Non-interest earning assets						
Property, plant & equipment	154			52		
Other assets	1,685			1,625		
Provision for impairment	(233)			(224)		
Total non-interest earning assets	1,606			1,453		
Total assets	53,013			51,673		
INTEREST BEARING LIABILITIES						
Retail deposits	29,863	213	1.43	29,485	285	1.92
Wholesale deposits & borrowings	17,918	236	2.65	17,328	253	2.90
Total interest bearing liabilities	47,781	449	1.89	46,813	538	2.28
Non-interest bearing liabilities	1,189			1,000		
Total liabilities	48,970			47,813		
Shareholders' funds	4,043			3,860		
Total liabilities & shareholders' funds	53,013			51,673		
INTEREST MARGIN & INTEREST SPREAD						
Interest earning assets	51,407	932	3.65	50,220	1,023	4.04
Interest bearing liabilities	47,781	449	1.89	46,813	538	2.28
Net interest spread			1.76			1.76
Benefit of net interest-free assets, liabilities and equity			0.13			0.16
NIM – on average interest earning assets	51,407	483	1.89	50,220	485	1.92

BOQ GROUP - 2020 HALF YEAR RESULTS

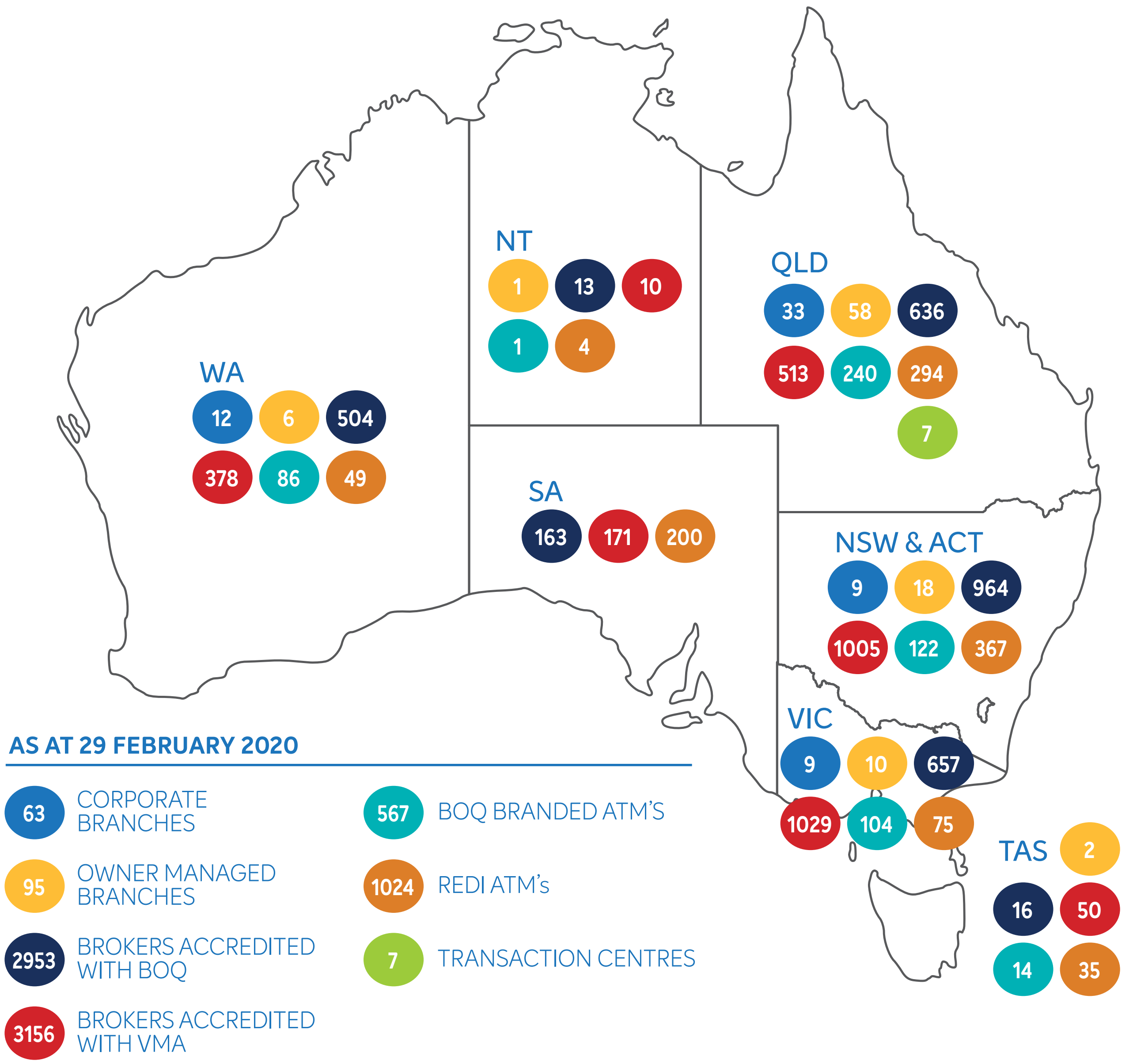
6.6 DISTRIBUTION FOOTPRINT

BOQ offers multiple channels through which to engage with customers and make a real difference to those customers' lives. This can be directly through owner managers, existing corporate sites, mobile bankers or through a preferred broker (aligned to BOQ or VMA), via online channels such as social media and mobile banking, or on the phone to BOQ's Australian based customer contact centres. The Bank's focus is on customers that truly value a personal touch.

Branch numbers were relatively stable during 1H20 with minimal closures occurring. To better align remuneration for owner managers with BOQ and customer experiences, BOQ has introduced a revised franchise agreement. This new agreement will support the growth of the franchise network, and will ensure BOQ attracts high performing bankers into owning these branches. The branch network remains a fundamental enabler of the Bank's deposit raising strategy, particularly given material improvements in the mortgage lending process, which are beginning to see growth in the home lending portfolios.

VMA accredited brokers remained stable over 1H20 as the Bank continues to invest in the expansion of the business with the ambition to become one of Australia's leading digital challenger banks. The VMA brand continues to diversify the Bank's geographic footprint and provides access to the major metropolitan centres where the BOQ Group has traditionally been under-represented.

BOQ accredited broker numbers declined by eight per cent over 1H20. The decrease followed a review of inactive brokers who had not submitted an application in the past 18 months, with the business now focusing on those brokers who will partner with BOQ in an ongoing relationship.



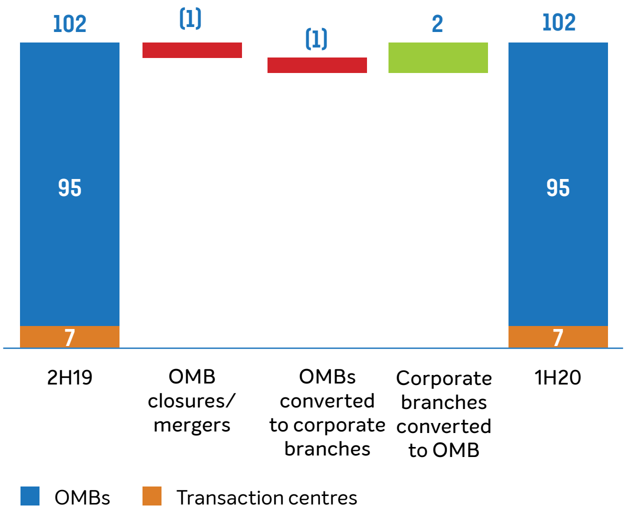
BOQ GROUP - 2020 HALF YEAR RESULTS

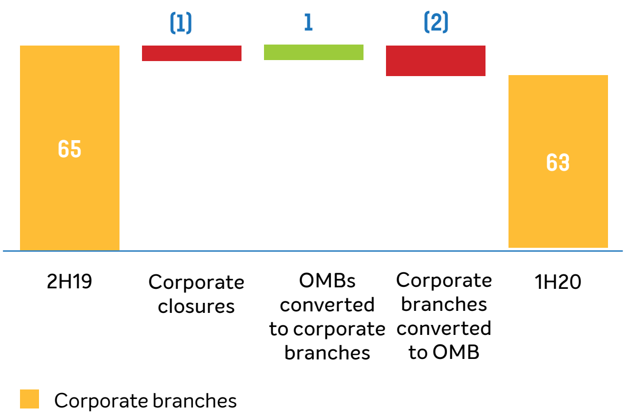
6.6 DISTRIBUTION FOOTPRINT (CONTINUED)

As at Feb-20	QLD	NSW / ACT	VIC	WA	NT	TAS	SA	Total
Corporate branches	33	9	9	12	-	-	-	63
Owner managed branches	58	18	10	6	1	2	-	95
Transaction centres	7	-	-	-	-	-	-	7
	98	**27**	**19**	**18**	**1**	**2**	**-**	**165**

As at Aug-19	QLD	NSW / ACT	VIC	WA	NT	TAS	SA	Total
Corporate branches	34	10	9	12	-	-	-	65
Owner managed branches	58	18	10	6	1	2	-	95
Transaction centres	7	-	-	-	-	-	-	7
	99	**28**	**19**	**18**	**1**	**2**	**-**	**167**

Corporate, Owner Managed Branches (OMB) & Transaction Centres





6.7 CREDIT RATING

Entities in the BOQ Group are rated by Standard & Poor's Financial Services (**S&P**), Fitch Ratings (**Fitch**) and Moody's Investors Service (**Moody's**) ratings. BOQ's current long term debt ratings are shown below.

Rating agency	Short term	Long term	Outlook
S&P	A2	BBB+	Stable
Fitch	F2	A-	Stable
Moody's	P2	A3	Stable

6.8 REGULATORY DISCLOSURES

The APS 330 *Public Disclosure* capital disclosure template, regulatory capital reconciliation, LCR, NSFR (included in the relevant Pillar 3 disclosures document) and capital instrument disclosures are available at the regulatory disclosures' section of the Bank's website at the following address:

https://www.boq.com.au/regulatory_disclosures

GLOSSARY

TERM	DESCRIPTION
APRA Prudential Standard (**APS**)	Prudential standards issued by APRA which are applicable to ADIs.
Australian Accounting Standards Board (**AASB**)	The AASB produces a series of technical pronouncements that set out the measurement and recognition requirements when accounting for particular types of transactions and events, along with the preparation and presentation requirements of an entity's financial statements.
Australian 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 Exchange (**ASX**)	Australian Securities Exchange or ASX Limited (ABN 98 008 624 691) and the market activities operated by ASX Limited.
Authorised deposit-taking institution (**ADI**)	A corporation which is authorised under the *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.
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).
Capital Notes (**BOQPE**)	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 LCR 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.
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 BOQ Group**)	BOQ and its subsidiaries
Cost to income ratio (**CTI**)	Operating expenses divided by net operating income.
Corporations Act 2001	*The Corporations Act 2001* (Cth)
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.
Equipment hire purchase trust (**EHP trust**)	EHP trust under the REDS securitisation program, issuing asset backed securities to the term market.
Euro-Commercial Paper (**ECP**)	ECP is an offshore short term commercial paper program.
Euro Medium Term Note (**EMTN**)	EMTN is an offshore medium term note program.
Full time equivalent (**FTE**)	A calculation based on number of hours worked by full and part time employees as part of their normal duties.

GLOSSARY

TERM	DESCRIPTION
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.
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 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.
Line of credit (**LOC**)	A flexible facility that allows a customer to draw down on their approved available credit at any time, as long as the customer does not exceed the approved credit limit.
Liquid assets	All unencumbered RBA repurchase eligible liquid assets. 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.
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 tangible assets are calculated as the total assets of a company minus any intangible assets such as goodwill, less all liabilities and the par value of preferred stock.
Non-interest earning assets	The Bank's assets that do not accrue interest income.
Novel coronavirus (**COVID-19**)	COVID-19 is a respiratory illness caused by a new virus and declared a Public Health Emergency of International Concern, as at 29 February 2020. Subsequently, on 11 March 2020, and after the Bank's 1H20 reporting date, the World Health Organisation characterised COVID-19 as a pandemic.
Owner managed branch (**OMB**)	A branch which is run by a franchisee.
REDS	Term to describe the BOQ securitisation programmes.
Residential mortgage backed securities (**RMBS**)	BOQ's securitisation program which enables the trustee to issue debt securities backed by assets originated by the BOQ Group such as mortgages and equipment finance receivables.
Return on average equity (**ROE**)	Net profit attributable to the owners of the Bank divided by average ordinary equity.
Return on average tangible equity (**ROTE**)	Net profit attributable to the owners of the Bank divided by average ordinary equity less goodwill and identifiable intangible assets.
Required stable funding (**RSF**)	RSF is an input to the calculation of the NSFR for bank prudential management purposes. A bank's RSF is calculated from its assets, weighted according to their maturity, credit quality and liquidity, together with an amount in relation to off balance sheet commitments.
Risk weighted assets (**RWA**)	A quantitative measure of various risks including credit, operational, market and securitisation as defined by APS.
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) Pty Ltd and its subsidiaries. The VMA entities are subsidiaries of the BOQ Group that engage in the provision of financial services (e.g. insurance, superannuation and home lending) on behalf of business partners, including BOQ.
Weighted average number of shares (**WANOS**)	Calculated in accordance with AASB 133 *Earnings per share.*
Wholesale Capital Notes (**WCN**)	WCNs are notes that may convert into common shares in certain circumstances as described in the offer documentation of the notes.