2017 Annual Report

Year ended 31 August 2017

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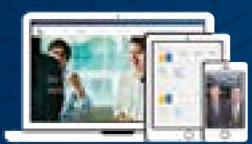
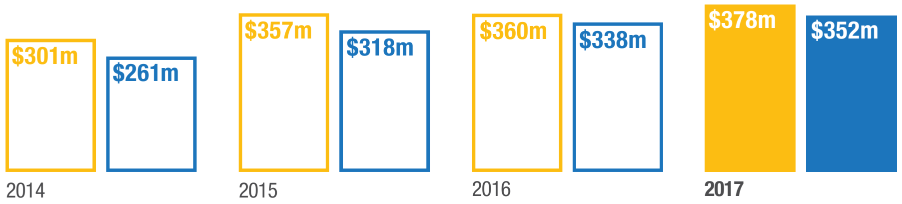


Find out more:
boq.com.au/annual_reports/2017

Continuing to deliver results for shareholders

Profit Results
($ Millions)

Cash Earnings after Tax
Statutory Net Profit after Tax



CASH EARNINGS AFTER TAX
5% **increase**
in earnings from FY16

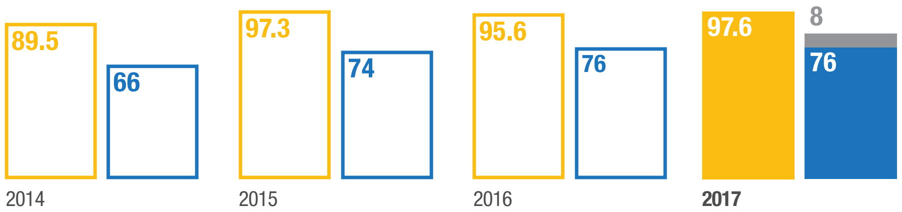
$378m

STATUTORY NET PROFIT AFTER TAX
4% **increase**
in earnings from FY16

$352m

Earnings & Dividends
(Cents per ordinary share)

Basic Cash Earnings per ordinary share
Dividends per ordinary share
Special Dividend per ordinary share



BASIC CASH EARNINGS PER ORDINARY SHARE
(Cents per share)

97.6¢

↑ Up **2%** from FY16

DIVIDENDS PER ORDINARY SHARE
(Cents per share)

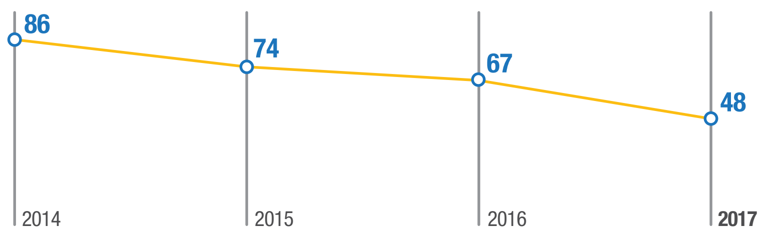
76¢

→ Unchanged from FY16

SPECIAL DIVIDEND PER ORDINARY SHARE
(Cents per share)

8¢

Loan Impairment Expense
($ Millions)



$48m

↓ Down **28%** from FY16

Net interest margin
↓1.87%

Down **7bps** from FY16

Cash cost to income ratio
↓46.6%

Down **20bps** from FY16

Cash return on equity
↑10.4%

Up **10bps** from FY16

Delivering our strategy

Our strategy is to focus on niche segments where customers value a more intimate banking relationship. It's all part of our mission to prove it's possible to love a bank.

Highlights for our 4 strategic pillars

Customer in charge

190
190 branches including
109 Owner Managed branches

192
upgraded ATMs

211,000
internet banking customers

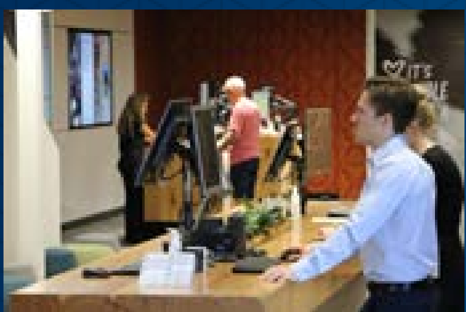
7,500
accredited brokers

Grow the right way

$4.4 BILLION
in lending to niche business segments

11 BPS
Loan impairment expense 11 basis points of gross loans and advances

9.39%
Common Equity Tier 1 capital



Always a better way

DIGITISING LENDING PLATFORMS
with improvements to our retail, commercial and lease management systems

1%
Underlying expense growth

Loved like no other

200+
employees signed up to the Banking and Finance Oath

39%
women in leadership positions

$577,500
in community investment

Chairman and Managing Director & CEO's 2017 Message

Dear Shareholder

Our 2017 financial year marks the fifth successive year that BOQ has delivered an increased profit. Cash earnings after tax increased five per cent to $378 million whilst statutory profit after tax grew four per cent to $352 million. Based on these results, the Board has determined to pay a final dividend of 38 cents per ordinary share. Following clarity from the Australian Prudential Regulation Authority on 'unquestionably strong' in July this year, and given our very strong capital position, the Board has also determined to pay a special dividend of 8 cents per ordinary share, taking the full year dividend to 84 cents per ordinary share.

The financial services industry has faced further challenges over the past 12 months. Consumer concern about low wage growth and higher living expenses combined with APRA's new regulations to slow residential and particularly investor mortgage growth resulted in subdued credit growth. Low interest rates, higher term deposit funding costs and continued intense competition for new customers has contributed to margin pressure. Further, increased regulatory changes and technological advances present a growing expense burden.

Despite these challenges, we have continued to implement a strategy that positions us well to embrace opportunities in this dynamic environment and deliver ongoing value for shareholders. Our focus on niche customer segments has continued to deliver results with solid growth through BOQ Specialist, BOQ Finance and our target niche commercial segments. We have also continued to expand our presence in the broker market which has contributed to our Virgin Money business exceeding growth expectations in its home loan portfolio. Underlying this favourable trend is the continued exceptional service provided by our branch network which remains a core part of our business for both lending and deposits.

We have also benefited from our disciplined approach to expense management which has ensured we delivered on our promise to keep underlying expense growth to one per cent. Indeed, our continuous improvement program continues to create savings that we are reinvesting back into the business, particularly in technology projects that will help us future proof BOQ. This year's result was also supported by a $16 million profit on the disposal of a vendor finance entity.

Importantly, we have also continued to deliver growth and profits without compromising our robust risk management practices, with loan impairment expense reducing to 11 basis points of gross loans and advances. We remain committed to creating a bank that is more resilient over the longer term. Our disciplined approach to growth has also helped us maintain our strong capital position, giving us options for the future.

2017 was also a year characterised by greater political scrutiny of the banking sector. We are proud to lead a business that upholds the highest ethical standards and we have continued to focus on ethics, conduct and culture, ensuring we have a culture that supports positive relationships with our stakeholders.

Our solid performance in this environment has only been possible through the ongoing efforts of everyone across the BOQ Group. We would like to thank all of our employees for making BOQ the great organisation it is today.

Finally, we would like to thank all of our shareholders for your ongoing support. Our clear strategy, strong capital position and prudent approach to risk management position us well in this environment to continue delivering value for you into the future.

Roger Davis
Chairman

Jon Sutton
Managing Director & CEO

2017
Directors' Report

Directors' Report

For the year ended 31 August 2017

The Directors present their report together with the financial report of Bank of Queensland Limited ('the Bank' or 'BOQ') and of the Consolidated Entity (or 'Group'), being the Bank and its controlled entities, for the year ended 31 August 2017 and the independent auditor's report thereon.

Directors' Details

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

Name, qualifications and independence status	Experience, special responsibilities and other Directorships
Roger Davis B.Econ. (Hons), Master of Philosophy Chairman Non-Executive Independent Director	Mr Davis was appointed Chairman of the Bank on 28 May 2013 and has been a Director since August 2008. He has a Bachelor of Economics (Hons) degree from the University of Sydney and a Master of Philosophy degree from Oxford. Mr Davis has over 32 years' experience in banking and investment banking in Australia, the US and Japan. He was previously a Managing Director at Citigroup where he worked for over 20 years and more recently was a Group Managing Director at ANZ Bank. Mr Davis is currently a consulting Director at Rothschild Australia Limited. He is currently a Director of Argo Investments Limited, Ardent Leisure Management Ltd and Ardent Leisure Ltd. He was formerly Chair of Charter Hall Office REIT (prior to its takeover) and Esanda, and a non-executive director of The Trust Company Limited (prior to its takeover) and Aristocrat Leisure Ltd. He is the Chairman of the unlisted entity, AIG Australia Limited. Mr Davis is Chair of the Nomination & Governance Committee, a member of each of the Audit, Risk and Investment Committees, and an attendee at all other Board Committees.
Jon Sutton Managing Director and Chief Executive Officer Executive Director	Mr Sutton was appointed as the Bank's Managing Director and Chief Executive Officer in January 2015 following four months as Acting Chief Executive Officer. Mr Sutton originally joined BOQ in July 2012 as Chief Operating Officer. Mr Sutton has more than 20 years' experience in banking and prior to BOQ was the Managing Director of Bankwest. Before that, as Executive General Manager of Commonwealth Bank Agribusiness ('CBA'), Mr Sutton was central to the establishment of the CBA's agribusiness segment which grew strongly under his guidance and leadership. Prior to this, Mr Sutton was General Manager of Client Risk Solutions at CBA, responsible for marketing derivative products including interest rates, commodities and foreign exchange. He was also Head of Resources and Agribusiness and Head of Corporate Risk Management Commodities, charged with marketing and commodity hedging products to Australian institutions within the base metals, precious metals and energy sectors.
Bruce Carter B Econ, MBA, FAICD, FICA Non-Executive Independent Director	Mr Carter was appointed a Director of the Bank on 27 February 2014. Mr Carter was a founding Managing Partner of Ferrier Hodgson South Australia, a corporate advisory and restructuring business, and has worked across a number of industries and sectors in the public and private sectors. He has been involved with a number of state government-appointed restructures and reviews including chairing a task force to oversee the government's involvement in major resource and mining infrastructure projects. Mr Carter had a central role in a number of key government economic papers including the Economic Statement on South Australian Prospects for Growth, the Sustainable Budget Commission, and the Prime Minister's 2012 GST Distribution Review. Mr Carter has worked with all the major financial institutions in Australia. Before Ferrier Hodgson, Mr Carter was at Ernst & Young for 14 years, including four years as Partner in Adelaide. During his time at Ernst & Young, he worked across the London, Hong Kong, Toronto and New York offices. Mr Carter is the chair of Australian Submarine Corporation and Aventus Capital Limited, and a Non-Executive Director of SkyCity Entertainment Group Limited, Genesee & Wyoming Australia Pty Ltd and Eudunda Farmers Limited. Mr Carter is the Chair of the Risk Committee, and a member of each of the Audit, Nomination & Governance and Investment Committees.
Richard Haire B.Ec, FAICD Non-Executive Independent Director	Mr Haire was appointed a Director of the Bank on 18 April 2012. Mr Haire has more than 28 years' experience in the international cotton and agribusiness industry, including 26 years in agricultural commodity trading and banking. Mr Haire is the Chair of Cotton Research and Development Corporation and he also serves as a Non-Executive Director of the Reef Casino Trust, and was formerly a Director of Open Country Dairy (NZ) and New Zealand Farming Systems Uruguay. Mr Haire was appointed Executive Chairman of Webster Limited in June 2015 and resigned from that position on 29 February 2016. Mr Haire is Chair of the Audit Committee, and a member of each of the Risk, Information Technology and Investment Committees.

Directors' Report

For the year ended 31 August 2017

Name, qualifications and independence status	Experience, special responsibilities and other Directorships
John Lorimer B Com Non-Executive Independent Director	Mr Lorimer was appointed as a Director of the Bank on 29 January 2016. Mr Lorimer has spent more than 20 years in financial services and held Executive roles in Australia, Asia and Europe. Mr Lorimer's most recent executive roles were in the United Kingdom where he was Group Head of Finance and then Group Head of Regulatory Risk and Compliance for Standard Chartered Bank. He also has held a number of management positions in the retail bank of Citigroup and served as the Chairman of CAF Bank Limited (a subsidiary of Charities Aid Foundation based in the United Kingdom). He is a Non-Executive Director of Bupa Australia Pty Ltd and its subsidiaries, Max Bupa Health Insurance Ltd (India), Bupa Asia Ltd (HK), and Aberdeen New Dawn Investment Trust plc. Mr Lorimer was formerly a Non-Executive Director of the Bupa Group board and International Personal Finance plc. Mr Lorimer is a member of each of the Risk and Information Technology Committees.
Warwick Negus B Bus, M Com, SF Fin Non-Executive Independent Director	Mr Negus was appointed a Director of the Bank on 22 September 2016. Mr Negus has over 30 years of finance industry experience in Asia, Europe and Australia. His most recent executive roles include Chief Executive Officer of 452 Capital, Chief Executive Officer of Colonial First State Global Asset Management and Goldman Sachs Managing Director in Australia, London and Singapore. He was also a Vice President of Bankers Trust Australia and was formerly a director of the UNSW Foundation and FINSIA. Warwick is a Non-Executive Director of Washington H Soul Pattinson and Co, Virgin Australia Holding Limited, URB Investments Limited, Pengana Capital Group Limited and Terrace Tower Group. Mr Negus is a member of the Council of University of NSW and Chairman of UNSW Global Limited. Mr Negus is a member of the Investment Committee.
Karen Penrose B Comm, CPA, FAICD Non-Executive Independent Director	Ms Penrose was appointed a Director of the Bank on 26 November 2015. Ms Penrose has over 30 years' business experience across the finance, property and resources industries, including 20 years in banking with Commonwealth Bank of Australia and HSBC Bank Australia. Ms Penrose is a Non-Executive Director of Vicinity Centres Limited, Spark Infrastructure Group, AWE Limited and Future General Global Investment Company Limited (pro bono role). She was formerly a Non-Executive Director of Novion Limited, Silver Chef Limited and UrbanGrowth NSW. Ms Penrose is a member of each of the Audit, Human Resources & Remuneration and Investment Committees.
Margaret (Margie) Seale BA, FAICD Non-Executive Independent Director	Ms Seale was appointed a Director of the Bank on 21 January 2014. Ms Seale has more than 25 years' experience in Senior Executive roles in Australia and overseas in the global publishing, health and consumer goods industries, and in the transition of traditional business models to adapt and thrive in a digital environment. Most recently she was Managing Director of Random House Australia (with managerial responsibility for Random House New Zealand) and President, Asia Development for Random House Inc., the global company. Ms Seale remained on the Board of Penguin Random House as a Non-Executive Director and then as Chair until September 2016. Amongst other roles prior to those at Random House, she held national sales and national marketing roles with Oroton and Pan Macmillan respectively. Ms Seale is a Non-Executive Director of Telstra Corporation Limited, Ramsay Health Care Limited, and Scentre Group Limited. She has also served on the boards of the Australian Publishers' Association, The Powerhouse Museum and Chief Executive Women. Ms Seale is a member of each of the Information Technology and Human Resources & Remuneration Committees.
Michelle Tredenick B Sc, FAICD, F Fin Non-Executive Independent Director	Ms Tredenick has served on the Board of BOQ since February 2011. Michelle is an experienced company director and corporate advisor with over 30 years' experience in leading Australian businesses. She is currently a Non-Executive Director of Canstar Pty Ltd, Urbis Pty Ltd, Cricket Australia and is Chairman of IAG NRMA Corporate Superannuation Trustee Board. She is a member of the Senate of the University of Queensland and a Director of the Ethics Centre. Ms Tredenick has previously held executive roles and been a member of the Executive Committee at National Australia Bank, MLC and Suncorp-Metway Limited, as well as serving as an Executive Director of National Australia Bank and of certain MLC group companies. Her experience includes holding the position of Chief Information Officer with each of these companies as well as Head of Strategy and Marketing and divisional profit and loss roles in Corporate Superannuation, Insurance and Funds Management. Ms Tredenick was also formerly a Non-Executive Director of Vocation Limited (in Liquidation). Ms Tredenick is a Chair of the Information Technology Committee, and is a member of each of the Human Resources & Remuneration, Risk and Nomination & Governance Committees.

Directors' Report

For the year ended 31 August 2017

Name, qualifications and independence status	Experience, special responsibilities and other Directorships
David Willis B Com, ACA, ICA, FAICD Non-Executive Independent Director	Mr Willis was appointed a Director of the Bank in February 2010. Mr Willis has over 34 years' experience in financial services in the Asia Pacific, the UK and the USA. He is a qualified Accountant in Australia and New Zealand and has had 25 years' experience working with Australian and foreign banks. Mr Willis is a Director of CBH (A Grain Cooperative in Western Australia) and Interflour Holdings, SE Asian flour milling company. Mr Willis chairs a Sydney based Charity "The Horizons Program". Mr Willis is Chair of the Human Resources & Remuneration Committee, and is a member of each of the Risk and the Nomination & Governance Committees. He is also a Non-Executive Director of the Bank's insurance subsidiary, St Andrew's.

Company Secretaries

Michelle Thomsen
LLB/B Comm

Ms Thomsen was appointed General Counsel & Company Secretary on 13 July 2015. Prior to this, Ms Thomsen was EGM Associate General Counsel at Suncorp Group Limited and has held a number of in house and private practice roles, including General Counsel positions for two funds listed on the Australian Securities Exchange and she was a partner at SJ Berwin LLP in London, prior to returning to Australia in 2012.

Vicki Clarkson
BA/LLB (Hons), FGIA, FCIS, GAICD

Ms Clarkson joined BOQ as Company Secretary on 3 April 2017. Ms Clarkson commenced her career as a corporate lawyer at Blake Dawson Waldron (now Ashurst) before joining Clayton Utz. Prior to working for BOQ, Ms Clarkson held senior legal and governance roles in ASX listed entities including Aurizon Holdings Limited, Flight Centre Limited and Shine Corporate Ltd. Ms Clarkson is an active member and Deputy Chair of the Queensland State Council of the Governance Institute of Australia.

Directors' Meetings

The number of meetings of the Bank's Directors (including meetings of Committees of Directors) and the number of meetings attended by each Director during the financial year were:

	Board of Directors		Board of Directors - St Andrews		Risk Committee		Audit Committee		Nomination & Governance Committee		Human Resources & Remuneration Committee - BOQ & St Andrews		Information Technology Committee		Investment Committee	
	A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B
Roger Davis (1)	11	11	-	-	7	7	6	6	3	3	6	6	5	6	4	5
Jon Sutton (2)	11	11	8	8	6	7	6	6	1	3	6	6	5	6	5	5
Warwick Negus (3)	11	11	-	-	-	-	-	-	-	-	-	-	-	-	3	3
Bruce Carter	11	11	-	-	7	7	6	6	1	1	-	-	-	-	5	5
Richard Haire	11	11	-	-	7	7	6	6	-	-	-	-	6	6	5	5
John Lorimer	10	11	-	-	6	7	-	-	-	-	-	-	5	6	-	-
Karen Penrose	11	11	-	-	-	-	6	6	-	-	6	6	-	-	2	2
Margaret Seale	11	11	-	-	-	-	-	-	-	-	6	6	6	6	-	-
Michelle Tredenick	11	11	-	-	7	7	-	-	3	3	6	6	6	6	-	-
David Willis (4)	9	11	7	8	5	7	-	-	2	3	6	6	-	-	-	-
Total number of meetings held	11		8		7		6		3		6		6		5	

A - Number of meetings attended

B - Number of meetings held during the time the Director was a member of the Board / Committee during the year. Mr Davis and Mr Sutton's attendances as invitees are also listed.

(1) Roger Davis is a member of the Audit and Risk Committees and chairs both the Investment Committee and Nomination & Governance Committee. He attends all other Board Committee meetings (as above), however he is not a member of these.

(2) Jon Sutton is also a member of the St Andrews' Audit and Risk Committees. Additionally, Mr Sutton attends the Bank's Board Committee meetings by invitation of the Board.

(3) Warwick Negus was appointed as Director on 22 September 2016 and, as such, the details of meetings held and attended are for the period of time in which he was a Director during the financial year.

(4) David Willis is also a member of the St Andrews' Audit Committee and Risk Committee.

Directors' Report

For the year ended 31 August 2017

2017 Corporate Governance Statement is online

BOQ complies with its constitution, the *Corporations Act 2001*, the ASX Listing Rules, and the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (Third Edition) (ASX Principles), which is reflected in our Corporate Governance Statement. As an APRA-regulated entity, BOQ also complies with the governance requirements prescribed by APRA under *Prudential Standard CPS 510 Governance.*

Information about BOQ's Board and management, corporate governance policies and practices and Enterprise Risk Management Framework can be found in the 2017 Corporate Governance Statement available at: http://www.boq.com.au/aboutus_corporate_governance.htm

Directors' Report

For the year ended 31 August 2017

Directors' Report

For the year ended 31 August 2017

OPERATING AND FINANCIAL REVIEW

1. Highlights and Strategy

1.1 Disclosure Considerations

Future performance

This document contains certain 'forward-looking statements' about BOQ's business and operations, market conditions, results of operations, and 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

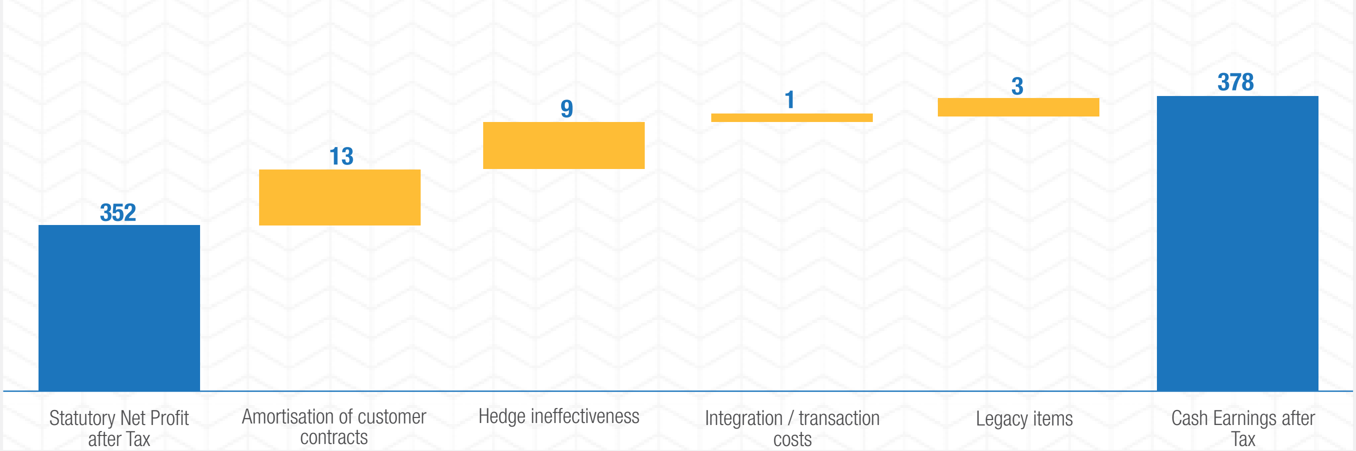
Statutory Profit is prepared in accordance with the *Corporations Act 2001* and the Australian Accounting Standards, which comply with International Financial Reporting Standards ('IFRS'). Cash Earnings is a non-Accounting Standards measure commonly used in the banking industry to assist in presenting a clear view of the Bank's underlying earnings. Refer to Section 4.1 of the Operating and Financial Review Appendices for the reconciliation of Statutory Profit to Cash Earnings.

The items excluded from Cash Earnings are consistent with the prior year. Hedge ineffectiveness represents earnings volatility from hedges that are not fully effective under the application of AASB 139 *Financial Instruments: Recognition and Measurement* and create a timing difference in reported profit. These hedges remain economically effective (Refer to the Reconciliation of Statutory Profit to Cash Earnings chart below).

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 (to 28 February 2017) and the prior year (to 31 August 2016).

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

Reconciliation of Statutory Profit to Cash Earnings ($m)

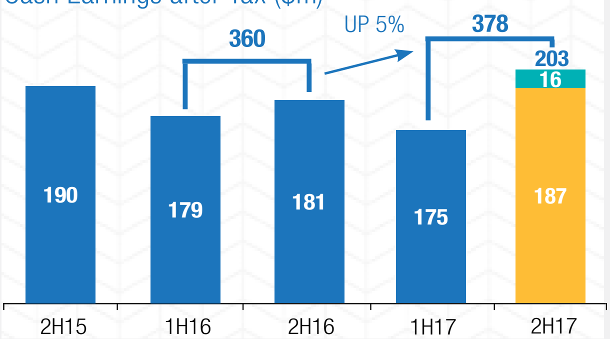


Directors' Report

For the year ended 31 August 2017

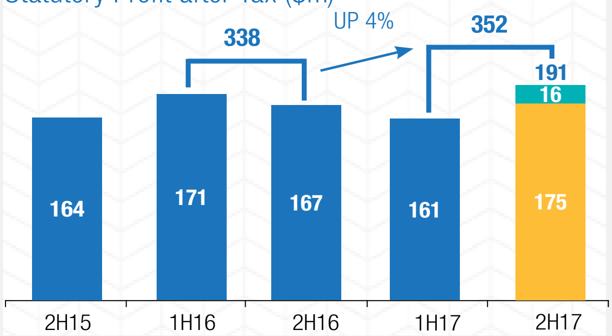
1.2 Group Highlights

Cash Earnings after Tax ($m)



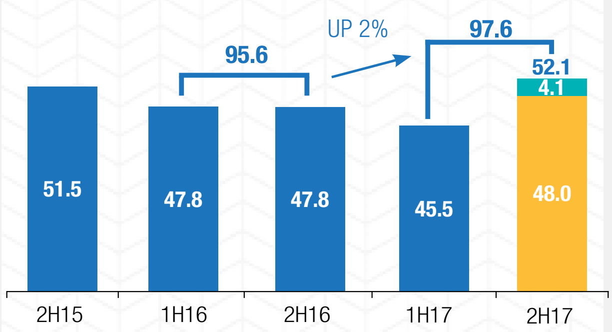
Impact of disposal of vendor finance entity

Statutory Profit after Tax ($m)



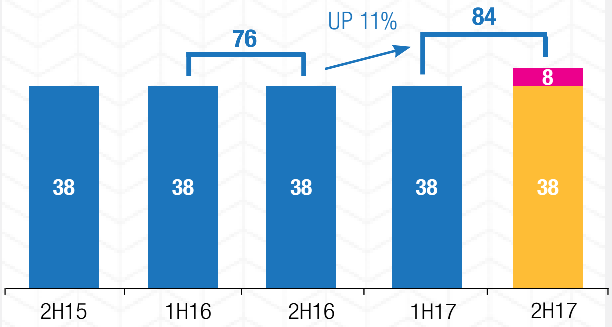
Impact of disposal of vendor finance entity

Cash Basic Earnings per Share ('EPS') (cents)



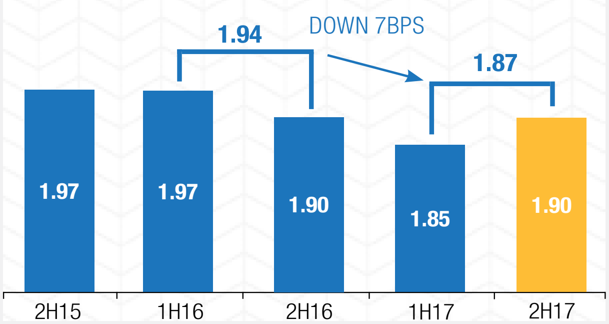
Impact of disposal of vendor finance entity

Dividends per ordinary share (cents)

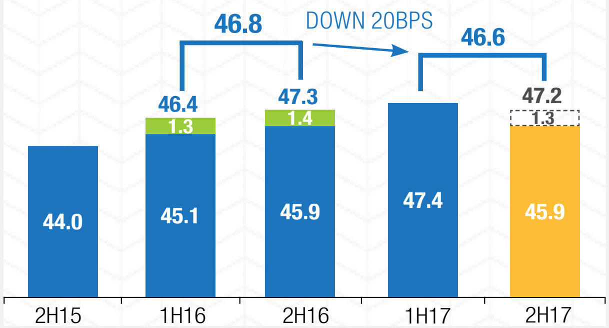


Special dividend

Cash Net Interest Margin ('NIM') (%)

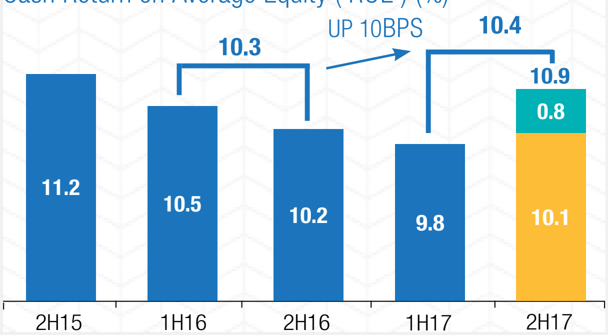


Cash Cost to Income ('CTI') (%)



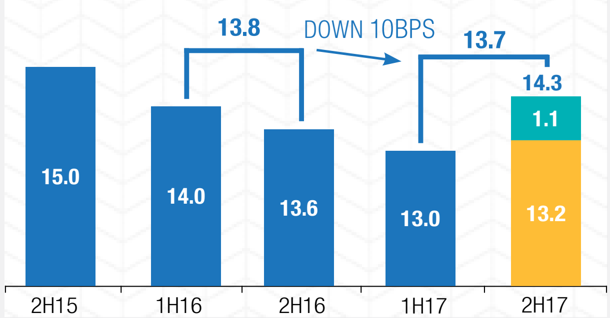
Restructuring
Impact of disposal of vendor finance entity

Cash Return on Average Equity ('ROE') (%)



Impact of disposal of vendor finance entity

Cash Return on Average Tangible Equity ('ROTE') (%)



Impact of disposal of vendor finance entity

Directors' Report

For the year ended 31 August 2017

1.2 Group Highlights (continued)

CASH EARNINGS AFTER TAX

$378m

Increased by 5 per cent on the prior year. $362m excluding the impact of the disposal of a vendor finance entity

CASH NET INTEREST MARGIN

1.87%

Down 7bps over the prior year driven by challenging market dynamics, including a lower yield curve and higher funding costs

OPERATING EXPENSES

$513m

1% increase in underlying expense profile while investing in technology and expanding new business lines

LOAN IMPAIRMENT EXPENSE

$48m

Down 5bps to 11bps of lending and a 28 per cent reduction over the prior year

COMMON EQUITY TIER 1

9.39%

Increase of 39bps for the year through strong organic capital generation

DIVIDENDS (1)

FINAL & INTERIM $0.76

SPECIAL $0.08

(1) One-off DRP suspension

BOQ delivered a five per cent increase in cash earnings to $378 million and a four per cent increase in Statutory Net Profit after Tax to $352 million for the 2017 financial year. This result was achieved in a difficult operating environment, while a significant transformation of the business was underway.

The first half of the year was characterised by challenges in the external market, which hampered revenue growth through lower asset balances and net interest margin. These headwinds eased in the second half of the year, with improvements in both net interest margin and lending growth. Meanwhile the business continued to focus on managing expenses and risks, which kept underlying expense growth for the year below one per cent and resulted in a further reduction in loan impairment expense.

The result includes a $16 million profit on the disposal of a vendor finance entity in the second half, following the vendor's decision to exercise its contractual option to acquire the business. This disposal effectively brings forward future earnings on the disposed portfolio into BOQ's 2017 financial year and as such is a non-recurring item. The disposal created a capital gain which was sheltered by pre-existing capital losses that had not previously been taken to account.

Lending growth of two per cent or $0.7 billion was achieved in the 2017 financial year. The second half saw a return to growth in the BOQ Commercial and BOQ Finance channels as BOQ's strategy of targeting defined niche sectors delivered positive results. While mortgage growth has been flat for the year, two per cent annualised growth was achieved in the second half as the Virgin Money (Australia) ('VMA' or 'Virgin Money') and BOQ Specialist mortgage offerings continued to produce strong results.

Net interest margin was down seven basis points to 1.87 per cent for the full year, but increased five basis points in the second half to 1.90 per cent. Higher term deposit rates contributed to the fall in margin in the first half, but these rates improved in the second half which provided support to the margin, together with home loan pricing changes.

Operating expenses were down one per cent from the prior year to $513 million, with restructuring costs of $15 million that were incurred in the prior year. Excluding this, operating expenses increased by one per cent. This included a $10 million increase in IT software amortisation expense as BOQ continues to deliver strategic initiatives and pursue its transformation agenda. Since the 2016 announcement of the program to reshape its operating model and organisational structure, BOQ has continued to improve internal processes and deliver efficiency improvements. This has enabled the Bank to invest in new channels, with that investment being absorbed within the cost profile.

Further improvement in asset quality was evident across the portfolio. Loan impairment expense was 28 per cent lower at $48 million in 2017, or a reduction of five basis points to 11 basis points of gross loans and advances. The second half result of ten basis points of gross loans and advances is a particularly strong result. BOQ achieved good results in credit quality metrics across the portfolio as arrears remained stable, while impaired assets were lower.

During the year BOQ continued to strengthen its balance sheet with strong capital generation enabling an increase in the Common Equity Tier 1 ratio ('CET1') of 39 basis points to 9.39 per cent. Impending changes to the regulatory standard APS120 *Securitisation* (that come into effect on 1 January 2018) and the estimated reduction of the requirement for the Bank's general reserve for credit losses ('GRCL') upon implementation of a new collective provisioning model planned for the first half of 2018, are expected to increase CET1 by a further 20 to 25 basis points. This positions BOQ very well for evolving regulatory capital requirements.

The Board has determined to pay a final dividend of 38 cents per ordinary share fully franked. The total ordinary dividend for the year is 76 cents, flat on the 2016 financial year. The Board has also determined to pay a special dividend of 8 cents per ordinary share fully franked. The dividend reinvestment plan ('DRP') has been suspended for both the final and special dividends and will be reactivated on the next trading day after the payments are made.

Directors' Report

For the year ended 31 August 2017

1.3 Strategy

BOQ is a full service financial institution whose primary function is gathering deposits and lending. It is listed on the Australian Securities Exchange ('ASX') and regulated by the Australian Prudential Regulation Authority ('APRA') as an authorised deposit-taking institution ('ADI'). It is one of the top 100 companies by market capitalisation on the ASX.

BOQ was established in 1874 as the first Permanent Building Society in Queensland. It has evolved into a national bank with a network of retail branches, brokers and brands spanning every state and territory in Australia.

BOQ aims to build a differentiated position in the Australian financial services sector by demonstrating to customers that "It's Possible to Love a Bank". BOQ's corporate strategy is to focus on niche customer segments that value a more intimate banking relationship than they receive from the major banks. BOQ is one of Australia's leading regional banks, and one of the few not owned by one of the major banks. Most of BOQ's branches are run by local Owner Managers, meaning the person running the branch owns the branch. As small business owners, Owner Managers know what it means to deliver personal service. Through its specialists from niche commercial segments including corporate healthcare & retirement living, hospitality and agribusiness, BOQ provides a level of support to business banking customers rarely offered by the major banks.

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. For more information on BOQ's approach to sustainability and its key sustainability issues, please visit the sustainability section of its website (http://www.boq.com.au/about-sustainability.htm).

Information on how BOQ continues to address its economic, social, environmental and governance risks can be found in BOQ's Corporate Governance Statement available on the corporate governance page of its website (http://www.boq.com.au/aboutus_corporate_governance.htm).

BOQ's corporate strategy is delivered through its four strategic pillars: Customer in Charge; Grow the Right Way; There's Always a Better Way; and Loved Like No Other.

Customer in Charge is about improving customers' experience and expanding BOQ's avenues for growth by putting customers in charge of when, where and how they choose to engage with BOQ. This is regardless of whether they come into a branch, use online services, call on the phone or buy products through a third party intermediary.

BOQ's products, including Virgin Money home loans, are distributed by more than 7,500 accredited brokers, making the Bank more accessible to customers who prefer to use brokers. In FY17, Virgin Money launched a website that improves customers' digital experience by personalising content. BOQ will roll out a similar upgrade early next calendar year. The Bank also continued to modernise other customer-facing channels by upgrading its branch fleet of ATMs.

Grow the Right Way is about building a strong and profitable business by making the right decisions about where and how to grow. This includes focusing on niche customer segments that value an intimate banking relationship. This year, BOQ expanded its offering to niche segments through the acquisition of Centrepoint Alliance Premium Funding Pty Ltd ('BOQF Cashflow Finance') to create a new Cashflow Finance team within BOQ Finance, boosting the Bank's specialist skills. BOQ also further diversified its sources of funding with the launch of the first conditional pass-through covered bond program by an Australian bank. BOQ continued its conservative approach to lending, which has given it a high quality portfolio. As existing franchise agreements expire, BOQ is moving Owner Managers onto a new balanced scorecard agreement that includes a wider range of metrics, such as customer and compliance measures.

There's Always a Better Way is about BOQ's commitment to making systems and processes simpler, faster and smarter. The aim is to improve efficiency, reduce costs and deliver better customer service. This year, BOQ continued to digitise its lending platforms by making improvements to retail, commercial and lease management lending systems. Increased productivity across the Group enabled it to achieve its one per cent underlying expense growth target for FY17. BOQ also introduced investment and change management frameworks that enabled it to respond quickly to emerging opportunities.

Loved Like No Other is about how BOQ maintains positive stakeholder relationships by living its values, creating a place where people love to work and contributing to the communities in which it operates. These are just some of the things BOQ does to prove "It's Possible to Love a Bank".

This year BOQ reinforced its commitment to ethical conduct through an industry leading commitment to the Banking and Finance Oath. The Bank also built on its internal ethics training and conduct reporting, and introduced a range of team based initiatives to embed company values and drive a culture of continuous improvement. It continued to demonstrate its commitment to a diverse and inclusive workforce by making significant progress on its reconciliation journey.

By continuing to focus on the four 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.

Directors' Report

For the year ended 31 August 2017

1.4 Risk and Regulatory Developments

The financial services industry continues to face heavy scrutiny from the Federal Government, regulators, investors and consumers. Over the past 12 months, there has been a significant increase in regulatory consultations, inquiries and industry reviews which has led, or is leading to, a number of changes that could impact BOQ. The key areas of reform and areas of increased risk focus are outlined below.

Regulatory developments

Productivity Commission inquiry into competition in the Australian financial system

The Productivity Commission ('Commission') is undertaking an inquiry into competition in the Australian financial system. The Commission will review competition with a view to improving consumer outcomes, the productivity and international competitiveness of the financial system and economy more broadly, and supporting ongoing financial system innovation, while balancing financial stability objectives. The Commission will issue a draft report in early 2018 and will provide its final report to the Government by July 2018.

Banking Executive Accountability Regime

As part of the 2017-18 Budget, the Federal Government announced that it will legislate to introduce a new Banking Executive Accountability Regime ('BEAR'). The intention of BEAR is to enhance the responsibility and accountability of banks and their directors and senior executives.

The Federal Government intends to introduce the Bill to establish the BEAR when Parliament resumes on 16 October 2017 and has proposed a commencement date of 1 July 2018.

Australian Financial Complaints Authority

In 2016, the Federal Government undertook a review into the external dispute resolution and complaints framework in financial services. As an outcome of this review, a new 'one-stop-shop' for external dispute resolution ('EDR') – the Australian Financial Complaints Authority – will be established with a proposed commencement date of 1 July 2018.

BOQ also understands that the Federal Government proposes to introduce a compensation scheme of last resort. The objective of the scheme is to provide recourse for consumers with unpaid EDR determinations and who have exhausted all other avenues for recovery. BOQ understands that an announcement on the future of this scheme is expected before the end of 2017.

Australian Bankers' Association 'Better Banking' Program

In April 2016, the Australian Bankers' Association ('ABA') announced a six point plan to increase transparency and accountability, improve customer outcomes and build trust and confidence in banks. This plan has expanded into the 'Better Banking' program ('Program') with the delivery of industry-led initiatives to provide better products, better service and better culture for bank customers

The Program is well progressed and BOQ has implemented, or will be implementing, the following initiatives:

1) the recommendations from Mr Stephen Sedgwick AO's review into product based payments and commissions;

2) the revised Code of Banking Practice, incorporating the recommendations arising from the Australian Small Business and Family Enterprise Ombudsman's Small Business Loan Inquiry;

3) a Customer Advocate to support customers;

4) an updated Whistle-blower Policy to reflect the ABA's Guiding Principles on Improving Protections for Whistle-blowers; and

5) the ABA's Conduct Background Check Protocol.

APRA announcement of 'unquestionably strong' capital benchmarks

On 19 July 2017, the Australian Prudential Regulation Authority ('APRA') announced its assessment on the additional capital required for the Australian banking sector to have capital ratios that are considered 'unquestionably strong'. This followed the 2014 Financial System Inquiry ('FSI'), which endorsed the benefits of a strong and well capitalised banking system and recommended that APRA set capital standards such that capital ratios of authorised deposit-taking institutions ('ADIs') are 'unquestionably strong'. The Australian Government subsequently endorsed this recommendation. APRA's Information Paper outlined their conclusions with respect to the quantum and timing of capital increases that will be required for Australian ADIs to achieve unquestionably strong capital ratios. APRA noted that for ADIs that use the standardised approach to credit risk, they concluded that it is necessary to raise minimum capital requirements by approximately 50 basis points from current levels to achieve capital ratios that would be consistent with the goal of 'unquestionably strong'. They also noted that many ADIs already hold a capital surplus substantially in excess of current minimum regulatory requirements, and will likely absorb this increase within their existing capital resources without any need to raise additional capital.

Macro Prudential Regulation

On 31 March 2017, APRA published a letter to all ADIs outlining further measures to reinforce sound residential mortgage lending practices. In this letter, APRA outlined that it expects ADIs to:

- limit the flow of new interest-only lending to 30 per cent of new residential mortgage lending, and within that:
  - place strict internal limits on the volume of interest-only lending at loan-to-valuation ratios ('LVRs') above 80 per cent; and
  - ensure there is strong scrutiny and justification of any instances of interest-only lending at an LVR above 90 per cent;
- manage lending to investors in such a manner so as to comfortably remain below the previously advised benchmark of 10 per cent growth;
- review and ensure that serviceability metrics, including interest rate and net income buffers, are set at appropriate levels for current conditions; and
- continue to restrain lending growth in higher risk segments of the portfolio (e.g. high loan-to-income loans, high LVR loans and loans for very long terms).

This follows a similar letter to all ADIs in December 2014, in which APRA indicated that growth in an ADI's portfolio of investor lending above a benchmark of 10 per cent would be viewed as a cause for supervisory action, including the consideration of increased capital requirements.

Directors' Report

For the year ended 31 August 2017

1.4 Risk and Regulatory Developments (continued)

Basel Committee on Banking Supervision - Basel III reforms

Following the global financial crisis, the Basel Committee on Banking Supervision ('Basel Committee') has been considering a range of reforms to the Basel III regulatory framework. As part of this, on 10 December 2015, the Basel Committee released the second consultative document on 'Revisions to the Standardised Approach for credit risk', which forms part of the their broader review of the capital framework to balance simplicity and risk sensitivity, and to promote comparability by reducing variability in risk-weighted assets across banks and jurisdictions.

On 3 March 2017, the Basel Committee's stated that its members reiterated their broad support for the key features of the Basel III reforms, which include revisions to the risk-weighted asset framework. The differences between members, where they remain, have narrowed and work continues to reach an agreement. While the finalisation of Basel III will take longer than originally expected, the Basel Committee has stated that it remains determined to reach agreement on the remaining elements, and recognises the importance of providing clarity and certainty to all market participants.

Net Stable Funding Ratio ('NSFR')

On 20 December 2016, APRA released the final revised Prudential Standard *APS 210 Liquidity* ('APS 210') and Prudential Practice Guide *APG 210 Liquidity* ('APG 210') which incorporates, among other things, the NSFR requirements for some ADIs.

APRA's objective in implementing the NSFR in Australia for ADIs that are subject to the Liquidity Coverage Ratio ('LCR'), implemented in 2015, is to strengthen the funding and liquidity resilience of these ADIs.

The NSFR encourages ADIs to fund their activities with more stable sources of funding on an ongoing basis, and thereby promotes greater balance sheet resilience. In particular, the NSFR should lead to reduced reliance on less-stable sources of funding, such as short-term wholesale funding, that proved problematic during the global financial crisis. The new APS 210 will commence on 1 January 2018.

Areas of increased risk focus

Ethics & Business Conduct

The conduct of the financial services industry has been under increasing scrutiny with a range of regulatory investigations impacting not just the brand and reputation of the companies involved, but also heightening attention across the broader industry. Regardless of the outcome, these investigations incur a cost and a loss of value, so it's understandable that stakeholders want greater clarity on how ethics and business conduct are managed.

While it is not possible to control the actions of every individual within a company, strong management controls and a culture that values integrity go a long way to minimising the risk of adverse employee behaviour.

BOQ's values, together with its range of policies and frameworks are the foundational elements for how its people behave and are accountable for the decisions they make. BOQ is committed to ensuring an ethical and accountable behaviour across all staff within the Group and its strategic partners, which is supported through:

- Ongoing education of all staff in ethics and values that is being constantly reviewed and refreshed to ensure currency and focus;
- Dedicated Ethics & Security Committee comprised of Group Executive and Management who both review and make decisions on actual or alleged misconduct issues in addition analysing potential trends for future risks to the group;
- Appointment of a Customer Advocate who champions the voice of the customer and acts as the key internal arbitrator with a continual focus on the best interests of the customer and who is focused on minimising the likelihood of future complaints or incidents;
- Active participation in independent Industry Risk Culture Survey that benchmarks BOQ against peers around attitudes to risk and governance. The outcomes from the survey are then used to assist the ongoing development of risk and culture program across the group; and
- The reporting and monitoring of Risk Culture has continued to mature, with the ongoing enhancement of risk culture dashboards and the rollout of divisional operational risk committees that support good governance of both risk and culture.

Cyber & Business Resilience

Risk events that result from the external environment continue to be a major focus for all financial institutions and third parties that support us. The increase cyber-related attacks, environmental and weather events, pandemics or systems failures can significantly disrupt the systems and processes that enable us to protect our staff, customers and shareholders.

Across BOQ, both Cyber and Business Continuity are regarded as material business risks that are activity managed and monitored across the Group. Critical to BOQ's investment in Cyber and Business Resilience is its:

- Specialised and highly-experienced staff;
- Ongoing simplification of systems to reduce the point of potential compromise;
- Development of policies, processes and controls that adopt international and industry standards and best practices;
- Strategic partners, through education and the assessment of their systems and processes, that ensures they continue to maintain same level of resilience and security as BOQ; and
- Ongoing development of business continuity plans and responses through scenario based testing of systems and processes.

Directors' Report

For the year ended 31 August 2017

2. Group Performance Analysis

2.1 Income Statement and Key Metrics

	Year End Performance			Half Year Performance		
$ million	**Aug-17**	Aug-16	Aug-17 vs Aug-16	**Aug-17**	Feb-17	Aug-17 vs Feb-17
Net Interest Income	**926**	937	(1%)	**474**	452	5%
Non-Interest Income	**175**	173	1%	**95**	80	19%
Total Income	**1,101**	1,110	(1%)	**569**	532	7%
Operating Expenses	**(513)**	(520)	(1%)	**(261)**	(252)	4%
Underlying Profit	**588**	590	-	**308**	280	10%
Loan Impairment Expense	**(48)**	(67)	(28%)	**(21)**	(27)	(22%)
Profit before Tax	**540**	523	3%	**287**	253	13%
Income Tax Expense	**(162)**	(163)	(1%)	**(84)**	(78)	8%
Cash Earnings after Tax	**378**	360	5%	**203**	175	16%
Statutory Net Profit after Tax	**352**	338	4%	**191**	161	19%

		Year End Performance			Half Year Performance		
Key Metrics		**Aug-17**	Aug-16	Aug-17 vs Aug-16	**Aug-17**	Feb-17	Aug-17 vs Feb-17
Shareholder Returns							
Share Price	($)	**12.59**	10.55	19%	**12.59**	11.85	6%
Market Capitalisation	($ million)	**4,932**	4,020	23%	**4,932**	4,590	7%
Dividends per ordinary share (fully franked)	(cents)	**76**	76	-	**38**	38	-
Special dividend per ordinary share (fully franked)	(cents)	**8**	-	-	**8**	-	-
Cash Earnings basis							
Basic Earnings per Share ('EPS')	(cents)	**97.6**	95.6	2%	**52.1**	45.5	14%
Diluted EPS	(cents)	**93.9**	90.7	4%	**49.9**	43.7	14%
Dividend payout ratio (excluding special dividend)	(%)	**78.3**	79.9	(160bps)	**73.3**	84.1	(1080bps)
Dividend payout ratio (including special dividend)	(%)	**86.6**	79.9	670bps	**88.8**	84.1	470bps
Statutory basis							
Basic EPS	(cents)	**90.9**	89.8	1%	**49.1**	41.8	17%
Diluted EPS	(cents)	**87.8**	85.5	3%	**47.2**	40.3	17%
Dividend payout ratio (excluding special dividend)	(%)	**84.1**	85.1	(100bps)	**77.9**	91.4	(1350bps)
Dividend payout ratio (including special dividend)	(%)	**93.0**	85.1	(790bps)	**94.3**	91.4	290bps

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For the year ended 31 August 2017

2.1 Income Statement and Key Metrics (continued)

Key Metrics		Year End Performance Aug-17	Aug-16	Aug-17 vs Aug-16	Half Year Performance Aug-17	Feb-17	Aug-17 vs Feb-17
Profitability and efficiency measures							
Cash Earnings basis							
Net Profit After Tax	($ million)	**378**	360	5%	**203**	175	16%
Underlying Profit [1]	($ million)	**588**	590	-	**308**	280	10%
Net Interest Margin ('NIM')	(%)	**1.87**	1.94	(7bps)	**1.90**	1.85	5bps
Cost to Income Ratio	(%)	**46.6**	46.8	(20bps)	**45.9**	47.4	(150bps)
Loan Impairment Expense to Gross Loans and Advances ('GLA')	(bps)	**11**	16	(5bps)	**10**	13	(3bps)
Return on Average Equity	(%)	**10.4**	10.3	10bps	**10.9**	9.8	110bps
Return on Average Tangible Equity [2]	(%)	**13.7**	13.8	(10bps)	**14.3**	13.0	130bps
Statutory basis							
Net Profit After Tax	($ million)	**352**	338	4%	**191**	161	19%
Underlying Profit [1]	($ million)	**555**	563	(1%)	**294**	261	13%
NIM	(%)	**1.87**	1.93	(6bps)	**1.90**	1.85	5bps
Cost to Income Ratio	(%)	**49.6**	49.6	-	**48.5**	50.9	(240bps)
Loan Impairment Expense to GLA	(bps)	**11**	16	(5bps)	**10**	13	(3bps)
Return on Average Equity	(%)	**9.7**	9.7	-	**10.3**	9.0	130bps
Return on Average Tangible Equity [2]	(%)	**12.7**	13.0	(30bps)	**13.5**	11.9	160bps
Asset Quality							
30 days past due ('dpd') Arrears	($ million)	**470**	461	2%	**470**	468	-
90dpd Arrears	($ million)	**257**	234	10%	**257**	217	18%
Impaired Assets	($ million)	**192**	232	(17%)	**192**	210	(9%)
Specific Provisions to Impaired Assets	(%)	**55.1**	50.1	500bps	**55.1**	54.7	40bps
Collective Provisions to Risk Weighted Assets	(%)	**0.42**	0.50	(8bps)	**0.42**	0.49	(7bps)
Capital							
Common Equity Tier 1 Ratio	(%)	**9.39**	9.00	39bps	**9.39**	9.29	10bps
Total Capital Adequacy Ratio	(%)	**12.37**	12.29	8bps	**12.37**	12.57	(20bps)
Risk Weighted Assets ('RWA')	($ million)	**28,644**	28,054	2%	**28,644**	28,014	2%

(1) Profit before loan impairment expense and tax.

(2) Based on after tax earnings applied to average shareholders' equity (excluding preference shares and treasury shares) less goodwill and identifiable intangible assets (customer related intangibles/brands and computer software).

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For the year ended 31 August 2017

2.2 Net Interest Income

	Year End Performance			Half Year Performance		
$ million	**Aug-17**	Aug-16	Aug-17 vs Aug-16	**Aug-17**	Feb-17	Aug-17 vs Feb-17
Net Interest Income	**926**	937	(1%)	**474**	452	5%
Average Interest Earning Assets	**49,397**	48,421	2%	**49,607**	49,237	1%
Net Interest Margin	**1.87%**	1.94%	(7bps)	**1.90%**	1.85%	5bps

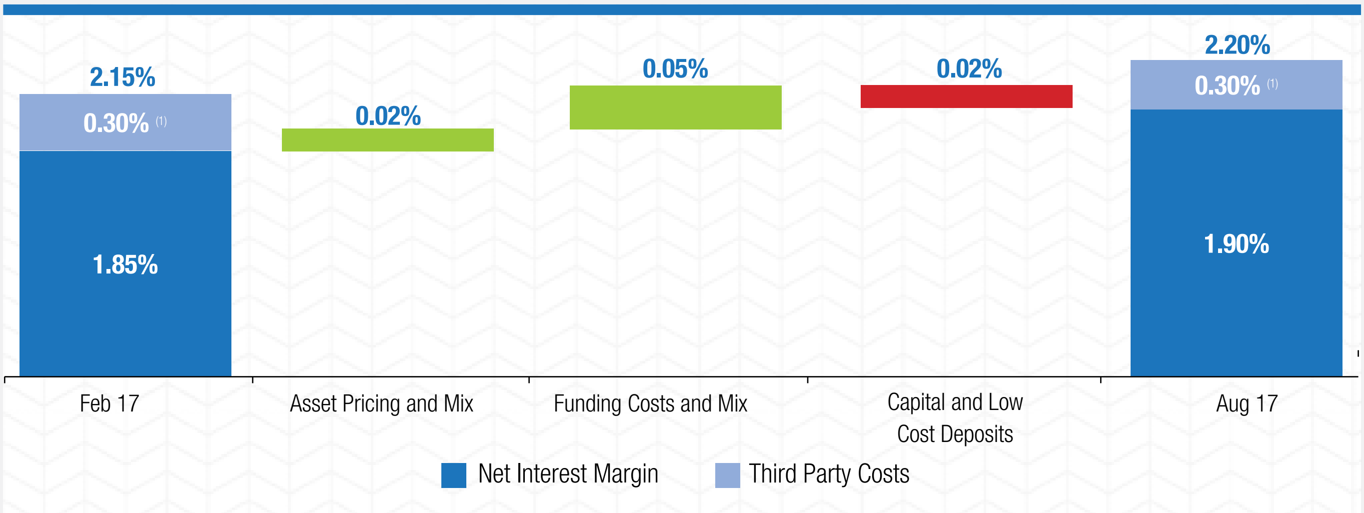
Net Interest Income decreased by one per cent or $11 million from FY16. This was driven by a seven basis point reduction in NIM over the year, which more than offset an increase in average gross loans of two per cent. The margin pressure was most pronounced in the first half, driven primarily by an increase in term deposit funding costs.

The second half performance was much improved, with Net Interest Income increasing by 4.9 per cent. This was due to an increase in average gross loans over the half of 0.8 per cent, a five basis point increase in net interest margin and a 1.6 per cent increase due to a higher number of days in the second half than the first.

The increase in NIM during the second half is largely attributable to improved funding costs, particularly in the term deposit market.

Repricing of lending rates on investor home loans (in both the first and second halves), as well as the August repricing of interest-only home loan rates, supported net interest margin in the second half. More additional flow on benefits are expected in the first half of 2018.

Net Interest Margin - February 2017 To August 2017



(1) Third party costs largely represent commissions to Owner Managers and brokers.

Underlying movements within the NIM between the first and second halves included the following:

Asset Pricing and Mix: Loan repricing actions contributed positively to NIM by five basis points. Lower rates being offered on new loans and repricing to retain existing customers had a four basis point contractionary effect. The acquisition of the BOQF Cashflow Finance portfolio contributed one basis point to NIM.

Funding Costs and Mix: Funding cost impacts increased NIM by five basis points. The price competition for customer deposits eased, reducing average funding costs and resulted in the majority of the impact in this element of the margin movement for the period. Wholesale funding costs remained flat while the impact of hedging the portfolio remained stable compared to the prior half.

Capital and Low Cost Deposits: The lower interest rate environment reduced the returns on BOQ's $4.2 billion replicating portfolio (covering BOQ's capital and low cost deposits) causing a two basis point reduction in NIM over the half. The ongoing impact should reduce significantly in FY18 to one basis point for the year. The earnings profile is expected to neutralise after that, based on future interest rates implied by the current interest rate curve.

Directors' Report

For the year ended 31 August 2017

2.3 Non-Interest Income

	Year End Performance			Half Year Performance		
$ million	**Aug-17**	Aug-16	Aug-17 vs Aug-16	**Aug-17**	Feb-17	Aug-17 vs Feb-17
Banking Income	**96**	99	(3%)	**50**	46	9%
Insurance Income	**21**	26	(19%)	**10**	11	(9%)
Other Income	**51**	30	70%	**33**	18	83%
Trading Income	**7**	18	(61%)	**2**	5	(60%)
Total Non-Interest Income	**175**	173	1%	**95**	80	19%

Non-interest income of $175 million is up one per cent on the prior year. The declining trend in banking income continued to present challenges as customers choose low or no fee products. Changes in the structure of interchange fees and the Bank's outsourced ATM fleet reduced transaction income by $6 million against the prior year. This was offset by increased income from foreign exchange and derivative sales to customers. The increase in banking income in the second half reflected the increase in commercial loan growth and associated fees charged on these products.

Other income increased $21 million during the year, driven mainly by a one-off benefit from the disposal of a vendor finance entity after the vendor partner exercised its option. An improved contribution from the Virgin Money third party product distribution business contributed $5 million to the result this financial year. The business achieved another year of strong growth in credit card receivables, growing 20 per cent on FY16.

The trading income contribution was down on the prior year as the Group held lower levels of traded liquidity instruments.

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

2.4 Insurance Overview

	Year End Performance			Half Year Performance		
$ million	**Aug-17**	**Aug-16**	Aug-17 vs Aug-16	**Aug-17**	Feb-17	Aug-17 vs Feb-17
Gross Written Premium (net of refunds)	**70**	62	13%	**35**	35	-
Net Earned Premium	**68**	70	(3%)	**34**	34	-
Underwriting Result	**17**	21	(19%)	**9**	8	13%
Other Insurance Income	**3**	4	(25%)	**1**	2	(50%)
Total Income	**20**	25	(20%)	**10**	10	-
Consolidation Adjustment	**1**	1	-	**-**	1	(100%)
Group Insurance Result	**21**	26	(19%)	**10**	11	(9%)

St Andrew's Insurance contributed $21 million to non-interest income, a $5 million reduction from the prior year.

Gross written premiums were up 13 per cent due to growth in the volume of regular premium policies, particularly from wholesale partnerships. Net earned premiums were down three per cent due to a rise in reinsurance coverage and associated reinsurance premiums.

The underwriting result was down $4 million to $17 million, due to a reduction in net earned premiums, and an increase in commissions and administration fees due to a higher mix of wholesale product volumes. Claims experience improved on the prior year and was in line with expectations.

The change in business mix to an increasing proportion of wholesale products, and the transition of the portfolio from previously more favourable terms with the business' historically largest distribution partner, has seen the earnings profile decline in recent periods. This trend has stabilised, as indicated by the half-on-half performance. Group insurance performance has been consistent across the past three halves, at between $10 million and $11 million per half. The insurance market is undergoing significant change and regulatory scrutiny, with new requirements contributing to an uncertain outlook.

Directors' Report

For the year ended 31 August 2017

2.5 Operating Expenses

	Year End Performance			Half Year Performance		
$ million	**Aug-17**	**Aug-16**	Aug-17 vs Aug-16	**Aug-17**	Feb-17	Aug-17 vs Feb-17
Employee Expenses	**257**	**253**	2%	**131**	126	4%
Occupancy Expenses	**42**	**43**	(2%)	**21**	21	-
General Expenses	**85**	**98**	(13%)	**46**	39	18%
IT Expenses	**108**	**92**	17%	**53**	55	(4%)
Other Expenses	**21**	**19**	11%	**10**	11	(9%)
Operating Model	**-**	**15**	(100%)	**-**	-	-
Total Operating Expenses [(1)]	**513**	**520**	(1%)	**261**	252	4%
Cost to Income Ratio	**46.6%**	**46.8%**	(20bps)	**45.9%**	47.4%	(150bps)
Cost to Income Ratio (excluding one-off costs) [(2)]	**46.6%**	**45.5%**	110bps	**45.9%**	47.4%	(150bps)
Number of employees (FTE) [(1)]	**2,031**	**1,959**	4%	**2,031**	1,953	4%

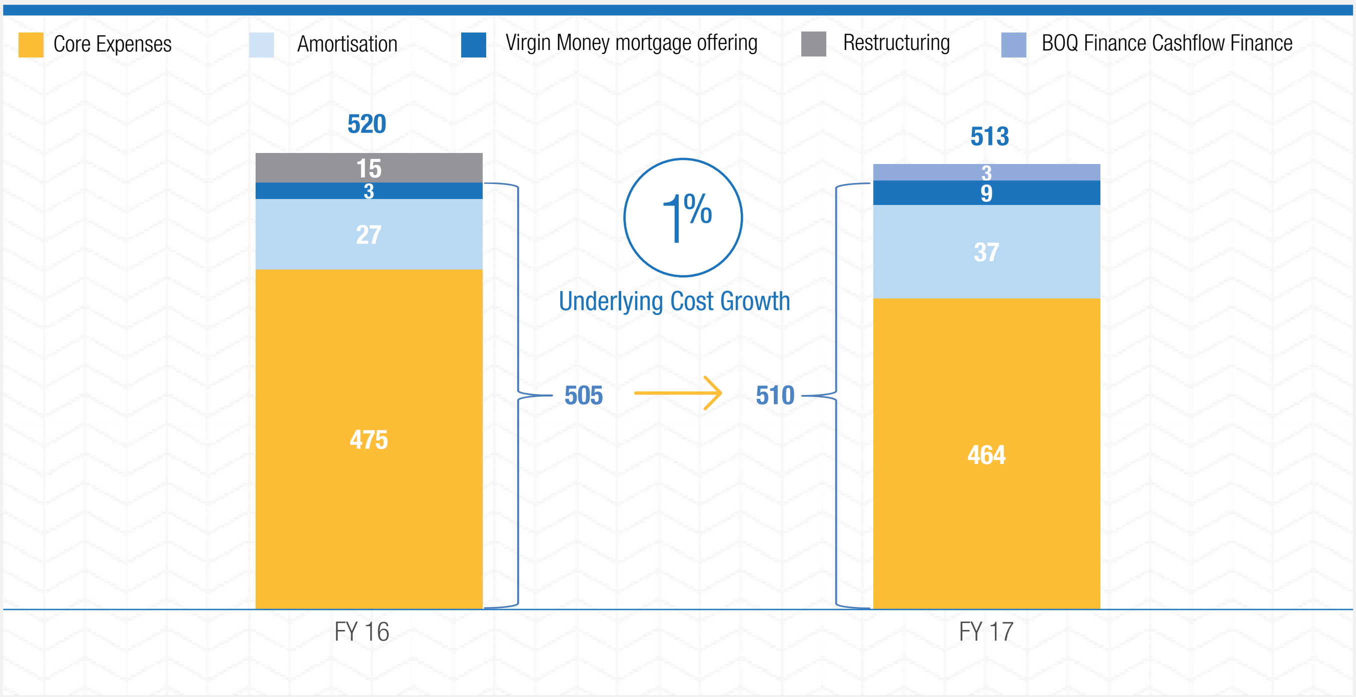
(1) FTE numbers and Operating Expenses exclude Virgin Money third party costs as the net result is included in Non-Interest Income. Expenses relating to the Virgin Money mortgage offering has been included in the above table.

(2) One-off costs are related to operating model restructuring ($15 million) in FY16 .

Operating expenses exclude expenses relating to the white label product distribution activities of Virgin Money, where the net result has been consolidated in non-interest income for the determination of cash earnings. Total expenses for the third party distribution activities of Virgin Money were $15 million for the year which was consistent with the prior period. A reconciliation of cash earnings to statutory profit is set out in section 4.1 (B).

Operating expenses decreased one per cent on the prior period to $513 million. On an underlying basis (excluding non-recurring operating model costs and the expenses related to the newly acquired BOQF Cashflow Finance business), operating expenses increased by one per cent. IT software amortisation expenses associated with the Group's transformation agenda resulted in an additional $10 million being incurred in 2017.

Operating expenses analysis ($m)



Directors' Report

For the year ended 31 August 2017

2.5 Operating Expenses (continued)

In 2016, BOQ announced a program to reshape its operating model and organisational structure through a number of productivity initiatives. This program has resulted in the establishment of a mortgage hub as the Group's centre of excellence for mortgage processing. Along with the release of the Retail Loan Origination platform in 2016, this means mortgages can be processed faster and at a lower cost.

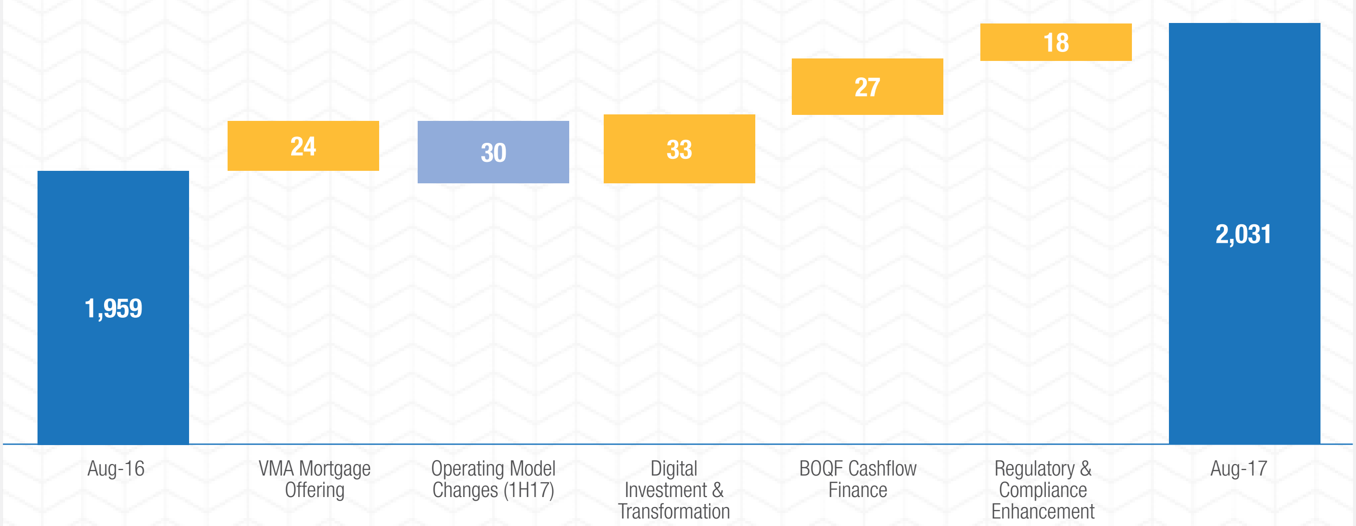
General expenses for 2017 benefited by $6 million compared to the prior year, as a result of changes to the structure of the Bank's outsourced ATM fleet, with a commensurate reduction in Non-Interest Income. The increase in second half general expenses is due to the timing of marketing programs between the first and second half.

IT expenses increased largely due to an increase of $10 million in the amortisation profile following a significant increase in investment spend during recent years.

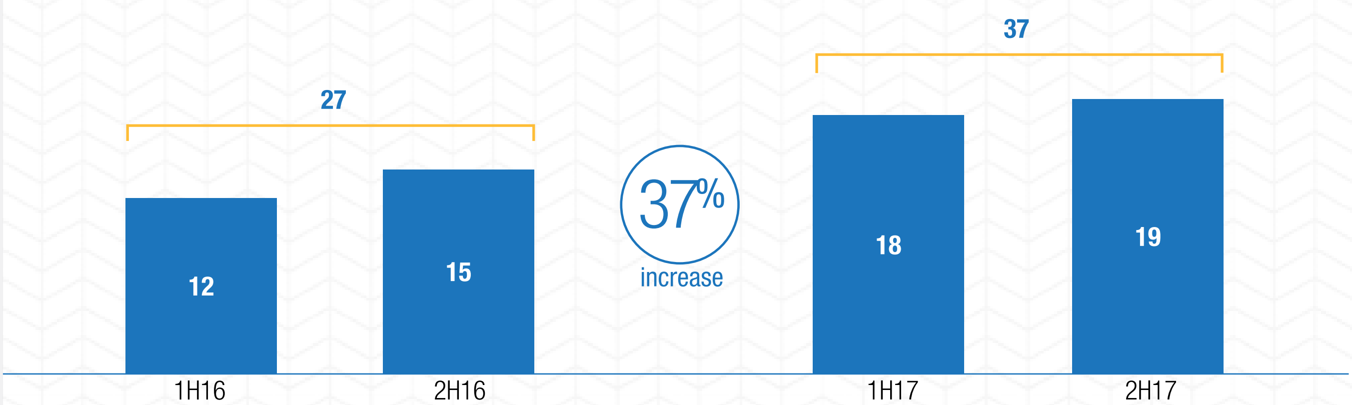
BOQ continues to look for opportunities to improve processes that enhance customer fulfillment and realise efficiencies that can be reinvested in accelerating the Group's digital transformation journey.

BOQ FTE FY17 vs FY16

Employee numbers have increased 4 per cent over the year. Further investment has been made to support the Virgin Money mortgage offering and to support the channel diversification strategy, as well as further BOQ's digital investment & transformation agenda.



IT intangible assets amortisation profile ($m)



Directors' Report

For the year ended 31 August 2017

2.6 Capitalised Investment Spend

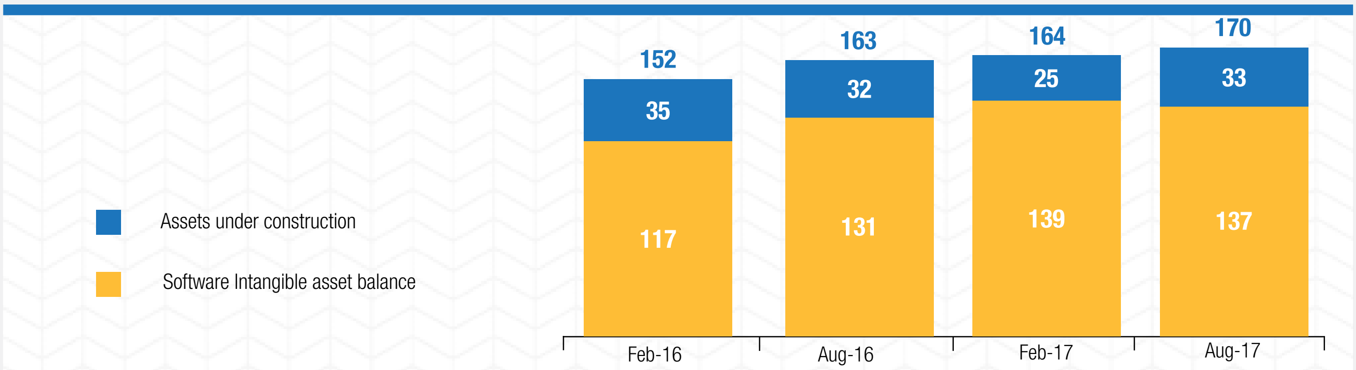
The Group's transformation program, aligned to its four strategic pillars, has required a number of significant investments during the past two years. In 2017, several key initiatives delivered noticeable improvements in fulfillment services and "time to yes" was reduced for both Retail and Business Banking customers. The initiatives include the release of a new Retail Lending Origination platform, a new leasing platform for the BOQ Finance business, and automation of manual, paper based processes as part of the commercial lending origination process. Other initiatives completed included the introduction of e-statements and the foundational implementation of an application programming interface ('API') gateway.

An award winning web experience platform for Virgin Money was launched during FY17. The platform builds on the successful launch of the Virgin Money Home Loan product in the second half of 2016. It has subsequently been released for BOQ Specialist customers and will be rolled out to BOQ branded customers in early calendar year 2018.

Current and future investment will focus on enhancing BOQ Group's core capabilities including the adoption of Australia's New Payments Platform, which will improve efficiency, extend digital banking capabilities, and continue to strengthen the Bank's risk management and control environment.

The transformation program accelerated in the second half with an increase in assets under construction. The rate of growth in the carrying value of IT intangible assets has slowed over time as the annual amortisation charge moves closer to the recent levels of initiative spend.

Carrying value of IT intangible assets ($m)[1]



(1) Prior year balances have been restated to exclude the fair value adjustments for software intangibles recognised on acquisition of subsidiaries.

2.7 Lending

Loan growth improved during the second half despite intense competition for principal and interest loans and a changing regulatory landscape. BOQ continued to balance margin and asset quality during the year, while continuing to focus on deposit acquisition. The strategy of targeting niche customer segments is delivering results with BOQ Specialist, BOQ Finance and niche segments in the BOQ branded commercial portfolio all posting solid growth. The new Virgin Money mortgage offering delivered strong growth over the year. The portfolio has now grown to more than $700 million.

BOQ continues to maintain prudent credit standards, along with robust origination validation requirements. The lending portfolio has low levels of arrears, an improving loan impairment expense profile and reduced impaired asset balances (refer section 3.1 Asset Quality).

	As at				
$ million	**Aug-17**	Feb-17	Aug-16	Aug-17 vs Feb-17[1]	Aug-17 vs Aug-16
Housing Lending	**27,850**	27,058	27,733	6%	-
Housing Lending - APS 120 qualifying securitisation [2]	**2,003**	2,446	2,155	(36%)	(7%)
	29,853	29,504	29,888	2%	-
Commercial Lending	**9,312**	8,906	8,818	9%	6%
BOQ Finance	**4,345**	4,285	4,142	3%	5%
Consumer	**307**	300	304	5%	1%
Gross Loans and Advances	**43,817**	42,995	43,152	4%	2%
Specific and Collective Provisions	**(227)**	(252)	(256)	(20%)	(11%)
Net Loans and Advances	**43,590**	42,743	42,896	4%	2%

(1) Growth rates have been annualised.

(2) Securitised loans subject to capital relief under APRA Prudential Standard APS 120 Securitisation.

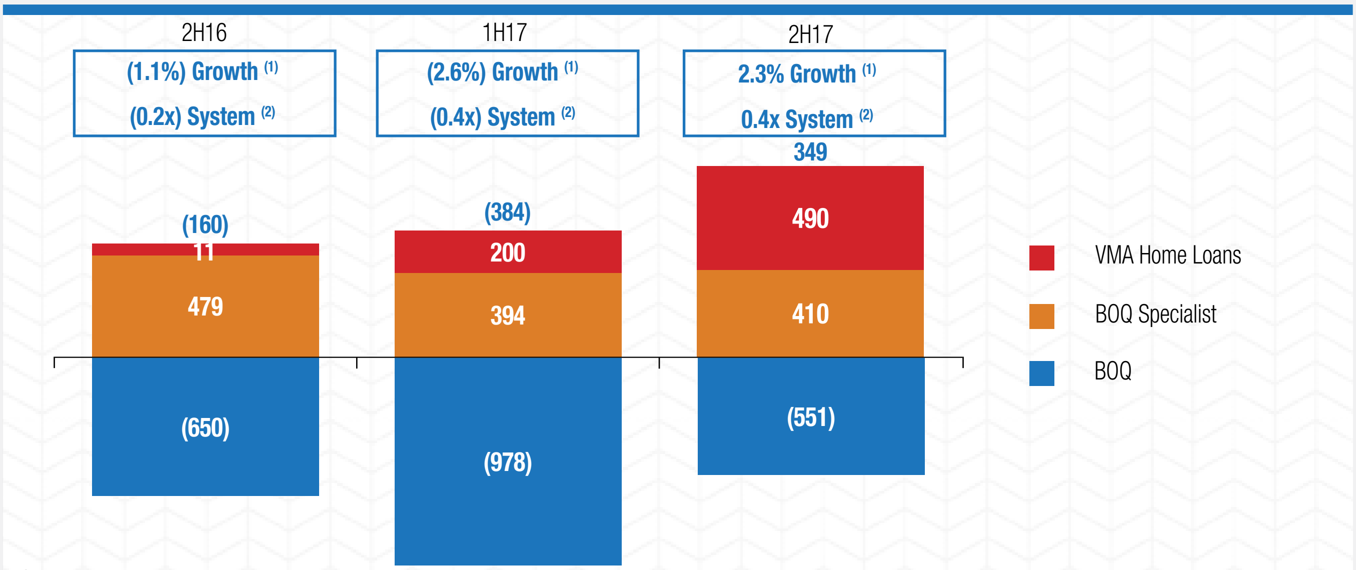
Directors' Report

For the year ended 31 August 2017

2.7 Lending (continued)

Growth in Gross Loans & Advances

Growth in Housing ($m)



(1) Growth rates have been annualised.

(2) Source: APRA Monthly Banking Statistics.

Housing Lending

Housing lending growth was constrained in 2017 due to competitive market factors and macro-prudential regulation changes. While growth recovered across the housing portfolio in the second half (up two per cent), this was below APRA system growth. BOQ maintained prudent credit settings and took a conservative approach to regulatory compliance, moving much earlier to adopt enhanced servicing, validation and responsible lending practices than many of its competitors. BOQ's relative under-representation in higher growth markets such as Sydney and Melbourne also constrained growth rates. The Bank continues to focus on building service and fulfillment capability through the new Retail Lending Origination platform and has centralised mortgage processing capabilities, which is delivering efficiencies and an improved customer experience.

BOQ Specialist continues to demonstrate strong momentum in mortgage growth to its niche, professional client base. This portfolio provides significant demographic and geographic diversification outside Queensland, and creates opportunities to meet the commercial lending needs of professionals throughout their lives. The first full year of the Virgin Money mortgage offering exceeded expectations and provided another channel for BOQ to engage with a new customer demographic. In the second half, Virgin Money grew by $490 million, taking the portfolio to over $700 million. This growth is supporting the Bank's geographic diversification, with the vast majority of the Virgin Money portfolio based outside of Queensland. Virgin Money continues to expand its broker presence, and next year it plans to complement this with a direct online channel and a broader product offering.

BOQ growth through the broker channel improved in the second half. Broker flows returned as other market participants implemented credit assessment, serviceability and validation practices more closely aligned to those of BOQ. This improved the Group's relative market proposition. The second half saw 28 per cent of mortgage settlements for the Group originate through the intermediary channels enhancing the geographic diversification of the portfolio with over half (52 per cent at the end of August) of the portfolio now comprising customers outside Queensland.

The branch footprint reduced by seven locations in the second half, mainly through branch consolidations. The program to optimise the network is now complete and ongoing refinement will reflect business as usual levels of branch re-alignment. Seven more ICON branches – including a refreshed flagship branch in the Brisbane CBD – were opened during the year, bringing the total to 19 ICON branches.

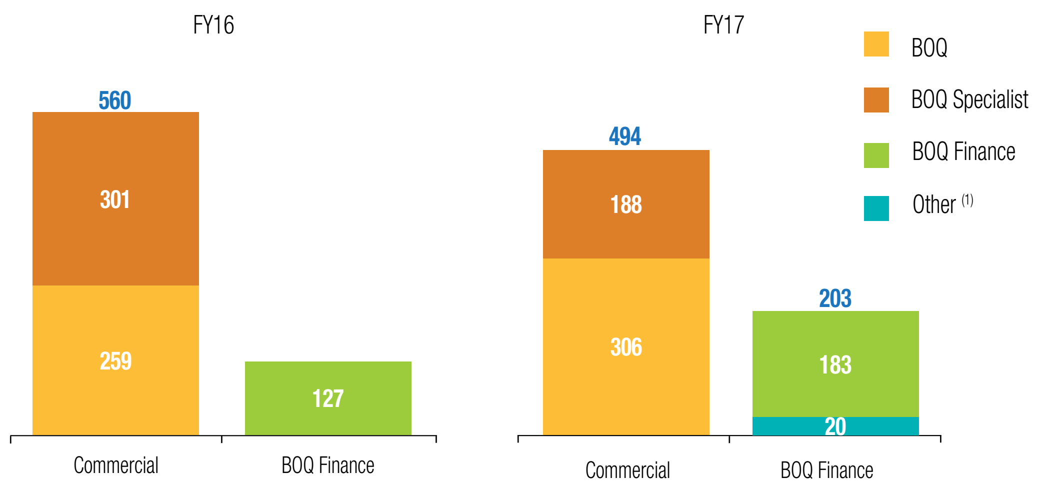
BOQ continues to build a more efficient network, with higher average footings per branch and stronger risk and compliance foundations. Engagement with the Owner Managers transitioning to the new franchise agreement has been strong. The agreement now covers 74 per cent of all Owner Managers and ensures the network is better aligned with the Bank's strategic objectives.

Directors' Report

For the year ended 31 August 2017

2.7 Lending (continued)

Growth in Commercial & BOQ Finance ($m)



	FY16		FY17	
	Commercial	BOQ Finance	Commercial	BOQ Finance (3)
Growth rate	6.8%	3.2%	**5.6%**	**4.4%**
System growth (2)	8.0%	2.7%	**6.3%**	**4.5%**
Growth vs System	0.8x	1.2x	**0.9x**	**1.0x**

(1) Reflects the impact of the acquisition of the BOQF Cashflow Finance business and the decrease from the disposal of a vendor finance entity.
(2) Based on APRA and AFIA (previously known as AELA) system growth statistics.
(3) Excludes the acquisition of BOQF Cashflow Finance and disposal of a vendor finance entity.

BOQ Business

The commercial lending portfolio grew by six per cent over the year to $9.3 billion. Growth in the second half was significantly stronger across all segments.

BOQ Specialist delivered commercial loan book growth of seven per cent in its core medical segment, maintaining an estimated 22 per cent market share in this segment. 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 graduate market and that is expected to sustain growth in the future as the lending requirements of these customers transition through housing and commercial lending needs over time.

BOQ Finance continues to provide strong, profitable asset growth, growing five per cent to $4.3 billion. The extension into a new offering of BOQF Cashflow Finance through the acquisition of Centrepoint Alliance's insurance premium funding business during the year has added a new dimension to the solid organic growth already achieved in this niche market. The BOQ Finance products now offered allow customers to access financing solutions across the supply chain.

The BOQ branded commercial portfolio grew strongly in the second half, by $306 million, following some large customer pay downs in the first half. The Bank's niche segment strategy is delivering, with the segments of corporate healthcare & retirement living, hospitality & tourism and agribusiness all delivering strong levels of new customer acquisition. Diversification has improved significantly, with the Queensland concentration in the commercial book now down to a comfortable level of 38 per cent.

The small business ('SME') lending strategy continued to evolve, with strong referral volumes from the branch network to business bankers delivering good results. The Bank's ongoing investment in the delivery of product and digital fulfillment capability, including the successful delivery of the Commercial Lending Origination Environment ('CLOE') in the first half, resulted in improved processes for customers.

Ongoing investment in developing financial markets services will support both the Bank's SME and commercial offerings in the future.

Directors' Report

For the year ended 31 August 2017

3. Business Settings

3.1 Asset Quality

During 2017, improvement in asset quality was evident across the portfolio. Loan impairment expense was down 28 per cent to $48 million, or 11 basis points of gross loans and advances. BOQ achieved improvements in arrears and impairments across all portfolios compared to the prior year and the Bank continues to maintain sector-leading provisioning coverage.

The Bank has originated approximately two thirds of its current housing portfolio during the past four financial years, under its revised risk appetite settings.

		Year End Performance			Half Year Performance		
		Aug-17	Aug-16	Aug-17 vs Aug-16	**Aug-17**	Feb-17	Aug-17 vs Feb-17
Loan Impairment Expense	($ million)	**48**	67	(28%)	**21**	27	(22%)
Loan Impairment Expense / GLA	bps	**11**	16	(5bps)	**10**	13	(3bps)
Impaired Assets	($ million)	**192**	232	(17%)	**192**	210	(9%)
30dpd Arrears	($ million)	**470**	461	2%	**470**	468	-
90dpd Arrears	($ million)	**257**	234	10%	**257**	217	18%
Collective Provision & GRCL / RWA	bps	**83**	91	(8bps)	**83**	90	(7bps)

The table above summarises BOQ's key credit indicators with comparison against August 2016 and February 2017:

- Loan impairment expense reduced by $19 million (28 per cent) to $48 million, reflecting strong credit management practices introduced in prior years. Improvement is evident across all portfolios from the prior year. This result included a large exposure impairment in the commercial portfolio totaling $16 million relating to a Central Queensland property developer and investor. This was a long term customer relationship that was identified as outside of risk appetite in 2012. It has been actively managed since, with limited options for exit. This was the last remaining large exposure of a sizeable cohort of legacy exposures identified in the 2012 asset quality review that has progressively been managed out of the portfolio. The completion of this five year program triggered a review of the adjustment made to the collective provision model that was made following the asset quality review conducted in 2012. This model adjustment was maintained at 2012 levels until a $14 million reduction was booked in the most recent half.
- Impaired assets were down by $40 million (17 per cent) to $192 million for the year. There were two impaired exposures greater than $5 million (three in FY16). The Central Queensland exposure noted above was the one new exposure recognised during this financial year. The other remaining exposure greater than $5 million moved to an unconditional contract awaiting settlement after balance date, in line with carrying value, that will further reduce impaired assets by $11 million.
- Ninety day arrears increased in the second half at a total portfolio level. The housing portfolio showed an increase in the 90 day arrears bucket, due to a continued softening of the economy and residential markets in Central Queensland, as well as some flow on effects from the significant weather event experienced in the region. The aggregate portfolio continued to perform well and the performance of the commercial portfolio was stable. BOQ Finance payment performance was very strong, with 30 day arrears down 39 per cent on the prior year, the lowest level in the past six years.

Directors' Report

For the year ended 31 August 2017

3.1 Asset Quality (Continued)

Loan Impairment Expense

	Year End Performance				Half Year Performance			
	Aug-17		Aug-16		Aug-17		Feb-17	
	Expense ($m)	Expense/GLA (bps)	Expense ($m)	Expense/GLA (bps)	Expense ($m)	Expense/GLA (bps)	Expense ($m)	Expense/GLA (bps)
Retail Lending	20	7	16	5	9	6	11	7
Commercial Lending	13	14	22	25	8	17	5	11
BOQ Finance	13	30	29	70	2	9	11	51
Underlying Loan Impairment Expense	46	10	67	16	19	9	27	13
Large commercial exposure impairment	16	4	-	-	16	7	-	-
Collective provision model adjustment	(14)	(3)	-	-	(14)	(6)	-	-
Total Loan Impairment Expense	48	11	67	16	21	10	27	13

The table above highlights improvement across the Group's portfolios on an underlying basis, excluding the impact of the large commercial exposure impairment and the reduction in the collective provision model adjustment discussed earlier. The BOQ Finance portfolio was the main driver of the reduction in the impairment expense as repayment performance remained strong during the period, resulting in a very low loss experience during the second half. This level of impairment expense in the BOQ Finance portfolio is not expected to be repeatable. The housing portfolio continues to benefit from the record low interest rate environment and a strong residential property market.

Impaired Assets

	As at				
$ million	Aug-17	Feb-17	Aug-16	Aug-17 vs Feb-17	Aug-17 vs Aug-16
Retail Lending	75	88	91	(15%)	(18%)
Commercial Lending	95	88	108	8%	(12%)
BOQ Finance	22	34	33	(35%)	(33%)
Total Impaired Assets	192	210	232	(9%)	(17%)
Impaired Assets / GLA	44bps	49bps	54bps	(5bps)	(10bps)

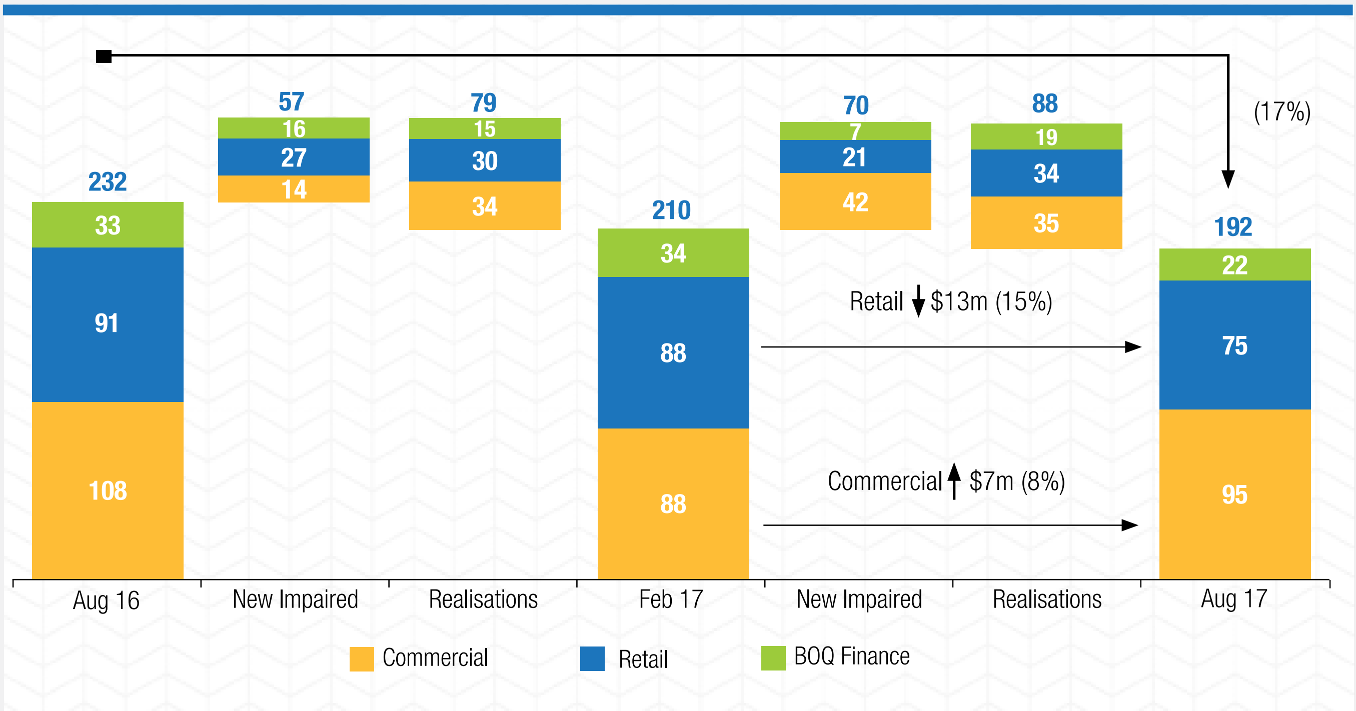
Impaired assets decreased by $40 million (17 per cent) to $192 million resulting in a 10 basis point improvement in the impaired asset to GLA ratio over the year to 44 basis points. The reduction in Retail and BOQ Finance is due to improved economic conditions combined with prudent risk settings, which led to a lower level of new impairments recognised in the second half. Commercial lending impaired assets decreased over the full year, but increased in the second half, due to one large exposure to a Central Queensland property developer and investor of $29 million that transitioned to impaired status. The commercial portfolio contains the Bank's only two impaired exposures greater than $5 million, with one totaling $11 million moving to unconditional contract after balance date, awaiting settlement. The following graph outlines the movements in impaired assets since August 2016.

Directors' Report

For the year ended 31 August 2017

3.1 Asset Quality (Continued)

Impaired Assets ($m)



Provision Coverage

Total provisions decreased by $29 million during the year. Specific provision coverage is at 55 per cent which is up five percentage points on the previous year. Collective provisions reduced over the year. A reduction to the collective provision model adjustment of $14 million was made to reflect the successful completion of a program established in 2012 to exit a cohort of legacy risk exposures that were identified as outside of risk appetite. This is further supported by significant improvement in credit quality.

	As at				
$ million	**Aug-17**	Feb-17	Aug-16	Aug-17 vs Feb-17	Aug-17 vs Aug-16
Specific Provision	**106**	115	116	(8%)	(9%)
Collective Provision	**121**	137	140	(12%)	(16%)
Total Provisions	**227**	252	256	(11%)	(13%)
GRCL	**81**	81	81	-	-
Specific Provisions to Impaired Assets	**55%**	55%	50%	-	500bps
Total Provisions and GRCL to Impaired Assets [(1)]	**179%**	175%	160%	400bps	1900bps
Total Provisions and GRCL to RWA [(1)]	**1.2%**	1.3%	1.3%	(10bps)	(10bps)

(1) GRCL gross of tax effect.

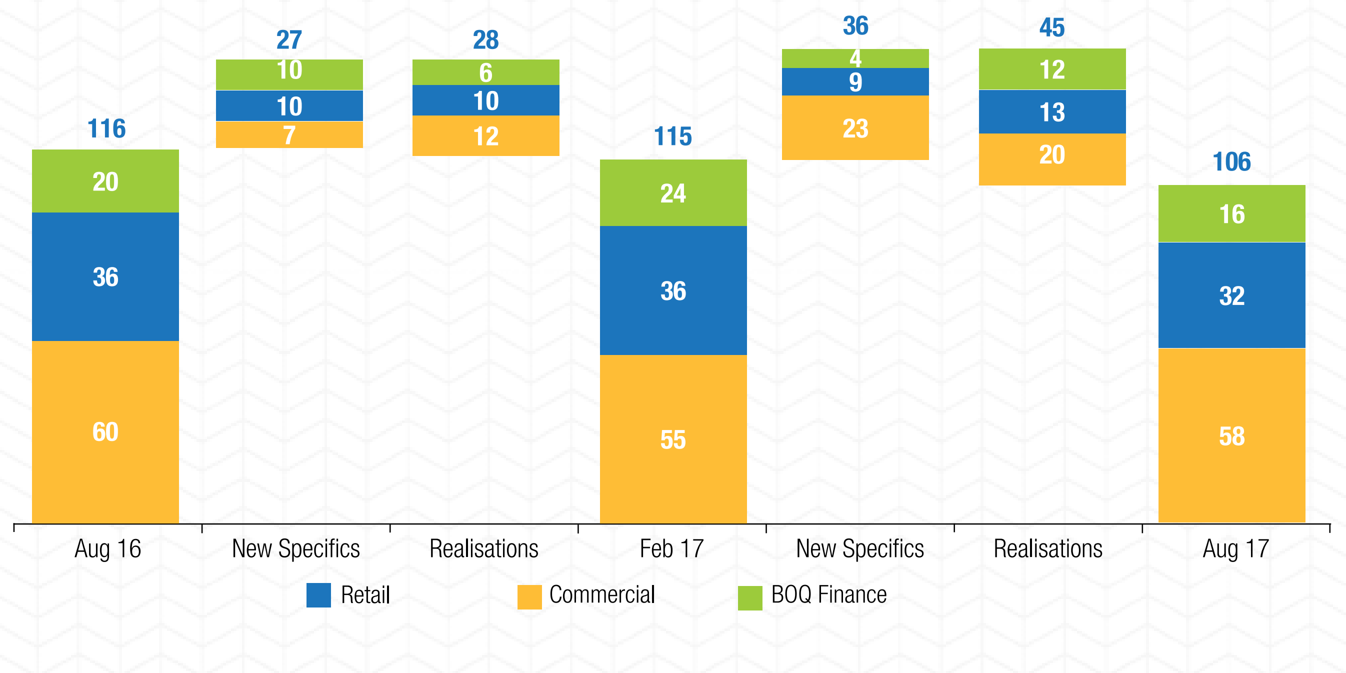
The Bank has been building a new collective provisioning model that is expected to be implemented in the first half of FY18. The model has been designed to incorporate the requirements of AASB 9 (that covers a number of areas other than provisioning). It will be formally adopted for the 2018 financial year. No material change to collective provisions is expected as a result of this change.

Directors' Report

For the year ended 31 August 2017

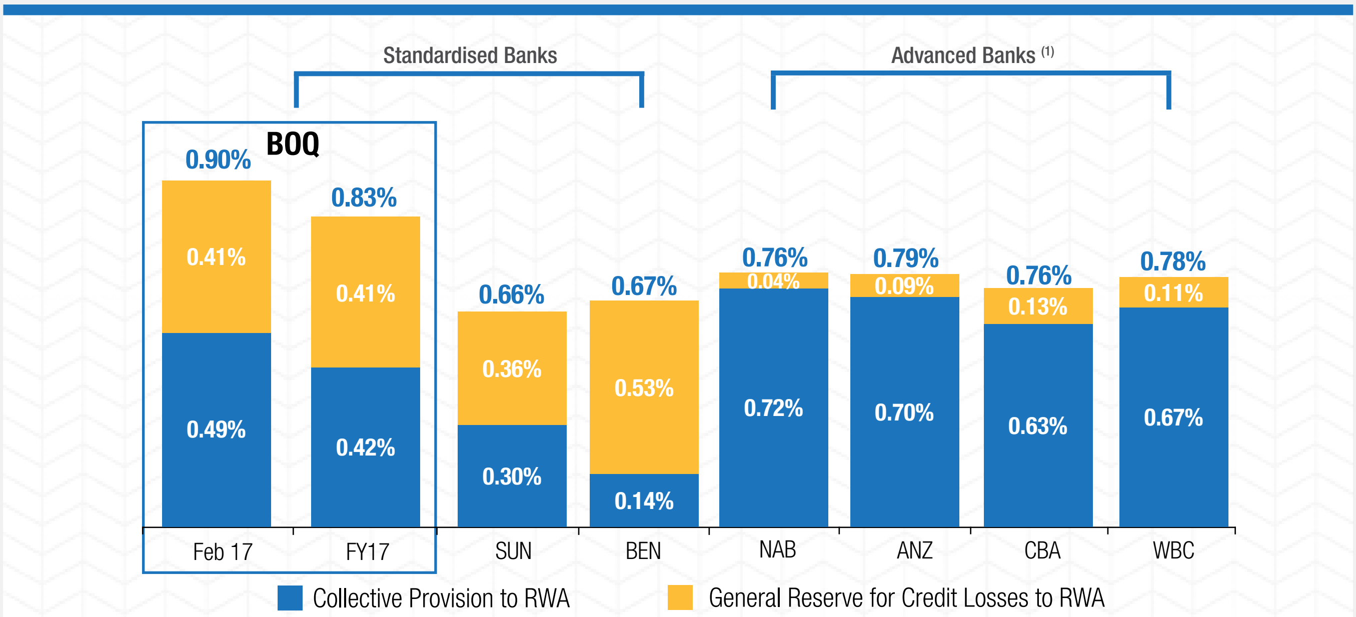
3.1 Asset Quality (Continued)

Specific Provisions ($m)



Collective Provision and GRCL/RWA vs Peers

The graph below provides BOQ's level of collective provisions and general reserve for credit losses ('GRCL') to risk weighted assets ('RWA') against the current levels of those of its peers, as published in their most recent financial reports. BOQ's coverage has dropped eight basis points over the year that includes a $14 million reduction in the collective provision model adjustment. BOQ remains prudently provisioned compared to industry peers.



(1) Advanced accredited approach to risk weightings causes coverage to appear higher on a relative basis to the standardised banks.

Directors' Report

For the year ended 31 August 2017

3.1 Asset Quality (Continued)

Arrears

Key Metrics	Portfolio Balance ($m) Aug-17	Aug-17	Feb-17	Aug-16	Aug-17 vs Feb-17	Aug-17 vs Aug-16
Total Lending - Portfolio balance ($ million)		**43,817**	42,995	43,152	2%	2%
30 days past due ($ million)		**470**	468	461	-	2%
90 days past due ($ million)		**257**	217	234	18%	10%
		Proportion of Portfolio				
30 days past due: GLAs		**1.07%**	1.09%	1.07%	(2bps)	-
90 days past due: GLAs		**0.59%**	0.50%	0.54%	9bps	5bps
By Product						
30 days past due: GLAs (Housing)	**27,618**	**1.02%**	0.98%	0.98%	4bps	4bps
90 days past due: GLAs (Housing)		**0.50%**	0.41%	0.47%	9bps	3bps
30 days past due: GLAs (Line of Credit)	**2,235**	**2.19%**	2.09%	1.93%	10bps	26bps
90 days past due: GLAs (Line of Credit)		**1.25%**	0.84%	1.02%	41bps	23bps
30 days past due: GLAs (Consumer)	**307**	**1.30%**	2.00%	1.97%	(70bps)	(67bps)
90 days past due: GLAs (Consumer)		**0.98%**	1.00%	1.32%	(2bps)	(34bps)
30 days past due: GLAs (Commercial)	**9,312**	**1.22%**	1.35%	1.23%	(13bps)	(1bps)
90 days past due: GLAs (Commercial)		**0.86%**	0.89%	0.81%	(3bps)	5bps
30 days past due: GLAs (BOQ Finance)	**4,345**	**0.47%**	0.65%	0.75%	(18bps)	(28bps)
90 days past due: GLAs (BOQ Finance)		**0.13%**	0.08%	0.13%	5bps	-

Retail Arrears

Housing arrears performance has remained in line with expectations. Low interest rates and relatively stable employment markets across most of the country continue to benefit mortgage customers. Weakness in the Central Queensland and Western Australian economies with higher under-employment and unemployment levels, as well as the lagged effect of the weather event in Queensland in the second half, had an impact on payment performance.

BOQ Business Arrears

Commercial arrears have been tracking at levels that demonstrate the solid credit characteristics of the portfolio. BOQ Finance arrears have remained low throughout the year, with 30 day arrears at their lowest levels in six years. Ninety day arrears remained low throughout the financial year, resulting in a lower loss experience for the leasing portfolio in the second half.

Directors' Report

For the year ended 31 August 2017

3.2 Funding and Liquidity

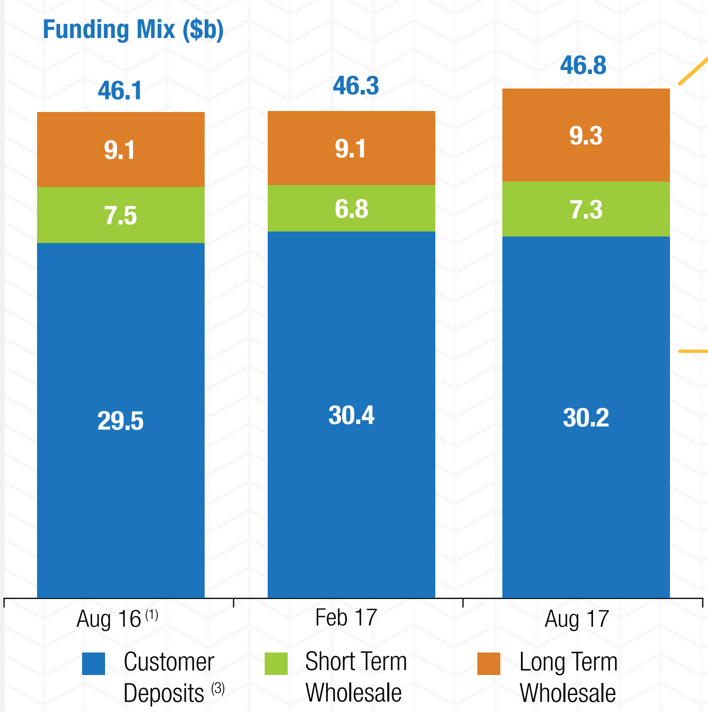
The funding strategy and risk appetite reflects the Group's business strategy and the current economic environment, and is managed to allow for scenarios that could impact the funding position. During the year, BOQ grew customer deposits by $0.6 billion, an increase of 2.2 per cent that materially, fully funded lending growth for 2017. BOQ's deposit to loan ratio rose by one percentage point to 69 per cent as at August 2017.

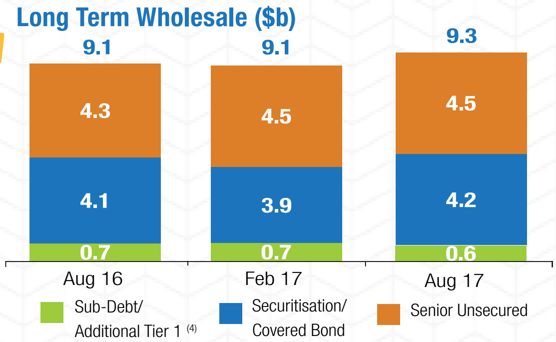
As part of an industry wide sector downgrade action, BOQ's Standard & Poor's ('S&P') credit rating was downgraded in May to BBB+. This reduced demand and increased the pricing required to maintain the Bank's funding position in the more rating sensitive segments of the wholesale and larger retail deposit markets. Moody's Investors Service undertook similar industry-wide downgrade action in June, however BOQ's A3 rating was retained. Following the positive Moody's outcome, active work with BOQ's funding counterparties in the wholesale and more rating sensitive elements of the retail deposit market re-established limits to levels largely equal to those pre-dating the S&P action.

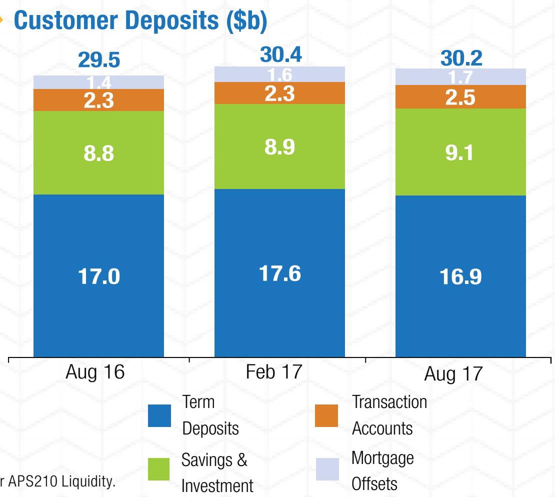
The increase in long-term wholesale funding of $200 million during the year was created predominantly through senior unsecured debt issuance and the inaugural covered bond issue, highlighting the Group's ability to build additional capacity, diversity and resilience into its funding programs in both domestic and offshore markets.

The combination of growth in customer deposits and long-term wholesale funding strengthened the Bank's core stable funding profile ahead of the net stable funding ratio ('NSFR') implementation at the start of 2018.

	As at				
$ million	Aug-17	Feb-17	Aug-16 [1]	Aug-17 vs Feb-17 [2]	Aug-17 vs Aug-16
Customer Deposits [2]	**30,190**	30,375	29,550	(1%)	2%
Wholesale Deposits	**6,979**	6,721	7,170	8%	(3%)
Total Deposits	**37,169**	37,096	36,720	-	1%
Borrowings	**9,651**	9,218	9,398	9%	3%
Other Liabilities	**1,049**	951	1,148	20%	(9%)
Total Liabilities	**47,869**	47,265	47,266	3%	1%







(1) August 2016 customer and wholesale deposits have been restated to reflect a reclassification to align to industry practice.

(2) Growth rates have been annualised.

(3) The classification of customer deposits is defined as all deposits excluding those from financial institutions as defined under APS210 Liquidity.

(4) Additional Tier 1 securities consist of Convertible Preference Shares ('CPS') and Wholesale Capital Notes.

Directors' Report

For the year ended 31 August 2017

3.2 Funding and Liquidity (continued)

BOQ's liquidity strategy and risk appetite are designed to ensure it has the ability to meet payment obligations as and when they fall due. To manage liquidity risk BOQ maintains a portfolio of unencumbered, high-quality liquid assets, giving the Bank a buffer to withstand a range of stress events, including those involving the loss or impairment of both unsecured and secured funding sources.

As at 31 August 2017, the liquidity coverage ratio ('LCR') was 132 per cent and the average for the quarter was 133 per cent, with an appropriate buffer held against prudential limits.

The Group's NSFR averaged 107 per cent during the period, positioning BOQ well to have a prudent buffer in place by 1 January 2018 when the regulatory standard comes into place. BOQ continues to take all reasonable steps to reduce its reliance on the committed liquidity facility ('CLF') and strengthen the NSFR by growing stable sources of funding, including customer deposits and long-term wholesale funding.

BOQ continues to diversify its holdings of Tier 1 high quality liquid assets ('HQLA1'), including deposits with central banks, and Australian Commonwealth Government and Semi-Government securities.

	As at				
	Aug-17	Feb-17	Aug-16	Aug-17 vs Feb-17	Aug-17 vs Aug-16
Customer deposit funding	**81%**	82%	79%	(1%)	2%
Wholesale deposit funding	**19%**	18%	21%	1%	(2%)
Total GLA's (net of specific provision) ($ million)	**43,711**	42,880	43,036	2%	2%
Deposit to Loan Ratio	**69%**	71%	68%	(2%)	1%

Funding

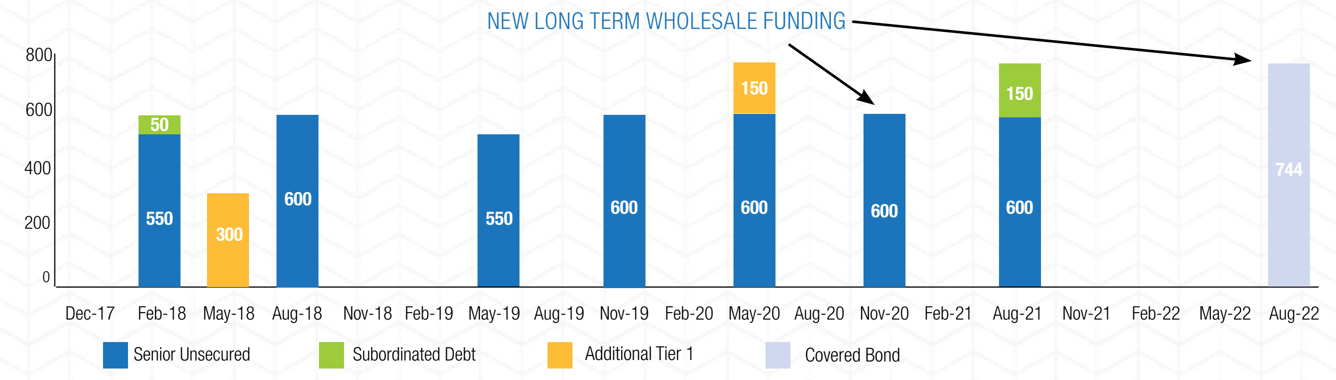
BOQ has increased the long-term wholesale funding portfolio over the year using a variety of wholesale debt products. The Bank focuses on three main elements to meet its objectives – capacity growth, resilience and diversity – while minimising the cost of funds and maintaining its ability to take advantage of opportunities in the most appropriate markets.

A new AUD $3.25 billion Conditional Pass-Through Covered Bond program was established in May 2017. It will complement all aspects of BOQ's wholesale debt funding strategy. The inaugural EUR500 million, five year transaction was settled in July.

Major Maturities

During the past year, BOQ maintained its senior unsecured credit curve with a new three-year issue in May 2017, this was in addition to the four-year transaction executed in the first half. BOQ also took advantage of the private placement market, raising additional funding both domestically and through its Euro Medium Term Note program. The five-year covered bond transaction extended the tenor of the wholesale portfolio while offering diversification benefits. The Bank also accessed the residential mortgage-backed securities ('RMBS') markets in February 2017, issuing a $1 billion capital relief transaction.

Major Maturities ($m) (1) (2) (3)



(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 instruments at the scheduled call date is at BOQ's option and is subject to obtaining prior written approval from APRA.

Directors' Report

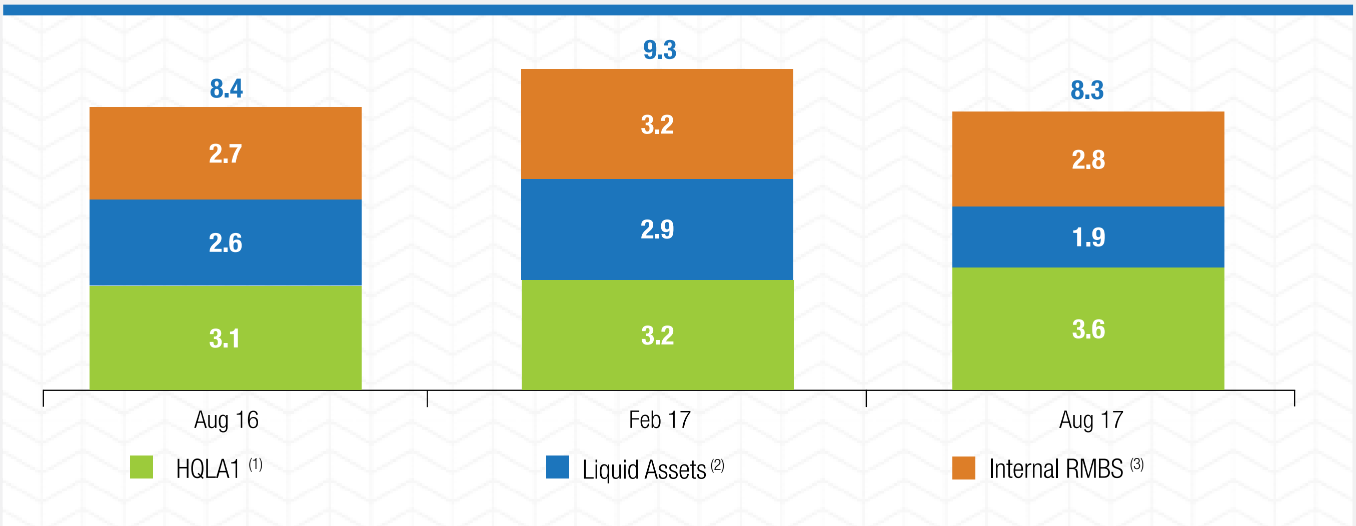
For the year ended 31 August 2017

3.2 Funding and Liquidity (continued)

BOQ maintains a portfolio of repurchase agreement eligible, diversified and marketable high quality liquid assets ('HQLA1') to facilitate balance sheet liquidity and meet internal and external requirements. The credit quality of the liquid asset portfolio continued to improve through 2017 as the Bank's HQLA1 holdings increased.

BOQ was granted a $2.5 billion RBA Committed Liquidity Facility for the 2017 calendar year, enabling it to meet its minimum regulatory requirement of greater than 100 per cent LCR.

Liquidity Composition - Basel III ($b)



(1) HQLA1 includes government and semi-government securities, cash held with RBA and notes & coins.

(2) Liquid Assets include all unencumbered RBA repurchase eligible liquid assets able to be pledged as collateral to the RBA under the CLF.

(3) Internal RMBS are able to be pledged as collateral to the RBA CLF.

3.3 Capital Management

Capital Adequacy

	As at				
$ million	**Aug-17**	Feb-17	Aug-16	Aug-17 vs Feb-17	Aug-17 vs Aug-16
Common Equity Tier 1 ('CET1')	**2,690**	2,602	2,524	3%	7%
Additional Tier 1 Capital	**450**	450	450	-	-
Total Tier 2	**402**	469	474	(14%)	(15%)
Total Capital Base	**3,542**	3,521	3,448	1%	3%
Total RWA	**28,644**	28,014	28,054	2%	2%
Common Equity Tier 1 Ratio	**9.39%**	9.29%	9.00%	10bps	39bps
Total Capital Adequacy Ratio	**12.37%**	12.57%	12.29%	(20bps)	8bps

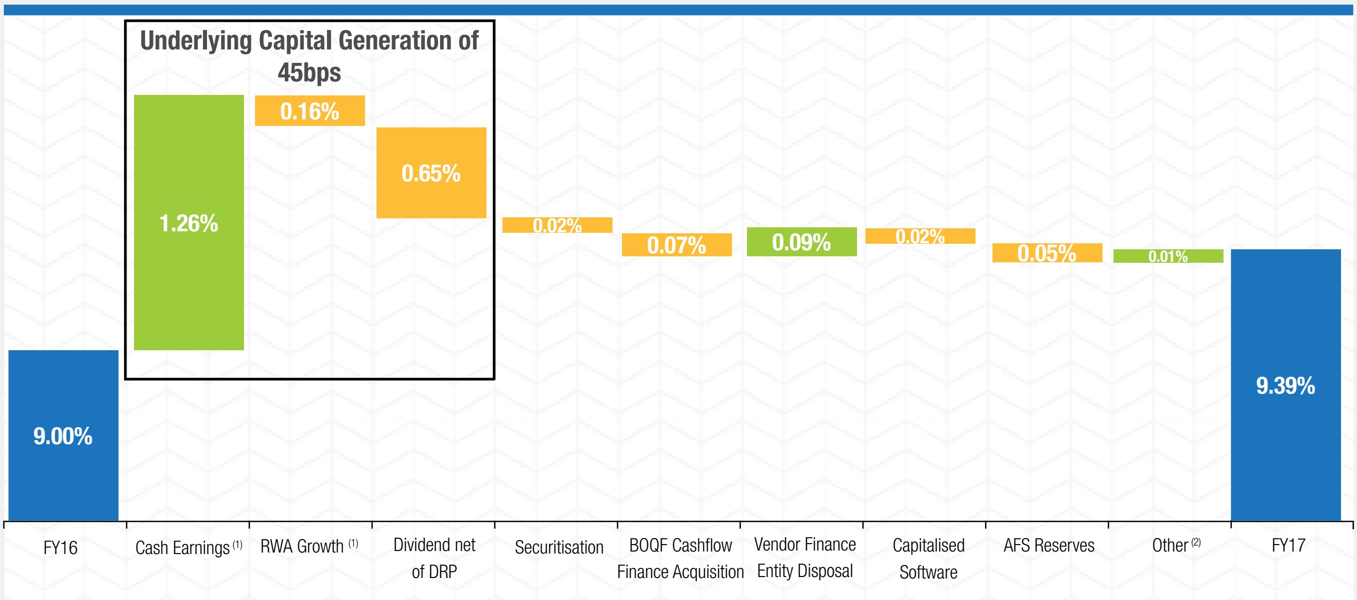
The Group's CET1 ratio increased by 39 basis points during the year to 9.39 per cent. Underlying capital generation of 45 basis points is shown on the following graph. This is a very strong level of capital generation, however, reflects the lower asset growth over the year. Reserve movements, reduced second half securitisation activity, the acquisition of BOQF Cashflow Finance and expenditure on capitalised software drove the remaining capital utilisation during the year.

Directors' Report

For the year ended 31 August 2017

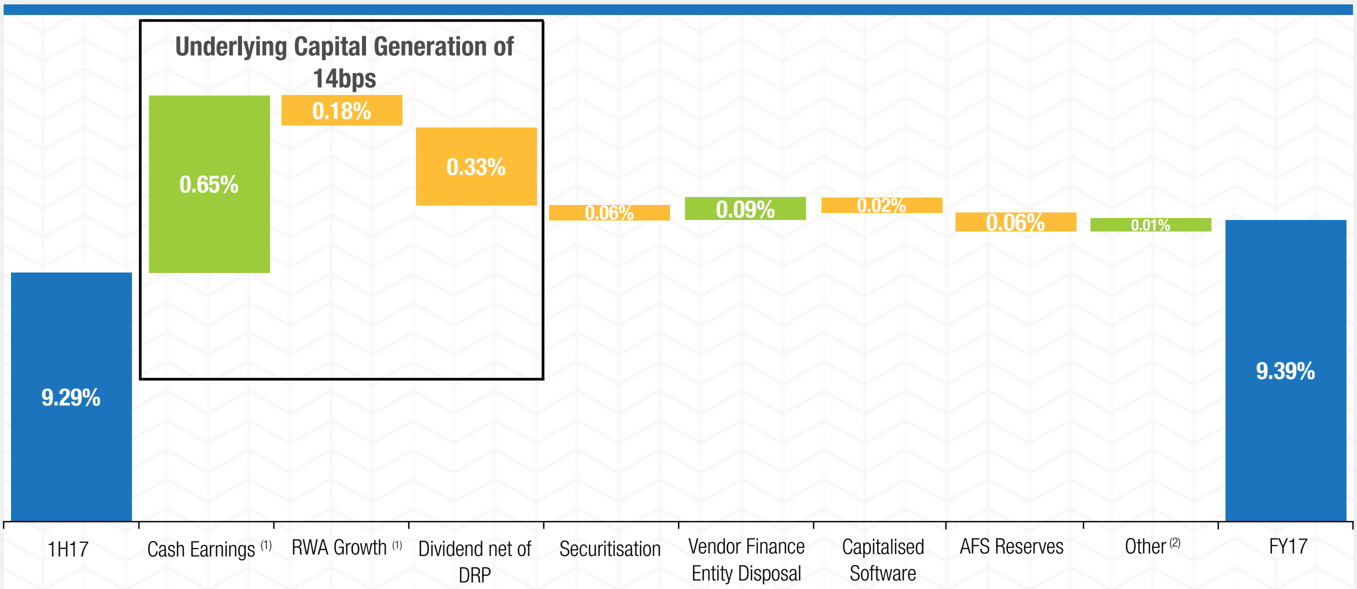
3.3 Capital Management (continued)

Common Equity Tier 1 FY17 V FY16



(1) Excludes impact of vendor finance entity disposal.
(2) Other items include the positive impact of reduced deferred tax balances, reduced securitisation deductions and dividends received from entities outside the capital group.

Common Equity Tier 1 2H17 V 1H17



(1) Excludes impact of vendor finance entity disposal.
(2) Other items include the positive impact of reduced deferred tax balances and securitisation reductions. Offsetting these benefits were non-recurring expenses and deferred acquisition costs.

3.4 Tax Expense

Tax expense arising on cash earnings for the year amounted to $162 million. This represented an effective tax rate of 30.0 per cent. The non-deductible interest payable on convertible preference shares issued in FY2013 and Wholesale Capital Notes issued in FY2015, together with non-deductible accounting amortisation would typically lead to the inherent effective tax rate being higher than 31 per cent (31.2 per cent in the prior year). In the current year, this rate has been offset by the utilisation of previously unrecognised capital losses against the profit on the disposal of a vendor finance entity.

Directors' Report

For the year ended 31 August 2017

4. Appendices

4.1 Reconciliation of Statutory Profit to Cash Earnings

The cash earnings provided is used by management to present a clear view of BOQ's underlying operating results. This excludes a number of items that introduce volatility and/or one-off distortions of the current year performance, and allows for a more effective comparison of BOQ's performance across reporting periods.

The main exclusions relate to the continued amortisation of acquisition fair value adjustments.

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

	Year End Performance			Half Year Performance		
$ million	**Aug-17**	Aug-16	Aug-17 vs Aug-16	**Aug-17**	Feb-17	Aug-17 vs Feb-17
Cash Earnings after Tax	**378**	360	5%	**203**	175	16%
Amortisation of acquisition fair value adjustments	**(13)**	(16)	(19%)	**(7)**	(6)	(17%)
Hedge ineffectiveness	**(9)**	(4)	125%	**(4)**	(5)	(20%)
Integration / transaction costs	**(1)**	(2)	(50%)	**-**	(1)	(100%)
Legacy items	**(3)**	-	-	**(1)**	(2)	(50%)
Statutory Net Profit after Tax	**352**	338	4%	**191**	161	19%

(B) NON-CASH EARNINGS RECONCILING ITEMS

$ million	**Cash Earnings Aug-17**	Virgin Money	Amortisation of customer contracts (acquisition)	Hedge ineffectiveness	Integration/ transaction costs	Legacy items	**Statutory Net Profit Aug-17**
Net Interest Income	**926**	-	-	-	-	-	**926**
Non-Interest Income	**175**	15	-	(12)	-	(1)	**177**
Total Income	**1,101**	15	-	(12)	-	(1)	**1,103**
Operating Expenses	**(513)**	(15)	(15)	-	(1)	(4)	**(548)**
Underlying Profit	**588**	-	(15)	(12)	(1)	(5)	**555**
Loan Impairment Expense	**(48)**	-	-	-	-	-	**(48)**
Profit before Tax	**540**	-	(15)	(12)	(1)	(5)	**507**
Income Tax Expense	**(162)**	-	2	3	-	2	**(155)**
Profit after Tax	**378**	**-**	**(13)**	**(9)**	**(1)**	**(3)**	**352**

Directors' Report

For the year ended 31 August 2017

4.2 Operating Cash Expenses

	Year End Performance			Half Year Performance		
	Aug-17	Aug-16	Aug-17 vs Aug-16	**Aug-17**	Feb-17	Aug-17 vs Feb-17
Employee expenses						
Salaries	**208**	200	4%	**107**	101	6%
Superannuation contributions	**20**	20	-	**10**	10	-
Payroll tax	**12**	13	(8%)	**5**	7	(29%)
Employee Share Programs	**11**	11	-	**6**	5	20%
Other	**6**	9	(33%)	**3**	3	-
	257	253	2%	**131**	126	4%
Occupancy expenses						
Lease expense	**30**	31	(3%)	**14**	16	(13%)
Depreciation of Fixed Assets	**9**	9	-	**5**	4	25%
Other	**3**	3	-	**2**	1	100%
	42	43	(2%)	**21**	21	-
General expenses						
Marketing	**16**	17	(6%)	**11**	5	120%
Commissions to Owner Managed Branches	**6**	7	(14%)	**3**	3	-
Communications and postage	**20**	21	(5%)	**10**	10	-
Printing and stationery	**4**	4	-	**2**	2	-
Impairment	**1**	1	-	**-**	1	(100%)
Processing costs	**10**	20	(50%)	**6**	4	50%
Other operating expenses	**28**	28	17%	**14**	14	-
	85	98	(13%)	**46**	39	18%
IT expenses						
Data processing	**70**	64	9%	**33**	37	(11%)
Amortisation of Intangible Assets	**37**	27	37%	**19**	18	6%
Depreciation of Fixed Assets	**1**	1	-	**1**	-	-
	108	92	17%	**53**	55	(4%)
Other expenses						
Professional fees	**13**	12	8%	**6**	7	(14%)
Directors' fees	**2**	2	-	**1**	1	-
Other	**6**	5	20%	**3**	3	-
	21	19	11%	**10**	11	(9%)
Restructuring expenses (1)	**-**	15	100%	**-**	-	-
Total Operating Expenses	**513**	520	1%	**261**	252	4%

(1) The 2016 restructuring expenses mainly consist of employee costs.

Directors' Report

For the year ended 31 August 2017

4.2 Operating Cash Expenses (continued)

Employee Expenses

Employee costs grew two per cent on FY16. The benefits from reshaping the operating model and organisation structure through a number of productivity initiatives, which began in 2016, has enabled the group to expand the Virgin Money mortgage offering, invest in technology programs and reconfigure the branch network within a low cost growth profile.

Occupancy Expenses

Occupancy costs remained relatively flat compared to the prior period.

General Expenses

Contract outcomes led to a permanent reduction in processing costs compared to prior periods. More marketing campaign activity is usually carried out in the second half which results in a higher second half cost profile.

IT Expenses

A number of key initiatives were implemented in prior years which has led to in an increase in the amortisation profile of $10 million this year.

4.3 Property, Plant & Equipment (Consolidated)

$ million	Leasehold improvements $m	Plant furniture and equipment $m	IT equipment $m	Capital works in progress $m	Assets under Operating Lease $m	Total $m
Cost						
Balance as at 31 August 2016	71	33	31	1	24	160
Additions	5	1	3	4	5	18
Disposals	(3)	(1)	(1)	-	(11)	(16)
Transfers between categories	1	-	-	(1)	-	-
Balance as at 31 August 2017	**74**	**33**	**33**	**4**	**18**	**162**
Depreciation and loss on disposal / impairment						
Balance as at 31 August 2016	33	23	29	-	15	100
Depreciation for the year	8	1	1	-	6	16
Disposals	(3)	(1)	(1)	-	(9)	(14)
Balance as at 31 August 2017	**38**	**23**	**29**	**-**	**12**	**102**
Carrying amount as at 31 August 2016	**38**	**10**	**2**	**1**	**9**	**60**
Carrying amount as at 31 August 2017	**36**	**10**	**4**	**4**	**6**	**60**

Directors' Report

For the year ended 31 August 2017

4.4 Cash EPS Calculations

		Year End Performance			Half Year Performance		
		Aug-17	Aug-16	Aug-17 vs Aug-16	**Aug-17**	Feb-17	Aug-17 vs Feb-17
Basic EPS	(cents)	**97.6**	95.6	2%	**52.1**	45.5	15%
Diluted EPS	(cents)	**93.9**	90.7	4%	**49.9**	43.7	14%
Reconciliation of Cash Earnings for EPS							
Cash Earnings available for ordinary shareholders	($ million)	**378**	360	5%	**203**	175	16%
Add: CPS Dividend	($ million)	**15**	16	(6%)	**7**	8	(13%)
Add: Wholesale Capital Notes	($ million)	**7**	7	-	**4**	3	33%
Cash Diluted Earnings available for ordinary shareholders	($ million)	**400**	383	4%	**214**	186	15%
Weighted Average Number of Shares ('WANOS')							
Basic WANOS	(million)	**387**	376	3%	**389**	384	1%
Add: Effect of award rights	(million)	**2**	1	100%	**2**	1	100%
Add: Effect of CPS	(million)	**25**	30	(17%)	**25**	27	(7%)
Add: Effect of Wholesale Capital Notes	(million)	**12**	15	(20%)	**12**	13	(8%)
Diluted WANOS for Cash Earnings EPS	(million)	**426**	422	1%	**428**	425	1%

4.5 Issued Capital

Ordinary shares

	Consolidated	
	2017 Number	2017 $m
Movements during the year		
Balance at the beginning of the year – fully paid	**380,995,702**	3,279
Issue of ordinary shares – 21 October 2016 (1)	**1,050,000**	12
Dividend reinvestment plan – 22 November 2016 (2)	**5,278,750**	53
Dividend reinvestment plan – 17 May 2017 (2)	**4,415,277**	52
Balance at the end of the year – fully paid	**391,739,729**	3,396

(1) On 21 October 2016, 1,050,000 ordinary shares were issued at $11.15 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 issue of shares under the BOQ Restricted Share Plan and BOQ Employee Share Plan.

(2) 37 per cent was taken up by shareholders on 22 November 2016 and 35 per cent on 17 May 2017 as part of the Dividend Reinvestment Plan.

Directors' Report

For the year ended 31 August 2017

4.6 Average Balance Sheet and Margin Analysis

$ million	August 2017 (Full Year) Average Balance $m	Interest $m	Average Rate %	August 2016 (Full Year) Average Balance $m	Interest $m	Average Rate %
Interest earning assets						
Gross loans & advances at amortised cost	**43,208**	**1,899**	**4.40**	42,571	2,001	4.70
Investments & other securities	**6,189**	**147**	**2.37**	5,850	155	2.65
Total interest earning assets	**49,397**	**2,046**	**4.14**	48,421	2,156	4.45
Non-interest earning assets						
Property, plant & equipment	**58**			61		
Other assets	**1,525**			1,558		
Provision for impairment	**(253)**			(268)		
Total non-interest earning assets	**1,330**			1,351		
Total Assets	**50,727**			49,772		
Interest bearing liabilities						
Retail deposits	**29,841**	**611**	**2.05**	28,255	661	2.34
Wholesale deposits & Borrowings	**16,427**	**509**	**3.10**	17,124	558	3.26
Total Interest bearing liabilities	**46,268**	**1,120**	**2.42**	45,379	1,219	2.68
Non-interest bearing liabilities	**783**			869		
Total Liabilities	**47,051**			46,248		
Shareholders' funds	**3,676**			3,524		
Total Liabilities & Shareholders' Funds	**50,727**			49,772		
Interest margin & interest spread						
Interest earning assets	**49,397**	**2,046**	**4.14**	48,421	2,156	4.45
Interest bearing liabilities	**46,268**	**1,120**	**2.42**	45,379	1,219	2.68
Net interest spread			**1.72**			1.77
Benefit of net interest-free assets, liabilities and equity			**0.15**			0.17
Net Interest Margin - on average interest earning assets	**49,397**	**926**	**1.87**	48,421	937	1.94

Directors' Report

For the year ended 31 August 2017

4.6 Average Balance Sheet and Margin Analysis (Continued)

$ million	August 2017 (Six month period) Average Balance $m	Interest $m	Average Rate %	February 2017 (Six month period) Average Balance $m	Interest $m	Average Rate %
Interest earning assets						
Gross loans & advances at amortised cost	**43,376**	**960**	**4.39**	43,011	939	4.40
Investments & other securities	**6,231**	**75**	**2.39**	6,226	72	2.33
Total interest earning assets	**49,607**	**1,035**	**4.14**	49,237	1,011	4.14
Non-interest earning assets						
Property, plant & equipment	**57**			59		
Other assets	**1,535**			1,500		
Provision for impairment	**(250)**			(255)		
Total non-interest earning assets	**1,342**			1,304		
Total Assets	**50,949**			50,541		
Interest bearing liabilities						
Retail deposits	**30,134**	**298**	**1.96**	29,625	313	2.13
Wholesale deposits & Borrowings	**16,344**	**263**	**3.19**	16,463	246	3.01
Total Interest bearing liabilities	**46,478**	**561**	**2.39**	46,088	559	2.45
Non-interest bearing liabilities	**749**			817		
Total Liabilities	**47,227**			46,905		
Shareholders' funds	**3,722**			3,636		
Total Liabilities & Shareholders' Funds	**50,949**			50,541		
Interest margin & interest spread						
Interest earning assets	**49,607**	**1,035**	**4.14**	49,237	1,011	4.14
Interest bearing liabilities	**46,478**	**561**	**2.39**	46,088	559	2.45
Net interest spread			**1.75**			1.69
Benefit of net interest-free assets, liabilities and equity			**0.15**			0.16
Net Interest Margin - on average interest earning assets	**49,607**	**474**	**1.90**	49,237	452	1.85

Directors' Report

For the year ended 31 August 2017

4.7 Distribution Footprint

BOQ has continued to develop its 'Customer in Charge' strategic pillar to allow customers to engage through their channel of choice. This could be through a preferred broker (aligned to BOQ or Virgin Money), directly with BOQ through its Owner Managed and Corporate branches, online via digital, social media, mobile banking, or on the phone to BOQ's Customer Contact Centres.

Branch numbers reduced by 21 over the year as BOQ continues to optimise its points of presence. The majority of BOQ's Owner Managers (74 per cent) have transitioned to the new franchise proposition which better aligns the network with the strategic objectives of the Bank and has delivered significant performance improvements. A further seven ICON branches have been delivered this year bringing the total to 19.

The broker strategy expansion continued to accelerate during the year, with 28 per cent of settlements in the second half originated through accredited brokers across the BOQ and Virgin Money brands. Most accredited brokers are located outside of Queensland, which will continue to accelerate the geographic diversification of the portfolio and provide deeper access to the Sydney and Melbourne markets, where the Group has traditionally been under represented.

Directors' Report

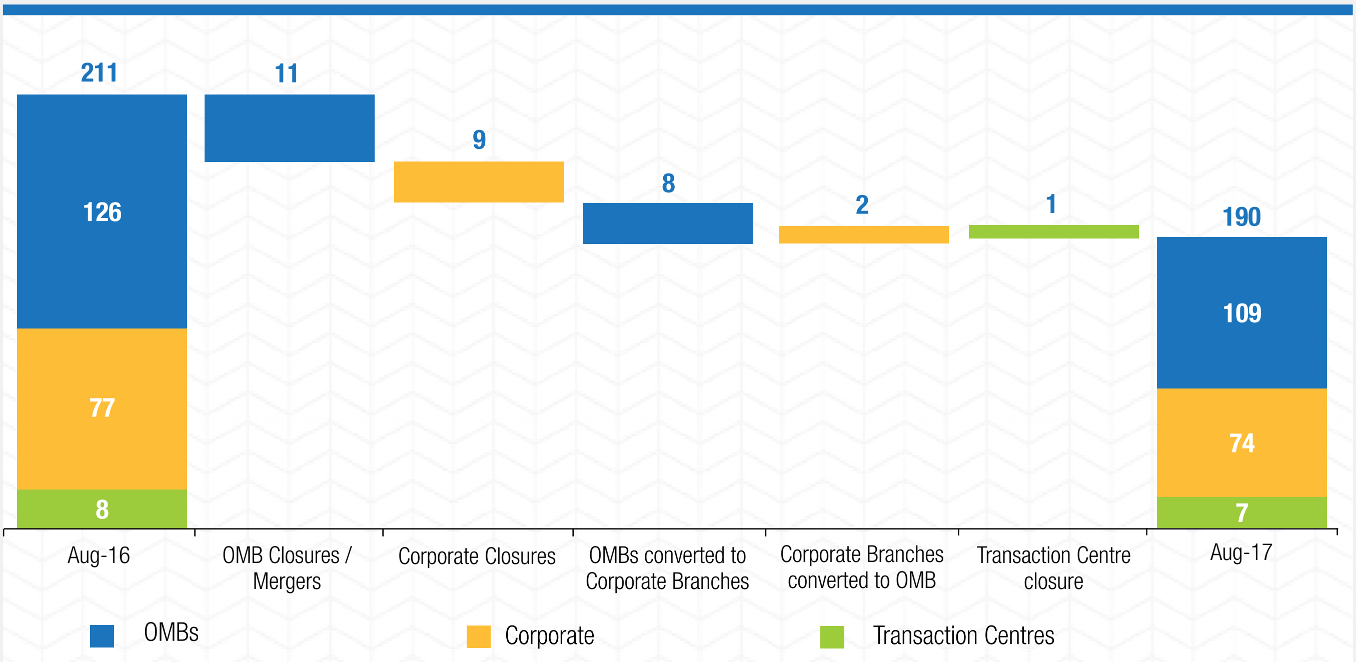
For the year ended 31 August 2017

4.7 Distribution Footprint (Continued)

As at Aug-17	QLD	NSW / ACT	VIC	WA	NT	TAS	SA	Total
Corporate Branches	41	11	8	13	-	-	1	74
Owner Managed Branches	68	18	12	8	1	2	-	109
Transaction Centres	7	-	-	-	-	-	-	7
	116	**29**	**20**	**21**	**1**	**2**	**1**	**190**

As at Aug-16	QLD	NSW / ACT	VIC	WA	NT	TAS	SA	Total
Corporate Branches	43	11	8	14	-	-	1	77
Owner Managed Branches	77	23	13	9	2	2	-	126
Transaction Centres	8	-	-	-	-	-	-	8
	128	**34**	**21**	**23**	**2**	**2**	**1**	**211**

Corporate, Owner Managed Branches ('OMB') & Transaction Centres



4.8 Credit Rating

The Bank monitors rating agency developments closely. Entities in the Group are rated by S&P, Moody's Investor Service and Fitch 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

Directors' Report

For the year ended 31 August 2017

4.9 Regulatory Disclosures

The APS 330 Capital Disclosure Template and Regulatory Capital reconciliation (included in the relevant Pillar 3 Disclosures document) and the Capital Instruments Disclosures are available at the Regulatory Disclosures section of the Bank's website at the following address:

http://www.boq.com.au/regulatory_disclosures.htm

4.10 Liquidity Coverage Ratio

APRA requires ADIs to maintain a minimum 100 per cent LCR. The LCR requires sufficient HQLA1 to meet net cash outflows over a 30 day period, under a regulator defined liquidity stress scenario. BOQ manages its LCR on a daily basis with a buffer above the regulatory minimum in line with the BOQ prescribed risk appetite and management ranges. BOQ's average LCR was slightly elevated over the August quarter at 136 per cent (31 May 2017 quarter: 133 per cent) due to the settlement of the covered bond. The following table presents detailed information on the average LCR composition for the two quarters.

BOQ maintains a portfolio of high quality, diversified liquid assets to facilitate balance sheet liquidity and meet internal and regulatory requirements. Liquid assets comprise HQLA1 (cash, Australian Semi-Government and Commonwealth Government securities) and alternate liquid assets covered by the CLF from the Reserve Bank of Australia. Assets eligible for the CLF include senior unsecured bank debt, covered bonds and RMBS that are eligible for repurchase with the Reserve Bank of Australia.

BOQ has a stable, diversified and resilient deposit and funding base that mitigates the chance of a liquidity stress event across various funding market conditions. BOQ uses a range of funding tools including customer deposits, securitisation, short term and long term wholesale debt instruments. The Group increased customer funding during the period as part of its overall funding strategy. Bank lending is predominantly funded from stable funding sources; short term wholesale funding is primarily used to manage timing mismatches and fund liquid assets.

The liquid assets composition has changed over the combined quarters with the allocation to HQLA1 increasing, now making up 81 per cent of net cash outflows (28 February 2017: 79 per cent). Across the combined quarters net cash outflows have increased in line with balance sheet growth.

BOQ does not have significant derivative or currency exposures that could adversely affect its LCR.

Directors' Report

For the year ended 31 August 2017

4.10 Liquidity Coverage Ratio (continued)

	Average Quarterly Performance			
	August Quarter		May Quarter	
$ million	Total Unweighted Value $m	Total Weighted Value $m	Total Unweighted Value $m	Total Weighted Value $m
Liquid Assets, of which				
High quality liquid assets	n/a	3,311	n/a	3,234
Alternative liquid assets	n/a	2,236	n/a	2,281
Total Liquid Assets		**5,547**		**5,515**
Cash Outflows				
Customer deposits and deposits from small branch customers, of which	14,201	1,337	13,683	1,281
stable deposits	*7,073*	*354*	*6,867*	*343*
less stable deposits	*7,128*	*983*	*6,816*	*938*
Unsecured wholesale funding, of which	4,110	2,462	4,156	2,515
non-operational deposits	*3,170*	*1,522*	*3,207*	*1,566*
unsecured debt	*940*	*940*	*949*	*949*
Secured wholesale funding	n/a	37	n/a	34
Additional requirements, of which	613	542	439	378
outflows related to derivatives exposures and other collateral requirements	*538*	*538*	*375*	*375*
credit and liquidity facilities	*75*	*4*	*64*	*3*
Other contractual funding obligations	634	303	548	220
Other contingent funding obligations	10,719	670	10,553	681
Total Cash Outflows	**30,277**	**5,351**	**29,379**	**5,109**
Cash Inflows				
Inflows from fully performing exposures	881	550	673	345
Other cash inflows	708	708	607	607
Total Cash Inflows	**1,589**	**1,258**	**1,280**	**952**
Total Net Cash Outflows	**28,688**	**4,093**	**28,099**	**4,157**
Total Liquid Assets	n/a	**5,547**	n/a	**5,515**
Total Net Cash Outflows	n/a	**4,093**	n/a	**4,157**
Liquidity Coverage Ratio (%)	n/a	**136%**	n/a	**133%**

Remuneration Report

For the year ended 31 August 2017

Contents

Dear Shareholder,

On behalf of the BOQ Board I am pleased to present the FY17 Remuneration Report to shareholders.

Following discussion with a number of shareholders and proxy advisors, we have changed the format in order to make this year's report easier to read and understand. We also sought to strengthen the link between remuneration outcomes and BOQ's performance. The key remuneration information for FY17 is included in the first part of the report and the second part contains further detail and information required by the regulators and legislation under which we operate.

There have been no material changes to the remuneration processes or schemes in the year ended August 2017. Following a number of changes to various elements of remuneration over the past 5 years and broad shareholder support for our process, your Board believes it is working well.

It is timely to acknowledge the several external reviews into the financial services industry which will impact our employee and executive remuneration. These include the ASIC review into Mortgage Broker Fees, the Sedgwick Review into incentives in Retail Banking and most recently the Banking Executive Accountability Regime ('BEAR') announced in the Federal Budget.

BOQ supports and will implement changes to remuneration structures and practices as required by these reviews. Sales incentive schemes have been reviewed to ensure they comply with the Sedgwick recommendations and we anticipate changes consistent with this to balance financial based incentives with a heightened focus on the Bank's customers and culture. For our Group Executives, BOQ will also comply with any BEAR changes including the adjustment of the Short Term Incentive ('STI') and Long Term Incentive ('LTI') deferral periods. There may be other changes required to comply with the regulatory environment and BOQ will address these in next year's Remuneration Report.

Our remuneration philosophy is to provide fair and equitable reward which attracts and retains high calibre talent as a core input to maximising value for shareholders. Through application of the remuneration structure, BOQ seeks to align executive remuneration with the medium and long-term benefit generated for shareholders through a mix of short, medium and long-term remuneration elements.

The core principles upon which remuneration is based have again remained unchanged in FY17:

- As a guide, BOQ targets a balance between fixed and variable (at risk) reward weighted approximately one third fixed remuneration, one third STI and one third LTI.
- We do not make cash payments to executives on commencement of employment with BOQ.
- Key performance measures are agreed for all executives covering financial (approximately 70%) and non-financial (approximately 30% measures.
- Remuneration outcomes are benchmarked against independently sourced market data.
- STIs are capped as a percentage of fixed remuneration and a portion is deferred over two years.
- Allocations of LTIs are granted at face value, are capped and, for Group Executives, are awarded by way of Performance Award Rights ('PARs'). These vest subject to relative Total Shareholder Return ('TSR') and Earnings per Share ('EPS') hurdles over three years.
- For Group Executives departing BOQ, deferred equity (Performance Award Rights) and deferred STI (Restricted Shares) remain on foot for the full vesting period and are subject to satisfying conditions and performance testing at the vesting date.
- The Board has discretion on all remuneration outcomes.

In considering FY17 outcomes, no Group Executives have been granted fixed remuneration increases for FY18 and our Directors will not receive any increase in fees. Further, BOQ will not be requesting shareholder approval for any increase to the Non-Executive Director fee pool at the 2017 Annual General Meeting.

STIs have come under increased scrutiny in recent years. To improve transparency this year we have included more detail on the Board's approach to assessing our Group Executive STI outcomes. In summary:

- Performance of Group Executives is assessed and discussed at the half and full year against Key Performance Indicators ('KPIs'), set in line with BOQ's strategic objectives and the development of each individual.
- Year-end performance reviews and associated outcomes have been recommended by the Managing Director & CEO for the Group Executives and by the Board Chair for the Managing Director & CEO.
- The Human Resources and Remuneration Committee ('HRRC') and the BOQ Board review these outcomes and makes adjustments both positively and negatively to ensure these are aligned with shareholder's interests and BOQ remains competitive in attracting and retaining talent. Other factors, including gender equity, are also considered.
- Remuneration outcomes are discussed with the Board Risk Committee and the Bank's Chief Risk Officer with adjustments made for behaviours which add to, or detract from, long term shareholder value.
- Outcomes for all Group Executives are independently reviewed for market reasonableness.

Within the operation of the BOQ STI scheme, the Board considered several items which may be regarded as one-off items, noting that in previous years it has made both inclusions and exclusions in determining remuneration outcomes under profit related KPIs. The overarching principle which guides the Board's treatment of one-off items, to the extent that they effect remuneration outcomes, is the degree to which the Executive contributed to the item and the benefit or cost delivered to shareholders from it. It is the Board's intention that Executives are not unfairly penalised and do not receive a windfall gain as a result. In FY17, the Board discounted the published cash earning number for the purposes of calculating awards under the Bank's STI scheme formula.

While the STI scheme operates to provide a rating and an award, the Board

Remuneration Report

For the year ended 31 August 2017

retains discretionary overlay to derived STI pool outcomes. This allows the HRRC and the Board to consider the performance for the year, including consideration of factors which could not have been contemplated when the KPIs were set at the beginning of FY17. Additionally, and in order to ensure alignment between the benefit to shareholders and employees, the HRRC considers BOQ's TSR for the financial year as compared to other banks, both major and regional.

In considering the STI pool for FY17 the Board has reviewed the outcomes from the STI scheme and moderated these. A number of factors have been considered as part of the moderation process. Of particular note, in FY17:

- BOQ's annual relative TSR at 26.5% leads the listed bank sector;
- our strong balance sheet position has benefited our shareholders and has underpinned the provision of a special dividend in addition to the final year end dividend; and
- in consideration of the changing environment in which BOQ operates, the Board has considered work the Group Executive team has done to further strengthen BOQ's market conduct, risk systems and culture during FY17. This is important in ensuring financial performance is achieved in the right way.

The outcome of this moderation process has been to increase the Group Executive pool above the amount calculated via the STI scheme formula using the Board's discretionary overlay.

The Board does not exercise its discretion lightly. This year, in assessing outcomes, it has also had regard for declining total STI pool levels over the past two years. In this respect, while the Bank wide pool is greater than FY16, it remains below that of FY15.

LTI awards are made to align Group Executive's interests with shareholders over the longer term and to act as a retention tool. It is worth noting that our LTI awards are made on a face value basis and have not vested every year due to relative performance. In FY17 these have been granted at 100% of fixed remuneration.

The aggregate total reward for Group Executives including fixed, short and long term incentives has increased by less than 1% over the prior corresponding period.

The Board has seen FY17 as a solid year for BOQ in a challenging and changing environment. It has been pleased with the performance of its Group Executives and the outcomes they have produced. In this context increases to total remuneration are, in the Board's view, appropriate.

Yours sincerely

David Willis
Chairman, BOQ HRRC

Remuneration Report

For the year ended 31 August 2017

Executive Summary

This Remuneration Report is prepared for consideration by shareholders of BOQ at the 2017 Annual General Meeting ('AGM'). It outlines the overall remuneration strategy, framework and practices adopted by the Consolidated Entity for the reporting period and has been prepared in accordance with Section 300A of the *Corporations Act 2001*. The following table captures key highlights for FY17.

BOQ Strategic Pillars	CUSTOMER IN CHARGE Placing the customer in charge of their banking and delivering exceptional customer outcomes	GROW THE RIGHT WAY Achieving the right balance between risk and return and delivering shareholder value	THERE'S ALWAYS A BETTER WAY Pursuit of operational efficiency	LOVED LIKE NO OTHER Developing a culture of passion and excellence, fairness, equity and a safe working environment
How we performed against Strategic Pillars	Continued to expand mortgage broker distribution channels including through the Virgin Money brand. Investments made in digitisation to improve customer experience. Commenced organisation-wide customer service program.	A conservative lending approach targeting a high quality asset portfolio for resilience through the economic cycle.	Costs managed to plan. Forecast productivity initiatives continue to deliver savings. Transformation initiatives commenced are expected to deliver ongoing efficiency improvements into FY18 and beyond.	BOQ values continued to be embedded. Staff engagement results indicated the majority of employees are engaged with BOQ. Significant improvements realised in diversity, safety and risk management outcomes.

What did Group Executives deliver?	Group Executive KPIs at the Group and individual level are aligned with delivery of the BOQ strategy. Performance against Group metrics is discussed in more detail at Section 3.3. The cash net profit after tax ('NPAT') performance was Superior and risk metrics measuring Impairment Expense and Deposit to Lending ratio were at the Exceptional level. Return on Equity performance was at the Performing level while Cost to Income ratio was in the Threshold range. Individual performance ratings were generally within the Performing range and reflected delivery of key strategic, financial and operational outcomes.
How do Group Executives' interests align with shareholders' interests?	Group metrics within the STI plan and achievement against these are aligned to shareholder interests. Specifically Cash NPAT and Return on Equity are key financial measures that deliver growth while prudent management of risk is a key contributor to sustaining a well-managed asset portfolio. Group Executives are rewarded through STIs for short term performance and achievement of outcomes. Shareholders benefit from the underlying sustainability of the business and returns generated. Fifty per cent (50%) of all STI is deferred over 2 years, in the form of restricted shares once the $100,000 hurdle is met. Claw back provisions apply to restricted shares, refer Section 4.4. The deferred STI ensures that Group Executives are accountable for the quality of results and that their behaviours remain consistent with BOQ values. Over the longer term, use of EPS and relative TSR as performance metrics within the LTI plan requires delivery of superior comparative returns to shareholders. LTI grants made in 2013 were due for testing and achieved a vesting rate of 64.6% based on relative TSR performance over the three year performance cycle. LTI grants to be made in December 2017, following the AGM, are in line with the prior year grant levels.
How we remain competitive in attracting and retaining management talent?	Stable KMP group during the period following changes implemented over 2015-2016. Clear strategy that has been refreshed and remains focused on enhancing customer experience, prudent risk management, realising efficiencies and developing digital capability. Executive remuneration is set at levels to attract, reward and retain talent from across the financial services sector, including the major banks. Company size, while a consideration, is not the single determining factor for setting remuneration. BOQ seeks to set and review remuneration at levels determined to maximise returns to shareholders. Provision of executive development and leadership programs which enhance management capability. Developing succession strategy and plans to ensure depth in the senior executive and management teams.
Key themes and Emerging Trends Affecting Executive Remuneration in FY18	No change to Group Executive fixed remuneration for FY18. Stable STI and LTI plans after FY16 changes. Impact of external regulatory review outcomes and BEAR will potentially affect the design of the Bank's incentive plans.

Remuneration Report

For the year ended 31 August 2017

Section 1. Key Management Personnel ('KMP')

The table below identifies Executive and Non-Executive Directors ('NED') and Group Executives identified as KMP.

TABLE 1 - DIRECTORS AND GROUP EXECUTIVES

Directors (Executive and Non-Executive)		Group Executives	
Current		**Current**	
Roger Davis	Chairman (Non-Executive)	Matthew Baxby	Group Executive Retail Banking
Jon Sutton	Managing Director & Chief Executive Officer	Peter Deans	Chief Risk Officer
Bruce Carter	Director (Non-Executive)	Belinda Jefferys	Group Executive People & Culture
Richard Haire	Director (Non-Executive)	Vimpi Juneja (2)	Group Executive Product & Strategy
John Lorimer	Director (Non-Executive)	Anthony Rose	Chief Financial Officer
Warwick Negus (1)	Director (Non-Executive)	Michelle Thomsen	General Counsel & Company Secretary
Karen Penrose	Director (Non-Executive)	Donna-Maree Vinci	Group Executive Enterprise Solutions
Margaret Seale	Director (Non-Executive)	Brendan White	Group Executive BOQ Business
Michelle Tredenick	Director (Non-Executive)		
David Willis	Director (Non-Executive)		

(1) Warwick Negus was appointed to the Board effective 22 September 2016.

(2) Vimpi Juneja ceased to be a Group Executives as at 31 August 2017. His role of Group Executive Product & Strategy was made redundant due to re-organisation of the business.

Section 2. Remuneration Strategy & Framework Summary

This section provides shareholders with a view of the remuneration strategy, principles and framework covering BOQ employees and the remuneration framework specifically applicable to Group Executives.

The remuneration strategy endorsed by the Board is supported by objectives and principles that are common to all employees. The key elements of these are set out below:

- Attraction and retention of appropriately skilled and experienced executives and employees through the provision of market competitive remuneration;
- No distinction or difference in pay between genders for people that are performing the same role, other than where this is a difference as a result of performance, skill or experience;
- Pay for performance by providing opportunities for executives and employees to earn incentives linked to achievement of the following, within an appropriate risk framework:
    1. BOQ's objectives and performance;
    2. the performance of their business unit; and
    3. their individual contribution over the short and long term.
- Align executive and employee interests with those of the BOQ's shareholders;
- Ensure that remuneration structures and their operation encourage behaviours that are consistent with the Bank's values, promote customer service and deliver good customer outcomes; and
- Provide remuneration structures that remain current and keep pace with the prevailing remuneration trends, practice and governance frameworks.

Remuneration Report

For the year ended 31 August 2017

Section 2. Remuneration Strategy & Framework Summary (continued)

2.1 Remuneration Framework Summary - KMP

The remuneration structure in place for the Group Executives and Responsible Persons ('RPs') is consistent with the Group's Remuneration Policy and is based on a total remuneration approach, comprising an appropriate mix of fixed (salary and benefits) and variable (at-risk) pay in the form of cash and equity-based incentives.

The components of the executive remuneration structure, as applied in FY17 are set out within this section.

TABLE 2 - REMUNERATION FRAMEWORK

Component	Performance Measure	At Risk Weighting	Performance to Reward Link
Fixed Remuneration ('FR') Salary & other benefits including superannuation.	Role Profile defines expectations with regard to key deliverables, skill, experience and behaviours for the role.		• Fixed remuneration is determined by role and responsibility. These are periodically benchmarked to internal relativities, external market comparisons, competency and capability.
+			
Short Term Incentives Annual at risk remuneration Deferral of amounts above $100,000 consisting of 50% cash and 50% deferred to equity. Vesting over 2 years.	**STI plan gateway tests:** Earnings per Share: 90% of budgeted basic EPS; and Behavioural and risk metrics. **Group Measures & Weighting:** Cash NPAT – 20% Return on Equity – 20% Cost to Income Ratio – 20% Customer Satisfaction – 20% Risk – 20% **Individual Performance Measures:** Combination of financial and non-financial metrics relevant to each division. Shared risk, culture, safety and diversity metrics are included in individual scorecards.	**At Performing - % of FR** MD & CEO: 90% Line Roles: 75% Functional Roles: 53% **At Maximum - % of FR** MD & CEO: 150% Line Roles: 140% Functional Roles: 100% The Individual Performance Measures act as a moderator in the plan design. The overall score moderates the Group score to allow scaling between Below Threshold and Exceptional outcomes. They can also result in the overall STI amount being scaled down to zero.	• Reward performance at Group level. Individual performance score acts as a moderator on Group performance result. • Financial performance measures align to strategy and prudent cost and risk management. • Aligned with value created for shareholders. • Division specific financial and non-financial targets aligned to delivery of business strategy. • Promotes leadership behaviours consistent with achieving the Group's long term objectives in areas including customer experience, workplace health and safety, diversity, and employee engagement. • Deferred STI is subject to clawback.
STI is calculated on the following basis: Fixed Remuneration x STI Target% Opportunity x Group Score x Individual Score = STI Outcome			
+			
Long Term Incentive Annual grant of equity delivered as PARs on a face value basis. Vesting period of three years.	**80% weighted to relative TSR** Comparator Group drawn from ASX 200; Reviewed annually. **20% weighted to relative EPS** EPS performance assessed on a relative basis against comparator group comprised of majors and regional banks.	All Group Executives: Total grants up to 100% of FR subject to Board discretion.	• Ensures alignment to creation of long term shareholder value. Metrics chosen as they provide a relative test of performance against market peers over a three year vesting period. • For the TSR tranche, minimum 50th percentile performance required to vest and vests 100% once 75th percentile is achieved. • For the EPS tranche, minimum 60th percentile performance is required to vest. Awards vest 100% once 90th percentile is achieved. • Subject to clawback.
=			
Total Remuneration	**Market competitive remuneration, with appropriately weighted "at risk" variable components aligned to shareholder interests.**		

Remuneration Report

For the year ended 31 August 2017

Section 2. Remuneration Strategy & Framework Summary (continued)

2.2 Remuneration Mix

The distribution of remuneration elements for executives is designed to provide a balanced weighting between fixed, short term and long term variable at risk remuneration. The remuneration mix for the Managing Director & CEO and the Group Executives (Line and Function) in Figure 2.2.1 below are illustrations only and are modelled based on an example using a targeted remuneration mix. This illustrates the various elements of fixed and variable remuneration and is expressed as a percentage of total reward. The distribution between components is assessed by the Board annually against the targeted remuneration mix. The current remuneration mix is deemed appropriately weighted but will be reassessed during the coming period to ensure it is consistent with changes arising from BEAR and any other regulatory requirements.

The targeted remuneration mix at the Performing level for the Group Executive are provided in the illustration below.

Figure 2.2.1 - Remuneration Mix (at Performing level)

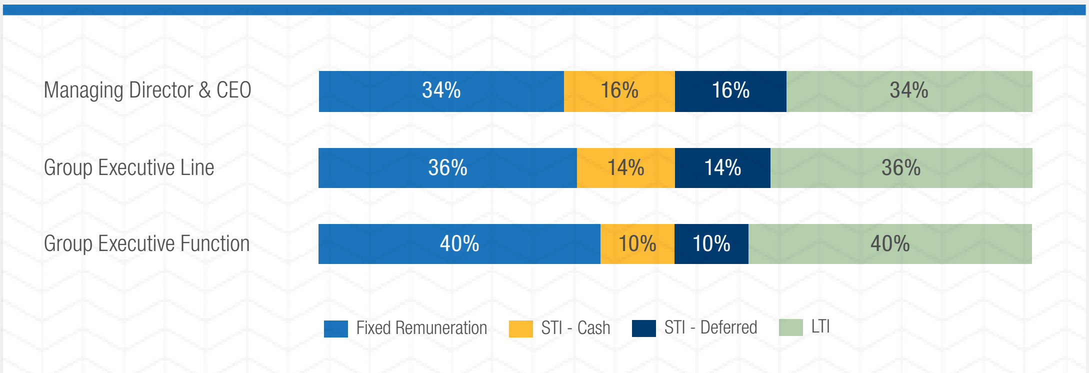
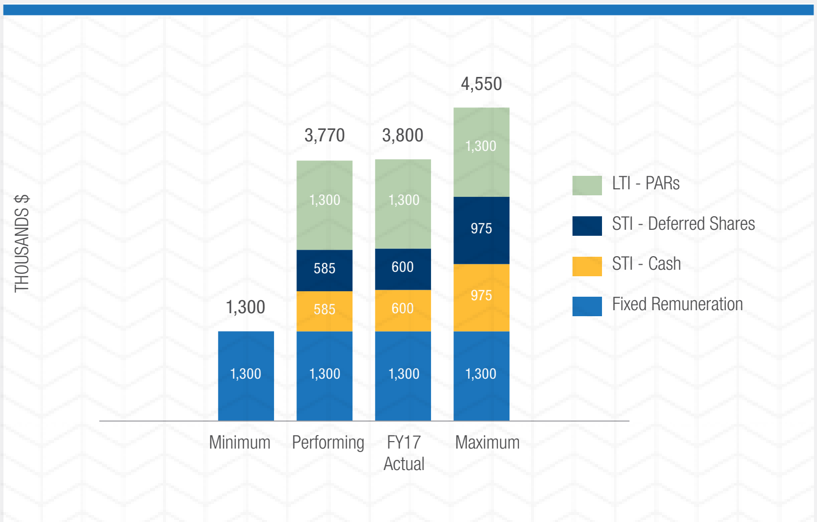


Figure 2.2.2 below illustrates the remuneration mix for the Managing Director & CEO. It identifies the remuneration at minimum, being fixed remuneration with no variable incentives, the level at Performing, or on-target performance, and at maximum, the level at which various remuneration elements are capped. The FY17 actual remuneration is included in the chart for reference. The STI deferred shares and LTI PARs are represented at face value and are subject to the completion of vesting periods and performance hurdles.

Figure 2.2.2 - CEO Remuneration: FY17 Potential vs Actuals



Remuneration Report

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Section 3. Remuneration Outcomes

This section outlines how the remuneration outcomes for FY17, including those that are cash and equity based, operate in alignment with company performance and shareholder value.

3.1 Fixed Remuneration Changes

Fixed remuneration for Group Executives was reviewed and considered market competitive in the current environment, following changes made in FY16. Changes to fixed remuneration were disclosed in the FY16 remuneration report and remained unchanged during FY17. No increase to fixed remuneration for Group Executives was made for FY18.

3.2 Linking Performance & Reward Outcomes – Variable Remuneration

Performance at the Group level is a key determinant of the variable reward components and the measures set out below have been selected as they reflect shareholder value creation. The table below provides a summary of key business performance metrics over the past 5 years.

TABLE 3 - CONSOLIDATED ENTITY PERFORMANCE

5 Year Consolidated Entity Performance	**2017**	2016	2015	2014	2013
Statutory net profit after tax	**$352m**	$338m	$318m	$261m	$186m
Cash net profit after tax (1)	**$378m**	$360m	$357m	$301m	$251m
Cash basic earnings per share ('EPS') (1)	**97.6c**	95.6c	97.3c	89.5c	78.1c
Cash cost to income ratio ('CTI') (1)	**46.6%**	46.8%	46.0%	43.9%	44.3%
Share price at balance sheet date	**$12.59**	$10.55	$12.67	$12.58	$9.60
Total Shareholder Return (1)	**+26.5%**	-10.7%	+6.3%	+39.2%	+34.3%
Value of Dividends paid	**$308m**	$300m	$272m	$216m	$180m
Group Executive STI Awarded ($m)	$4.02	$3.55	$3.73	$3.94	$3.19
KMP STI Awarded as % of Cash NPAT	1.0%	1.0%	1.0%	1.3%	1.3%

(1) Non-statutory measures are not subject to audit

Remuneration Report

For the year ended 31 August 2017

Section 3. Remuneration Outcomes (continued)

The following charts have been provided to illustrate Managing Director & CEO STI payments relative to key business performance metrics over the past 3 years, which is the period that Mr Jon Sutton has held the position.

Figure 3.2.1 - CEO STI compared to Cash NPAT (1)

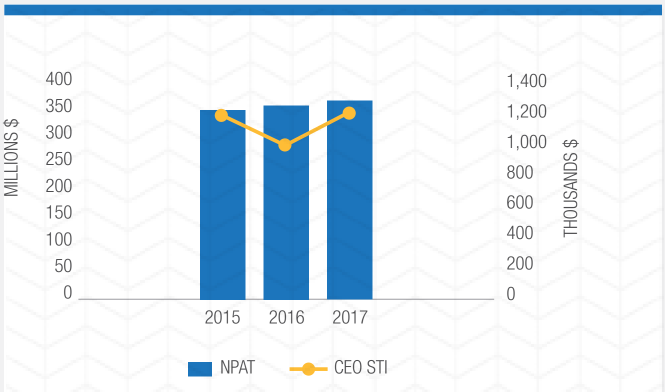


Figure 3.2.2 - CEO STI compared to Cash ROE (1)

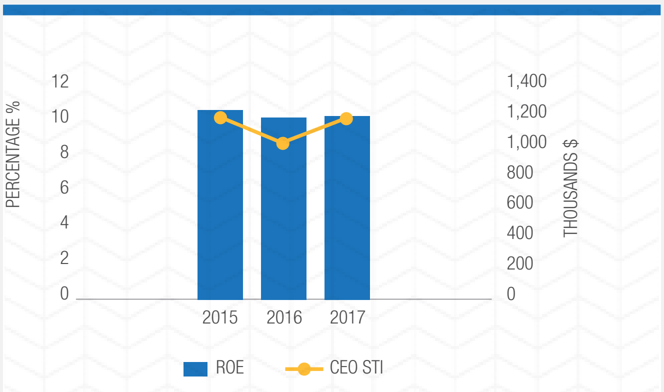


Figure 3.2.3 - CEO STI compared to Cash CTI (1)

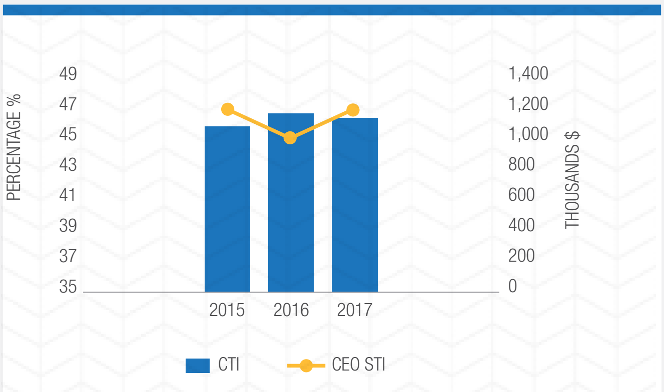
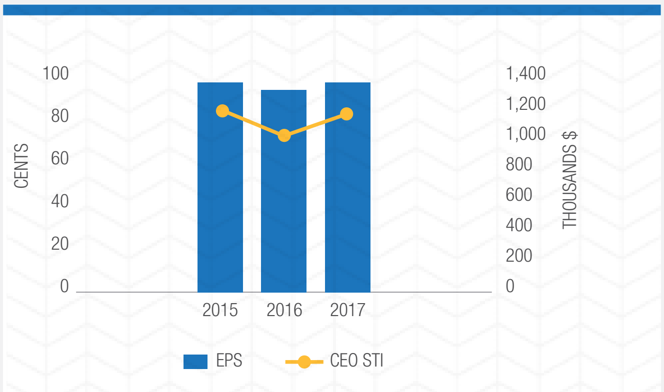


Figure 3.2.4 - CEO STI compared to Cash EPS (1)



(1) Non-statutory measures are not subject to audit

Remuneration Report

For the year ended 31 August 2017

Section 3. Remuneration Outcomes (continued)

3.3 Group Executive Performance Assessment and STI – How Performance is linked to STI Outcomes

The HRRC and Board have reviewed the Group's performance and the performance of each Group Executive against Group and individual performance measures identified for the FY17 STI Plan.

The key financial and non-financial objectives for Group Executives in FY17 are identified in the table below. Note that all Group Executives share common Group performance metrics and were present for the full year.

Group Executives STI is calculated on the following basis:

Assess Gateway Test Performance → Fixed Rem X STI target % opportunity × Group Performance Score (moderator) × Individual Performance Score (moderator) = STI Outcome (subject to Board overlay and discretion)

STI Gateway Test

The STI plan gateway tests were met for all Group Executives in FY17. The test requires achievement of at least 90% of budgeted basic cash EPS. Basic cash EPS achieved for FY17 was 97.6c, which was above the 90 per cent of budgeted EPS hurdle. An additional gateway requires demonstration of appropriate risk behaviours and values. The Group Executives were assessed by the Managing Director & CEO and were reviewed by the HRRC in conjunction with the Risk Committee and no issues were identified.

Group Scorecard Outcomes

The weighting of Group metrics are designed to achieve a balance between financial performance, enhancing customer satisfaction and prudent risk management. Performance intervals are developed across a range of outcomes with Performing being aligned to the FY17 budget. Performance metrics are approved by the Board.

Each metric is assessed individually and overall performance is determined by the averaged outcome. STI is not awarded where overall performance is Below Threshold. STI may be earned across the performance range up to a capped maximum at an Exceptional rating. Performance against Group metrics, as assessed and approved by the Board, is set out in the table below.

Summary of Group Performance Outcomes

TABLE 4 - GROUP PERFORMANCE OUTCOMES [(1)]

		Group Scorecard Outcomes FY17				
Group Performance Metric	Weighting	Below Threshold	Threshold	Performing	Superior	Exceptional
Cash NPAT ($m)	20%			●		
Cash Return on Equity	20%			●		
Cash Cost to Income	20%		●			
Customer Satisfaction – NPS Ranking Position in group	10%				●	
Customer Satisfaction – NPS Relative Improvement in Score	10%		●			
Risk – Impairment Expense to GLA (bps)	10%					●
Risk – Retail Deposit to Lending Funding Ratio	10%					●

(1) Non-statutory measures are not subject to audit

Cash Net Profit after Tax: FY17 Result $378m [(1)]

The $378m result includes several one off items. The Cash NPAT result used to determine performance against this Group metric was adjusted for these one-off items and was lower than the Cash NPAT reported. Subsequently, the result was assessed at the Performing level.

Remuneration Report

For the year ended 31 August 2017

Section 3. Remuneration Outcomes (continued)

Cash Return on Equity: FY17 Result 10.4% (1)

The Return on Equity result achieved for FY17 was assessed as being at the Performing level.

Cash Cost to Income Ratio: FY17 Result 46.6% (1)

The Cost to Income ratio was impacted by the challenging environment for revenue growth. However general operating costs were managed within the projected budget and the result was assessed as being at the Threshold level.

Customer Satisfaction Position Ranking: FY17 Result 4th (1)

Overall ranking against the comparator group improved over the year and resulted in a Superior level result. Net Promoter Scores for the Bank are measured in terms of ranking against the comparator group that consists of the major and regional Banks. Performance is assessed by independent survey firm RFI.

Customer Satisfaction Relative Improvement in NPS: FY17 Result 9th (1)

Overall rating in terms of the change in NPS relative to other Banks was assessed at the Threshold level.

Impairment Expense to GLA (bps): FY17 Result 11bps (1)

The asset portfolio remained sound due to prudent risk settings and quality of assets being funded. As a result the impairment expense to GLA result was delivered at an Exceptional level and better than budget expectations.

Retail Deposit to Lending Funding Ratio: FY17 Result 69% (1)

Customer deposit growth fully funded lending growth for the year. An improvement in the mix of deposits was also evident. This had a positive effect on the cost of funding BOQ's lending portfolio with a reduced reliance on funding via wholesale markets. The result exceeded expectations and an Exceptional level was achieved.

(1) Non-statutory measures are not subject to audit

Individual Scorecard Outcomes

Individual performance metrics for each Group Executive are aligned to the BOQ strategy with a focus on the Divisional strategy including a mix of financial and non-financial metrics. There is an additional shared risk metric that reflects performance against audit and compliance outcomes and a culture metric that includes assessment of performance against employee engagement, diversity and safety metrics and BOQ values.

With respect to the Managing Director & CEO, the Board's assessment of individual performance was at the high end of Performing. This assessment was based on demonstrated leadership, application of banking process, support for and demonstration of a strong risk culture and delivery of key elements of strategy during the year.

Group Executive performance is assessed for each individual metric and reviewed by the Board. The overall rating is determined by the average across all rating outcomes. This scorecard outcome is then applied as a moderator to the weighted average Group result within the STI calculation to determine individual Group Executive STI.

For the Line Divisions, metrics consist of contribution to Cash NPAT, growth in deposits, customer metrics and delivery of strategic initiatives such as digital solutions, implementation of improved systems such as the Mortgage Hub, product enhancements and development of customer contact channels.

For the Functional Divisions the main focus is on developing and enhancing enabling frameworks that support business improvement, improving risk management frameworks, efficient cost management and enhancing leadership and management capability.

All Group Executives also share a common risk metric, related to audits of their Divisions, completion of audit actions and sharing people metrics that cover employee engagement, enhancing alignment to BOQ values, improving diversity through gender representation at senior levels as well as work health and safety reporting and incident management.

In addition to the assessment of Group Performance outcomes, the Board considered the following positive outcomes as part of its overlay discretion:

- BOQ's annual relative TSR at 26.5% leads the listed bank sector;
- The strong balance sheet position has benefited our shareholders and is a key contributor to the payment of a special dividend in FY17; and
- In consideration of the changing environment in which BOQ operates, the Board has considered the work BOQ's Group Executive team has done to further strengthen regulatory and risk systems and culture during FY17.

Remuneration Report

For the year ended 31 August 2017

Section 3. Remuneration Outcomes (continued)

FY17 STI Outcomes

Where individual performance is assessed as Below Threshold, no STI is paid even where the Group performance result triggered a positive outcome.

Based on Group performance results and the level of individual performance, the Board approved Group Executive STI payments are between 17% and 63% of their maximum STI opportunity.

As noted previously in the summary, Group Executive STI amounts were calculated applying the STI model after making adjustments for certain one off factors that lowered the result relative to reported Cash NPAT, and were then subject to a discretionary overlay by the Board. The Board discretionary overlay added 9.7% of the calculated STI to the KMP pool.

For STI amounts of $100,000 or greater, 50 per cent of the STI amount is subject to deferral to Restricted Shares, vests over two years and is subject to forfeiture and claw back.

The table below includes STI amounts awarded in FY16 and FY17 for comparative purposes.

TABLE 5 – COMPARISON OF STI FY16 TO FY17

Name	Position Title	FY17 Fixed Remuneration	STI % FR at Maximum	2017 STI Awarded	2017 STI as % of Maximum	2016 STI Awarded	2016 STI as % of Maximum
Jon Sutton	Managing Director & CEO	1,300,000	150%	1,200,000	62%	1,000,000	51%
Anthony Rose	Chief Financial Officer	710,000	100%	410,000	58%	375,000	53%
Peter Deans	Chief Risk Officer	675,000	100%	420,000	62%	375,000	56%
Matthew Baxby	Group Executive Retail Banking	655,000	140%	500,000	55%	470,000	51%
Brendan White	Group Executive BOQ Business	690,000	140%	540,000	56%	475,000	49%
Donna Vinci	Group Executive Enterprise Solutions	580,000	100%	365,000	63%	340,000	59%
Belinda Jefferys (1)	Group Executive People & Culture	525,000	100%	295,000	56%	145,000	28%
Vimpi Juneja	Group Executive Product & Strategy	505,000	100%	85,000	17%	200,000	40%
Michelle Thomsen	General Counsel & Company Secretary	403,000	100%	205,000	51%	170,000	42%

(1) Ms Jefferys FY16 STI represents a partial year amount as employment commenced on 27 January 2016.

3.4 LTI Outcomes

LTI awarded to Group Executives in 2013 was due for testing in the current period. The results of this testing resulted in vested awards as set out in the tables below.

Awards Vesting in FY17

A description of the LTI plan for awards vested during FY17, is summarised in the table below.

The 2013 LTI grant had one performance hurdle being relative TSR. At the date of performance testing and at the vesting date, qualifying Group Executives were employed, not serving out a notice period and were not subject to performance review due to any adverse risk behaviours.

The statutory tables in Section 6 set out the detail of LTI awards that vested to individual qualifying Group Executives during the period.

LTI TESTING OUTCOMES

Grant Date	Performance Period	Vesting Hurdle	Performance Outcome	Percentage of Award Vested
16 December 2013	9 October 2013 to 6 October 2016	TSR ranking of at least 50th percentile.	BOQ TSR achieved a ranking of 57th percentile resulting in the awards vesting.	64.6%

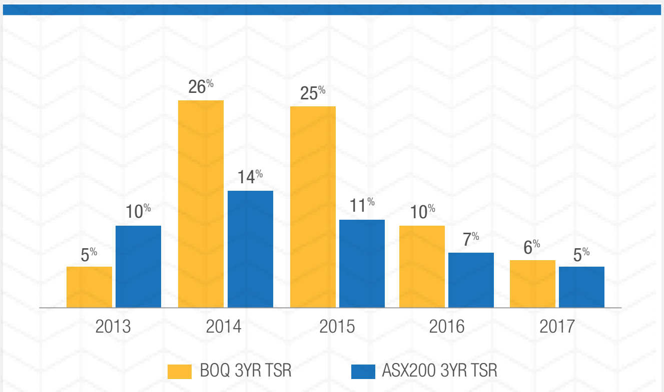
Remuneration Report

For the year ended 31 August 2017

Section 3. Remuneration Outcomes (continued)

The chart below demonstrates three-year rolling TSR performance for BOQ compared to the ASX200 Accumulation Index. (Note: TSRs for 2017 are as at 31 August)

FIGURE 3.4.1 - 3YR ROLLING TSR: BOQ vs ASX200 (unaudited)



LTI Grants Awarded for FY17

The Board determined that, in accordance with the remuneration policy, an LTI grant will be awarded for the current period, noting that awards for the Managing Director & CEO are subject to shareholder approval at the 2017 AGM.

TABLE 6 - **LTI GRANTS FOR FY17**

Name	Position Title	2017 Fixed Remuneration $	Performance Award Rights Granted FY17 $	% of Fixed Rem
Jon Sutton	Managing Director & Chief Executive Officer	1,300,000	1,300,000	100%
Anthony Rose	Chief Financial Officer	710,000	710,000	100%
Peter Deans	Chief Risk Officer	675,000	675,000	100%
Matthew Baxby	Group Executive Retail Banking	655,000	655,000	100%
Brendan White	Group Executive BOQ Business	690,000	690,000	100%
Donna Vinci	Group Executive Enterprise Solutions	580,000	580,000	100%
Belinda Jefferys	Group Executive People & Culture	525,000	525,000	100%
Vimpi Juneja	Group Executive Product & Strategy	505,000	-	-
Michelle Thomsen	General Counsel & Company Secretary	403,000	403,000	100%

Remuneration Report

For the year ended 31 August 2017

Section 3. Remuneration Outcomes (continued)

PARs are granted at face value with the number of rights determined by applying a five day volume weighted average share price ('VWAP') with that period commencing on the day following announcement of full year results. The table below sets out the dates, performance period and tranche weighting for the grant. The actual grant date allows for the completion of the offer period and acceptance following approval at the AGM.

Proposed Grant Date	Performance Period	Tranche %	Performance Hurdle Description
13 December 2017	3 years	TSR 80%	BOQ relative TSR ranking at or above 50th percentile triggers 50% vesting of the award tranche up to BOQ relative TSR ranking at or above the 75th percentile triggering 100% vesting of the award tranche.
		EPS 20%	BOQ relative EPS ranking at or above the 60th percentile triggers 50% vesting of the award tranche up to BOQ relative EPS ranking at or above the 90th percentile triggering 100% vesting of the award tranche.

3.5 Summary of Group Executive Total Reward (Non-Statutory Remuneration) Outcomes for FY17

The table below provides shareholders with an overall summary of remuneration earned and paid to Group Executives over the period up to 31 August 2017. It consolidates the information referenced earlier in the report and provides a breakdown of the following components of Group Executives remuneration:

- fixed remuneration (base plus super);
- value of benefits; and
- variable remuneration which includes:
  - short term incentives comprising the cash component paid and cash value of deferred STI awarded as equity; and
  - value of LTI awarded in 2013 that vested in 2017.

This is a non-statutory table and is provided for shareholders information. It does not contain detail of FY17 LTI equity grants.

TABLE 7 - GROUP EXECUTIVE NON-STATUTORY REMUNERATION

Position Title	2017 Base plus Super (1) $	Value of Benefits (2) $	FY17 STI Cash (3) $	FY17 STI Deferred (4) $	Total Value STI $	FY17 Total Cash Payments (5)	Value of Deferred Equity Vested in Period (6) $	Value of LTI Vested in Period (7) $	Total Reward Value in Period $
Managing Director & Chief Executive Officer	1,296,191	69,190	600,000	600,000	1,200,000	1,896,191	514,893	433,145	2,844,229
Chief Financial Officer	708,681	-	205,000	205,000	410,000	913,681	264,839	386,736	1,565,256
Chief Risk Officer	673,585	49,808	210,000	210,000	420,000	883,585	259,811	371,263	1,514,659
Group Executive Retail Banking	653,873	-	250,000	250,000	500,000	903,873	267,404	324,854	1,496,130
Group Executive BOQ Business	688,719	19,382	270,000	270,000	540,000	958,719	334,239	371,263	1,664,221
Group Executive Enterprise Solutions	578,988	47,598	182,500	182,500	365,000	761,488	148,156	-	909,644
Group Executive People & Culture	524,160	20,800	147,500	147,500	295,000	671,660	130,240	-	801,900
Group Executive Product & Strategy	504,371	6,600	85,000	-	85,000	589,371	5,904	-	595,275
General Counsel & Company Secretary	402,658	-	102,500	102,500	205,000	505,158	41,607	-	546,765

Additional Information – Non-Statutory Remuneration Methodology

(1) Base remuneration and superannuation make up a Group Executive's fixed remuneration.
(2) Relates to parking and accommodation benefits.
(3) This is 50% of the 2017 STI for performance during FY17 (payable November 2017).
(4) This represents 50% of the 2017 STI award that is deferred until 1 October 2018 (50%) and 1 October 2019 (50%). The deferred awards are subject to Board review at the time of payment and are deferred into restricted shares subject to vesting conditions.
(5) This is the total $ value of cash STI, base and superannuation relating to 2017.
(6) The value of all deferred cash and /or equity awards (closing share price on vesting date) that vested during FY17. This excludes deferred equity awards granted in previous years which have not vested in FY17.
(7) This relates to PARs that vested during the financial year (closing share price on vesting date).

Remuneration Report

For the year ended 31 August 2017

Section 4. Remuneration Governance

Remuneration is governed by principles, policy and oversight of the HRRC in accordance with its charter and on behalf of the Board. The HRRC and Board may exercise discretion in accordance with parameters described below.

The remuneration strategy and the principles adopted to support this are described in Section 2 on page 51. In accordance with the HRRC Charter, the remuneration policy was updated during the period and was reviewed for regulatory compliance by external legal experts prior to approval by the Board. The remuneration strategy and policy will be reviewed as developments and changes in the regulatory environment become known.

As noted in the Chairman's letter, the HRRC continues to monitor developments arising from the remuneration reform program within the Financial Services industry as it affects executive and employee remuneration at BOQ. These changes will be reflected in updates to the remuneration governance framework.

4.1 Remuneration Principles

- Total reward is linked to performance and aligns to shareholder interests;
- Fixed and total remuneration for each Group Executive is periodically benchmarked to the market to ensure it remains competitive;
- Key performance measures apply to all executives, covering both financial and non-financial targets;
- The Bank's LTI is awarded on the basis of a VWAP at face value and not a risk adjusted value (fair value);
- Total remuneration for KMP is targeted to achieve a balance between fixed, short term and long term variable at risk remuneration;
- Variable remuneration is capped and subject to deferral and/or claw back of unvested short term incentive deferred and LTI;
- Cash payments are not made to executives joining BOQ; and
- The Board has discretion on all remuneration outcomes.

4.2 HRRC Charter

Under the Consolidated Entity's HRRC charter, the Committee undertakes to conduct regular reviews and provide advice to the Board on the following:

- Review the Consolidated Entity's remuneration policy, at least on a biennial basis, to ensure compliance with the Consolidated Entity's objectives and risk management framework and to reflect changes in the regulatory environment;
- Provide recommendations to the Board on remuneration, recruitment, succession, retention and termination policies for Group Executives;
- Undertake an annual review of the individual remuneration arrangements for Group Executives and all other Responsible Persons (as defined by the Australian Prudential Regulation Authority Prudential Standard CPS 520) and provide annual recommendations to the Board;
- Review and provide annual recommendations to the Board on the remuneration principles for employees in Group Risk, Finance and Legal and recommendations on the remuneration for all remaining groups of employees not otherwise specified; and
- Consider and recommend NED remuneration, including ensuring that the structure of NED remuneration is clearly distinguished from that of Group Executives.

Where necessary, the Board seeks advice from independent experts and advisors, including remuneration consultants. The remuneration consultants are engaged by the HRRC which ensures, upon engagement, that the appropriate level of independence exists from the Consolidated Entity's Management. Reports provided by independent consultants are submitted directly to the Chairman of the HRRC. Where the consultant's engagement requires a recommendation, the recommendation is provided to, and discussed directly with the Chairman in accordance with the requirements as set out under the *Corporations Act 2001*.

Remuneration Report

For the year ended 31 August 2017

Section 4. Remuneration Governance (continued)

4.3 Board Discretion

Group Executives' remuneration is determined by the remuneration strategy, policy and schemes such as STI and LTI. Remuneration outcomes are assessed against a range of performance measures and awarded in accordance with the plan design and plan rules.

The Board and HRRC recognise that there are a number of factors which may be taken into account when considering the overall remuneration outcomes for each year. To account for these factors, the HRRC and Board may make discretionary adjustments to the outcomes for Group Executives that may impact their remuneration negatively or positively. Through this process, remuneration outcomes have been adjusted both positively and negatively in the past three years.

Criteria used by the HRRC to apply discretionary adjustments include:

- Factors either not known or relevant at the beginning of a financial year, which impacted performance positively or negatively during the course of the financial year;
- The degree of 'stretch' implicit in the measures and targets and the environment and market context in which the targets were set;
- Comparison with the performance of the Group relative to its competitors;
- The emergence of any major positive or negative risk, conduct or reputational issues and behaviours;
- The quality of the financial result as shown by its composition and consistency; and
- Any other matters that the Board and the HRRC deem to be relevant and which are not outlined above.

4.4 Clawback of Deferred STI and LTI

Each of the variable remuneration programs including STI, STI deferral and LTI are governed by plan rules that are reviewed and approved each year. Within these there is specific reference to circumstances where Board discretion may be exercised and clawback of awards applied.

Group Executives are not eligible to receive STI if they are terminated for misconduct or poor performance, however the Board has discretion to consider a pro-rated STI in circumstances where they meet the "good leaver" definition, usually in the case of redundancy, retirement or death in service.

The Board's ability to clawback unvested equity awards, either deferred STI or LTI is set out in plan rules. In circumstances where it becomes evident that there was a material misstatement of financial results or serious misconduct by an individual where this may result in reputational damage to the Bank, the Board can exercise discretion to reduce or forfeit (clawback) a pro-rated amount or the full value of any unvested awards.

4.5 Executive Contracts

The remuneration and terms of Group Executives are formalised in their employment agreements. Each of these employment agreements provide for the payment of fixed and performance-based variable remuneration, superannuation and other benefits such as statutory leave entitlements. Employment terms are governed by employment contracts as set out in the table below.

TABLE 8 - GROUP EXECUTIVE NOTICE PERIODS

Position Title	Notice Period by Executive	Employer Notice Period	Additional No-Fault Termination Benefit (1)
Managing Director & Chief Executive Officer	9 months	9 months	No additional benefit
Chief Financial Officer	3 months	3 months	6 months fixed remuneration
Chief Risk Officer	3 months	3 months	3 months fixed remuneration
Group Executive Retail Banking	3 months	3 months	6 months fixed remuneration
Group Executive BOQ Business	3 months	3 months	6 months fixed remuneration
Group Executive Enterprise Solutions	3 months	3 months	6 months fixed remuneration
Group Executive People & Culture	3 months	3 months	6 months fixed remuneration
Group Executive Product & Strategy	3 months	3 months	6 months fixed remuneration
Group General Counsel & Company Secretary	3 months	3 months	6 months fixed remuneration

(1) Termination benefit payable by employer under 'No-Fault' employer initiated circumstances in addition to notice period.

Remuneration Report

For the year ended 31 August 2017

Section 5. Non-Executive Director ('NED') Remuneration

5.1 Fee Pool

Non-Executive Director fees are determined within an aggregate fee pool limit. The pool currently stands at $2,800,000 (inclusive of superannuation) and was approved by shareholders on 30 November 2016. The fee pool allows the Board flexibility in dealing with changes to its size and composition as a means of ensuring that an appropriate mix of skills and experience is maintained and to be market competitive. There is no increase to the fee pool being sought in FY18.

5.2 Remuneration Framework

NED fees are set to attract and retain individuals of appropriate calibre to the BOQ Board and Committees. Fees are reviewed by the HRRC having regard to advice provided periodically by independent remuneration consultants to ensure market comparability. There are no fee increases being sought in FY18.

The Chairman's fees are determined independently to the fees of other Directors and are also based upon information provided by independent remuneration consultants. The Chairman is not present at any discussions relating to the determination of their remuneration.

In order to maintain independence and impartiality, NEDs do not receive any performance-related remuneration including shares, award rights or share options. NEDs are not provided with retirement benefits apart from statutory superannuation.

The table below sets out the current Board and Committee membership fee structure.

TABLE 9 - DIRECTORS' ANNUAL FEES (1)

Directors' Annual Fees (excluding statutory superannuation)	01/09/16-31/08/17 Chairman/Committee Chair	01/09/16-31/08/17 Directors/Committee Members
Fixed component of remuneration for Directors (2)	-	150,000
Chairman (3)	400,000	-
Additional remuneration is paid to Non-Executive Directors for Committee work:		
St Andrews' Board of Directors (4)	-	45,000
Audit Committee	45,000	22,500
Risk Committee	45,000	22,500
Nomination & Governance Committee	15,000	10,000
Human Resources & Remuneration Committee	35,000	17,500
Investment Committee (5)	2,250	1,500
Due Diligence Committee (5)	2,250	1,500
Information Technology Committee	35,000	17,500

(1) Fees remain unchanged since FY16

(2) Directors receive one fee for serving on Bank and subsidiary entity Committees. A separate fee is received for serving on the St Andrews Board.

(3) The Chairman receives no additional remuneration for involvement with Committees.

(4) David Willis is also a member of the St Andrew's Board of Directors.

(5) Per meeting.

Section 6. Statutory Tables

6.1 Statutory Disclosures

The following tables include details of the nature and amount, as required by the *Corporations Act 2001*, of each major element of the remuneration of each Director and Group Executive of the Group, calculated in accordance with accounting standards.

Remuneration Report

For the year ended 31 August 2017

Section 6. Statutory Tables (continued)

TABLE 10 - DIRECTOR'S REMUNERATION

Details of the nature and amount of each major element of the remuneration of each Director of the Consolidated Entity are as outlined in the table below:

		Short-Term				Long-Term						
								Share Based Payments				
		Salary and fees $	STI at risk [1] $	Non-monetary benefits [2] $	Other short term benefits $	Total short term benefits $	Post employment [3] $	Other long term [4] $	Rights [5] $	Shares and units [6] $	Total $	Proportion of remuneration performance related %	Value of rights as proportion of remuneration %
Executive Director [7]													
Jon Sutton - Managing Director & Chief Executive Officer	2017	1,268,451	600,000	19,382	49,808	1,937,641	20,795	29,377	712,025	558,333	3,258,171	63%	22%
	2016	1,336,068	500,000	19,382	49,808	1,905,258	19,281	16,839	622,360	525,000	3,088,738	53%	20%
Non-Executive Directors - Current [7]													
Roger Davis	2017	400,000	-	-	-	400,000	21,359	-	-	-	421,359	-	-
	2016	400,000	-	-	-	400,000	19,334	-	-	-	419,334	-	-
Bruce Carter	2017	225,833	-	-	-	225,833	19,308	-	-	-	245,141	-	-
	2016	217,500	-	-	-	217,500	20,098	-	-	-	237,598	-	-
Richard Haire	2017	242,500	-	-	-	242,500	19,308	-	-	-	261,808	-	-
	2016	235,000	-	-	-	235,000	19,308	-	-	-	254,308	-	-
John Lorimer	2017	190,000	-	-	-	190,000	18,307	-	-	-	208,307	-	-
	2016	105,685	-	-	-	105,685	9,783	-	-	-	115,468	-	-
Warwick Negus	2017	145,977	-	-	-	145,977	13,440	-	-	-	159,417	-	-
Karen Penrose	2017	193,000	-	-	-	193,000	18,193	-	-	-	211,193	-	-
	2016	125,386	-	-	-	125,386	12,268	-	-	-	137,654	-	-
Margaret Seale	2017	185,000	-	-	-	185,000	17,575	-	-	-	202,575	-	-
	2016	185,000	-	-	-	185,000	17,575	-	-	-	202,575	-	-
Michelle Tredenick	2017	235,000	-	-	-	235,000	19,616	-	-	-	254,616	-	-
	2016	235,000	-	-	-	235,000	21,119	-	-	-	256,119	-	-
David Willis	2017	260,651	-	-	-	260,651	19,667	-	-	-	280,318	-	-
	2016	262,500	-	-	-	262,500	19,308	-	-	-	281,808	-	-

(1) STI at risk reflects 50% of the amounts paid or accrued in respect of FY17. Refer to Section 2.1 Current Remuneration Framework for a discussion of the Bank's STI arrangements.
(2) Relates to parking expenses.
(3) This includes superannuation benefits.
(4) Comprises long service leave accrued or utilised during the financial year.
(5) The fair value of the rights is calculated at the date of grant using an industry accepted option pricing model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the rights allocated to this reporting period.
(6) Represents restricted shares awarded through deferred STI payments.
(7) The Bank has also paid insurance premiums in respect of Directors' and Officers' Liability Insurance which is not reflected in the above table as there is no appropriate basis for allocation.

Remuneration Report

For the year ended 31 August 2017

Section 6. Statutory Tables (continued)

TABLE 11 - GROUP EXECUTIVE REMUNERATION

Details of the nature and amount of each major element of the remuneration of each Group Executive of the Consolidated Entity are as outlined in the table below:

		Short-Term					Long-Term		Share Based Payments				
		Salary and fees $	STI at risk [1] $	Non-monetary benefits [2] $	Other short term benefits $	Total short term benefits $	Post employment [3] $	Other long term [4] $	Termination Benefits $	Rights [5] $	Shares and units [6] $	Total $	Proportion of remuneration performance related %	Value of rights as proportion of remuneration %
Executives - Current														
Matthew Baxby	**2017**	**640,768**	**250,000**	**-**	**-**	**890,768**	**20,795**	**16,297**	**-**	**321,791**	**241,250**	**1,490,901**	**60%**	**22%**
	2016	586,680	235,000	-	-	821,680	18,763	7,959	-	334,321	241,667	1,424,390	56%	23%
Peter Deans	**2017**	**638,476**	**210,000**	**-**	**49,808**	**898,284**	**20,795**	**15,595**	**-**	**381,426**	**204,792**	**1,520,892**	**56%**	**25%**
	2016	646,964	187,500	-	49,808	884,272	18,615	8,626	-	388,726	217,708	1,517,947	52%	26%
Belinda Jefferys	**2017**	**485,642**	**147,500**	**20,800**	**-**	**653,942**	**20,795**	**2,695**	**-**	**214,599**	**91,667**	**983,698**	**35%**	**22%**
	2016	330,364	72,500	14,400	-	417,264	11,673	529	-	68,159	30,208	527,833	19%	13%
Vimpi Juneja [7]	**2017**	**499,452**	**85,000**	**6,600**	**-**	**591,052**	**20,795**	**-**	**381,167**	**146,538**	**41,667**	**1,181,219**	**26%**	**12%**
	2016	355,292	100,000	7,200	-	462,492	15,890	1,582	-	56,269	41,667	577,900	34%	10%
Anthony Rose	**2017**	**680,070**	**205,000**	**-**	**-**	**885,070**	**20,795**	**17,296**	**-**	**368,449**	**202,708**	**1,494,318**	**56%**	**25%**
	2016	653,695	187,500	-	-	841,195	19,281	7,909	-	393,031	218,958	1,480,374	53%	27%
Michelle Thomsen	**2017**	**398,423**	**102,500**	**-**	**-**	**500,923**	**20,795**	**3,132**	**-**	**144,508**	**93,542**	**762,900**	**48%**	**19%**
	2016	382,173	85,000	-	-	467,173	19,281	944	-	60,226	88,125	635,749	37%	9%
Donna-Maree Vinci	**2017**	**567,989**	**182,500**	**47,598**	**-**	**798,087**	**20,795**	**4,517**	**-**	**361,829**	**146,875**	**1,332,103**	**45%**	**27%**
	2016	574,984	170,000	35,490	-	780,474	19,133	1,367	-	164,607	99,167	1,064,748	33%	15%
Brendan White	**2017**	**678,683**	**270,000**	**19,382**	**-**	**968,065**	**20,795**	**17,292**	**-**	**359,567**	**262,292**	**1,628,011**	**60%**	**22%**
	2016	617,148	237,500	19,382	-	874,030	19,281	8,142	-	377,819	282,708	1,561,980	57%	24%

(1) STI at risk reflects 50% of the amounts paid or accrued in respect of FY17. Refer to Section 2.1 Current Remuneration Framework for a discussion of the Bank's STI arrangements.
(2) Relates to accommodation and parking expenses.
(3) This includes superannuation.
(4) Comprises long service leave accrued or utilised during the financial year.
(5) The fair value of the rights is calculated at the date of grant using an industry accepted option pricing model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the rights allocated to this reporting period.
(6) Represents restricted shares awarded through deferred STI payments.
(7) Vimpi Juneja ceased to be a Group Executive as at 31 August 2017.

Remuneration Report

For the year ended 31 August 2017

Section 6. Statutory Tables (continued)

6.2 Equity held by Group Executives

The movement during FY17 in the number of rights over ordinary shares held by each Group Executive as part of their remuneration, are as follows:

TABLE 12 - MOVEMENT IN RIGHTS HELD BY GROUP EXECUTIVES DURING THE FINANCIAL YEAR 2017

					Movements during the 2017 Financial Year				
Group Executive	Type	Grant Date	Share Price at Grant Date $	Balance at 1 Sep 2016	Granted [1]	Exercised	Lapsed	**Balance at 31 August 2017 [1] [2]**	Vested during the Year [3] (%)
Current									
Jon Sutton	2013 PARs	16/12/2013	11.43	60,189	-	38,882	21,307	**-**	65%
	2013 DARs	16/12/2013	11.43	4,515	-	4,515	-	**-**	50%
	2014 PARs	16/12/2014	11.70	103,721	-	-	-	**103,721**	-
	Restricted Shares	16/12/2014	11.70	16,596	-	16,596	-	**-**	50%
	2015 PARs	15/12/2015	13.02	97,774	-	-	-	**97,774**	-
	Restricted Shares	15/12/2015	13.02	46,932	-	23,466	-	**23,466**	50%
	2016 PARs	23/12/2016	11.95	-	117,865	-	-	**117,865**	-
	Restricted Shares	23/12/2016	11,95	-	45,333	-	-	**45,333**	-
Matthew Baxby	2013 PARs	16/12/2013	11.43	45,142	-	29,161	15,981	**-**	65%
	2013 DARs	16/12/2013	11.43	2,541	-	2,541	-	**-**	50%
	2014 PARs	16/12/2014	11.70	43,563	-	-	-	**43,563**	-
	Restricted Shares	16/12/2014	11.70	11,410	-	11,410	-	**-**	50%
	2015 PARs	15/12/2015	13.02	44,194	-	-	-	**44,194**	-
	Restricted Shares	15/12/2015	13.02	18,382	-	9,191	-	**9,191**	50%
	2016 PARs	23/12/2016	11.95	-	54,399	-	-	**54,399**	-
	Restricted Shares	23/12/2016	11.95	-	21,306	-	-	**21,306**	-
Peter Deans	2013 PARs	16/12/2013	11.43	51,591	-	33,327	18,264	**-**	65%
	2013 DARs	16/12/2013	11.43	2,903	-	2,903	-	**-**	50%
	2014 PARs	16/12/2014	11.70	53,935	-	-	-	**53,935**	-
	Restricted Shares	16/12/2014	11.70	10,372	-	10,372	-	**-**	50%
	2015 PARs	15/12/2015	13.02	52,798	-	-	-	**52,798**	-
	Restricted Shares	15/12/2015	13.02	18,382	-	9,191	-	**9,191**	50%
	2016 PARs	23/12/2016	11.95	-	61,199	-	-	**61,199**	-
	Restricted Shares	23/12/2016	11.95	-	17,000	-	-	**17,000**	-
Belinda Jefferys	2016 PARs	29/02/2016	10.55	45,681	-	-	-	**45,681**	-
	Restricted Shares	29/02/2016	10.55	10,963	-	10,963	-	**-**	100%
	2016 PARs	23/12/2016	11.95	-	47,599	-	-	**47,599**	-
	Restricted Shares	23/12/2016	11.95	-	6,573	-	-	**6,573**	-
Vimpi Juneja [4]	2015 PARs	15/12/2015	13.02	23,466	-	-	-	**23,466**	-
	2015 DARs	15/12/2015	13.02	2,460	-	492	-	**1,968**	20%
	2016 PARs	23/12/2016	11.95	-	42,613	-	-	**42,613**	-
	Restricted Shares	23/12/2016	11.95	-	9,067	-	-	**9,067**	-

(1) This represents the maximum number of award rights that may vest to each Executive.
(2) Balance amounts as at 31 August 2017 are unvested and not yet exercisable.
(3) Percentage of initial rights granted.
(4) Vimpi Juneja ceased to be a Group Executive as at 31 August 2017.

Remuneration Report

For the year ended 31 August 2017

Section 6. Statutory Tables (continued)

6.2 Equity held by Group Executives (continued)

TABLE 12 - MOVEMENT IN RIGHTS HELD BY GROUP EXECUTIVES DURING THE FINANCIAL YEAR 2017 (CONTINUED)

Group Executive	Type	Grant Date	Share Price at Grant Date $	Balance at 1 Sep 2016	Movements during the 2017 Financial Year: Granted [1]	Movements during the 2017 Financial Year: Exercised	Movements during the 2017 Financial Year: Lapsed	**Balance at 31 August 2017 [1] [2]**	Vested during the Year [3] (%)
Current									
Anthony Rose	2013 PARs	16/12/2013	11.43	53,740	-	34,716	19,024	**-**	65%
	2013 DARs	16/12/2013	11.43	3,024	-	3,024	-	**-**	50%
	2014 PARs	16/12/2014	11.70	51,860	-	-	-	**51,860**	-
	Restricted shares	16/12/2014	11.70	10,683	-	10,683	-	**-**	50%
	2015 PARs	15/12/2015	13.02	50,843	-	-	-	**50,843**	-
	Restricted shares	15/12/2015	13.02	18,382	-	9,191	-	**9,191**	50%
	2016 PARs	23/12/2016	11,95	-	58,932	-	-	**58,932**	-
	Restricted shares	23/12/2016	11,95	-	17,000	-	-	**17,000**	-
Michelle Thomsen	2015 PARs	15/12/2015	13.02	30,897	-	-	-	**30,897**	-
	Restricted shares	15/12/2015	13.02	7,235	-	3,618	-	**3,617**	50%
	2016 PARs	23/12/2016	11.95	-	35,813	-	-	**35,813**	-
	Restricted shares	23/12/2016	11.95	-	7,707	-	-	**7,707**	-
Donna-Maree Vinci	2015 PARs	15/12/2015	13.02	44,585	-	-	-	**44,585**	-
	Restricted shares	15/12/2015	13.02	12,593	-	12,593	-	**-**	100%
	2016 PARs	29/02/2016	10.55	52,076	-	-	-	**52,076**	-
	2016 PARs	23/12/2016	11.95	-	51,679	-	-	**51,679**	-
	Restricted shares	23/12/2016	11.95	-	15,413	-	-	**15,413**	-
Brendan White	2013 PARs	16/12/2013	11.43	51,591	-	33,327	18,264	**-**	65%
	2013 DARs	16/12/2013	11.43	2,903	-	2,903	-	**-**	50%
	2014 PARs	16/12/2014	11.70	49,786	-	-	-	**49,786**	-
	Restricted shares	16/12/2014	11.70	14,106	-	14,106	-	**-**	50%
	2015 PARs	15/12/2015	13.02	50,061	-	-	-	**50,061**	-
	Restricted shares	15/12/2015	13.02	23,857	-	11,929	-	**11,928**	50%
	2016 PARs	23/12/2016	11.95	-	58,026	-	-	**58,026**	-
	Restricted shares	23/12/2016	11.95	-	21,533	-	-	**21,533**	-

(1) This represents the maximum number of award rights that may vest to each Executive.
(2) Balance amounts as at 31 August 2017 are unvested and not yet exercisable.
(3) Percentage of initial rights granted.

Remuneration Report

For the year ended 31 August 2017

Section 6. Statutory Tables (continued)

6.2 Equity held by Group Executives (continued)

The table below shows the total value of any rights that were granted, exercised or lapsed to Group Executives.

TABLE 13 - VALUE OF RIGHTS HELD BY GROUP EXECUTIVES DURING THE FINANCIAL YEAR 2017

Group Executive	Grant	Grant Date	Fair Value per Right at Grant Date $	Value at Grant Date $ (1)	Exercise Date	Share Price at Exercise Date $ (2)	Value at Exercise Date $ (3)	Expiry / Lapsing Date
Current								
Jon Sutton	2012 DARs	26/02/2012	6.60	413,734	01/05/2013	9.93	311,246	05/05/2017
					07/05/2014	11.95	374,549	05/05/2017
	2012 PARs	26/02/2012	5.18	386,568	27/10/2015	13.76	1,026,868	16/12/2017
	2012 DARs	18/12/2012	6.20	43,456	05/02/2014	10.84	15.187	18/12/2017
					02/01/2015	12.20	25,657	18/12/2017
					18/12/2015	13.55	47,493	18/12/2017
	2012 PARs	18/12/2012	1.74 (4)	97,571	27/10/2015	13.76	771,592	18/12/2017
	2013 PARs	16/12/2013	7.63	459,242	24/10/2016	11.20	435,478	16/12/2018
	2013 DARs	16/12/2013	10.38	93,711	02/01/2015	12.20	22,021	16/12/2018
					18/12/2015	13.55	36,693	16/12/2018
					22/12/2016	12.00	54,180	16/12/2018
	2014 PARs	16/12/2014	6.13	635,810	-	-	-	16/12/2019
	Restricted shares	16/12/2014	11.70	388,335	16/12/2015	13.31	220,879	16/12/2024
					16/12/2016	11.50	190,854	16/12/2024
	2015 PARs	15/12/2015	7.67	749,927	-	-	-	16/12/2020
	Restricted shares	15/12/2015	13.02	611,055	15/12/2016	11.50	269,859	16/12/2025
	2016 PARs	23/12/2016	6.80	801,482	-	-	-	16/12/2021
	Restricted Shares	23/12/2016	11.95	541,729	-	-	-	16/12/2026
Matthew Baxby	2012 DARs	01/02/2012	6.60	244,081	30/10/2013	11.96	221,152	05/05/2017
					09/07/2014	12.15	224,666	05/05/2017
	2012 PARs	01/02/2012	5.18	383,134	27/10/2015	13.76	1,017,745	18/12/2017
	2012 DARs	18/12/2012	6.20	32,593	09/07/2014	12.15	12,770	18/12/2017
					30/12/2014	12.20	19,239	18/12/2017
					31/12/2015	13.94	36,648	18/12/2017
	2012 PARs	18/12/2012	1.74 (4)	73,177	27/10/2015	13.76	578,691	18/12/2017
	2013 PARs	16/12/2013	7.63	344,433	24/10/2016	11.20	326,603	16/12/2018
	2013 DARs	16/12/2013	10.38	52,720	30/12/2014	12.20	12,383	16/12/2018
					31/12/2015	13.94	21,231	16/12/2018
					27/01/2017	12.21	31,026	16/12/2018

(1) Represents rights held at 1 September 2016 or granted during FY17.

(2) Closing share price on exercise date of rights that have a nil exercise price.

(3) Closing share price on exercise date multiplied by the number of rights exercised during the year.

(4) The fair value as based on a valuation period from 18 October 2012 to grant date. The Bank's total shareholder return over this period was below the peer group, decreasing the vesting probability and reducing the fair value calculation.

Remuneration Report

For the year ended 31 August 2017

Section 6. Statutory Tables (continued)

6.2 Equity held by Group Executives (continued)

TABLE 13 - VALUE OF RIGHTS HELD BY GROUP EXECUTIVES DURING THE FINANCIAL YEAR 2017 (CONTINUED)

Group Executive	Grant	Grant Date	Fair Value per Right at Grant Date $	Value at Grant Date $ (1)	Exercise Date	Share Price at Exercise Date $ (2)	Value at Exercise Date $ (3)	Expiry / Lapsing Date
Current								
Matthew Baxby (continued)	2014 PARs	16/12/2014	6.13	267,041	-	-	-	16/12/2019
	Restricted shares	16/12/2014	11.70	266,982	16/12/2015	13.31	151,854	16/12/2024
					16/12/2016	11.50	131,215	16/12/2024
	2015 PARs	15/12/2015	7.67	338,968	-	-	-	16/12/2020
	Restricted shares	15/12/2015	13.02	239,334	15/12/2016	11.50	105,697	16/12/2025
	2016 PARs	23/12/2016	6.80	369,913	-	-	-	16/12/2021
	Restricted Shares	23/12/2016	11.95	254,607	-	-	-	16/12/2026
Peter Deans	2012 PARs	10/05/2012	3.70	255,526	27/10/2015	13.76	950,279	16/12/2017
	2012 DARs	18/12/2012	6.20	38,273	30/10/2014	12.66	15,622	18/12/2017
					28/01/2015	12.37	22,909	18/12/2017
					18/12/2015	13.55	41,829	18/12/2017
	2012 PARs	18/12/2012	1.74 (4)	83,631	27/10/2015	13.76	661,361	18/12/2017
	2013 PARs	16/12/2013	7.63	393,639	24/10/2016	11.20	373,262	16/12/2018
	2013 DARs	16/12/2013	10.38	60,246	28/01/2015	12.37	14,349	16/12/2018
					18/12/2015	13.55	23,591	16/12/2018
					27/12/2016	11.95	34,691	16/12/2018
	2014 PARs	16/12/2014	6.13	330,622	-	-	-	16/12/2019
	Restricted shares	16/12/2014	11.70	242,705	16/12/2015	13.31	138,051	16/12/2024
					16/12/2016	11.50	119,278	16/12/2024
	2015 PARs	15/12/2015	7.67	404,961	-	-	-	16/12/2020
	Restricted shares	15/12/2015	13.02	239,334	15/12/2016	11.50	105,697	16/12/2025
	2016 PARs	23/12/2016	6.80	416,153	-	-	-	16/12/2021
	Restricted Shares	23/12/2016	11.95	203,150	-	-	-	16/12/2026
Belinda Jefferys	2016 PARs	29/02/2016	7.67	350,373	-	-	-	16/12/2020
	Restricted shares	29/02/2016	13.02	142,738	6/12/2016	11.33	41,411	16/12/2025
					4/4/2017	12.11	44,250	16/12/2025
					27/07/2017	12.20	44,579	16/12/2025
	2016 PARs	23/12/2016	6.80	323,673	-	-	-	16/12/2021
	Restricted Shares	23/12/2016	11.95	78,547	-	-	-	16/12/2026
Vimpi Juneja (5)	2015 DARs	15/12/2015	11.71	28,807	23/12/2016	11.95	5,879	16/12/2020
	2015 PARs	15/12/2015	7.67	179,984	-	-	-	16/12/2025
	2016 PARs	23/12/2016	6.80	289,768	-	-	-	16/12/2021
	Restricted Shares	23/12/2016	11.95	108,351	-	-	-	16/12/2026

(1) Represents rights held at 1 September 2016 or granted during FY17.
(2) Closing share price on exercise date of rights that have a nil exercise price.
(3) Closing share price on exercise date multiplied by the number of rights exercised during the year.
(4) The fair value as based on a valuation period from 18 October 2012 to grant date. The Bank's total shareholder return over this period was below the peer group, decreasing the vesting probability and reducing the fair value calculation.
(5) Vimpi Juneja ceased to be a Group Executive as at 31 August 2017.

Remuneration Report

For the year ended 31 August 2017

Section 6. Statutory Tables (continued)

6.2 Equity held by Group Executives (continued)

TABLE 13 - VALUE OF RIGHTS HELD BY GROUP EXECUTIVES DURING THE FINANCIAL YEAR 2017 (CONTINUED)

Group Executive	Grant	Grant Date	Fair Value per Right at Grant Date $	Value at Grant Date $ (1)	Exercise Date	Share Price at Exercise Date $ (2)	Value at Exercise Date $ (3)	Expiry / Lapsing Date
Current								
Anthony Rose	2012 DARs	29/02/2012	6.60	198,198	30/10/2013	11.96	179,579	05/05/2017
					25/07/2014	12.57	188,739	05/05/2017
	2012 PARs	29/02/2012	5.18	388,888	27/10/2015	13.76	1,033,032	16/12/2017
	2012 DARs	18/12/2012	6.20	38,800	15/01/2014	11.89	14,874	18/12/2017
					08/01/2015	11.94	22,423	18/12/2017
					26/02/2016	10.55	33,011	18/12/2017
	2012 PARs	18/12/2012	1.74 (4)	87,117	28/10/2015	13.51	676,405	18/12/2017
	2013 PARs	16/12/2013	7.63	410,036	21/10/2016	11.14	386,736	16/12/2018
	2013 DARs	16/12/2013	10.38	62,757	08/01/2015	11.94	14,435	16/12/2018
					26/02/2016	10.55	19,127	16/12/2018
					09/01/2017	12.40	37,498	16/12/2018
	2014 PARs	16/12/2014	6.13	317,902	-	-	-	16/12/2019
	Restricted shares	16/12/2014	11.70	249,982	16/12/2015	13.31	142,191	16/12/2024
					16/12/2016	11.50	122,855	16/12/2024
	2015 PARs	15/12/2015	7.67	389,966	-	-	-	16/12/2020
	Restricted shares	15/12/2015	13.02	239,334	15/12/2016	11.50	105,697	16/12/2025
	2016 PARs	23/12/2016	6.80	400,738	-	-	-	16/12/2021
	Restricted shares	23/12/2016	11.95	203,150	-	-	-	16/12/2026
Michelle Thomsen	2015 PARs	15/12/2015	7.67	236,980	-	-	-	16/12/2020
	Restricted shares	15/12/2015	13.02	94,200	15/12/2016	11.50	41,607	16/12/2025
	2016 PARs	23/12/2016	6.80	243,528	-	-	-	16/12/2021
	Restricted shares	23/12/2016	11.95	92,099	-	-	-	16/12/2026
Donna-Maree Vinci	2015 PARs	15/12/2015	7.67	341,967	-	-	-	16/12/2020
	Restricted shares	15/12/2015	13.02	163,961	6/12/2016	11.33	71,345	16/12/2025
					27/07/2017	12.20	76,811	16/12/2025
	2016 PARs	29/02/2016	7.67	399,423	-	-	-	16/12/2020
	2016 PARs	23/12/2016	6.80	351,417	-	-	-	16/12/2021
	Restricted shares	23/12/2016	11.95	184,185	-	-	-	16/12/2026

(1) Represents rights held at 1 September 2016 or granted during FY17.

(2) Closing share price on exercise date of rights that have a nil exercise price.

(3) Closing share price on exercise date multiplied by the number of rights exercised during the year.

(4) The fair value as based on a valuation period from 18 October 2012 to grant date. The Bank's total shareholder return over this period was below the peer group, decreasing the vesting probability and reducing the fair value calculation.

Remuneration Report

For the year ended 31 August 2017

Section 6. Statutory Tables (continued)

6.2 Equity held by Group Executives (continued)

TABLE 13 - VALUE OF RIGHTS HELD BY GROUP EXECUTIVES DURING FY 2017 (CONTINUED)

Group Executive	Grant	Grant Date	Fair Value per Right at Grant Date $	Value at Grant Date $ (1)	Exercise Date	Share Price at Exercise Date $ (2)	Value at Exercise Date $ (3)	Expiry / Lapsing Date
Current								
Brendan White	2012 DARs	10/02/2012	6.60	498,788	01/05/2013	9.93	375,225	05/05/2017
					03/06/2014	12.00	453,444	05/05/2017
	2012 PARs	10/02/2012	5.18	349,526	27/10/2015	13.76	928,470	16/12/2017
	2012 DARs	18/12/2012	6.20	38,800	23/12/2014	12.08	37,798	18/12/2017
					18/12/2015	13.55	42,398	18/12/2017
	2012 PARs	18/12/2012	1.74 (4)	87,117	27/10/2015	13.76	688,922	18/12/2017
	2013 PARs	16/12/2013	7.63	393,639	24/10/2016	11.20	373,262	16/12/2018
	2013 DARs	16/12/2013	10.38	60,246	23/12/2014	12.08	14,013	16/12/2018
					18/12/2015	13.55	23,591	16/12/2018
					05/04/2017	12.12	35,184	16/12/2018
	2014 PARs	16/12/2014	6.13	305,188	-	-	-	16/12/2019
	Restricted shares	16/12/2014	11.70	330,080	16/12/2015	13.31	187,751	16/12/2024
					16/12/2016	11.50	162,219	16/12/2024
	2015 PARs	15/12/2015	7.67	383,968	-	-	-	16/12/2020
	Restricted shares	15/12/2015	13.02	310,618	15/12/2016	11.50	137,184	16/12/2025
	2016 PARs	23/12/2016	6.80	394,577	-	-	-	16/12/2021
	Restricted shares	23/12/2016	11.95	257,319	-	-	-	16/12/2026

(1) Represents rights held at 1 September 2016 or granted during FY17.

(2) Closing share price on exercise date of rights that have a nil exercise price.

(3) Closing share price on exercise date multiplied by the number of rights exercised during the year.

(4) The fair value as based on a valuation period from 18 October 2012 to grant date. The Bank's total shareholder return over this period was below the peer group, decreasing the vesting probability and reducing the fair value calculation.

Remuneration Report

For the year ended 31 August 2017

Section 6. Statutory Tables (continued)

6.3 Equity Instruments - Holdings and Movements

Movement in shares

The number of shares held directly, indirectly or beneficially by each Director, Group Executive or related party is as follows:

Ordinary shares [(1)]	Held at 1 September 2016	Purchases / (Sales)	Received on Exercise of Award Rights / Restricted Shares	**Held at 31 August 2017**
Executive Director				
Jon Sutton	110,979	-	83,459	**194,438**
Directors - Current				
Roger Davis	18,043	-	-	**18,043**
Bruce Carter	16,337	1,166	-	**17,503**
Richard Haire	7,347	-	-	**7,347**
John Lorimer	-	12,000	-	**12,000**
Karen Penrose	8,500	1,000	-	**9,500**
Margaret Seale	11,043	-	-	**11,043**
Michelle Tredenick	10,635	-	-	**10,635**
David Willis	1,990	142	-	**2,132**
Executives - Current				
Matthew Baxby [(2)]	106,221	(99,718)	52,303	58,806
Peter Deans [(2)]	89,677	(78,327)	55,793	67,143
Belinda Jefferys	-	-	10,963	**10,963**
Anthony Rose	4,942	(59,532)	57,614	**3,024**
Donna-Maree Vinci	-	-	12,593	**12,593**
Brendan White	3,330	(62,265)	62,265	**3,330**

(1) Directors and Group Executives with nil shareholding balances as at 31 August 2017 have been excluded from the table above.

(2) Opening balances have been updated to reflect shares held indirectly or beneficially by Group Executives as at 1 September 2016 (Matthew Baxby: 58,806 shares, Peter Deans: 69,441 shares)

Remuneration Report

For the year ended 31 August 2017

Section 6. Statutory Tables (continued)

6.4 Transactions with Key Management Personnel (Directors and Group Executives)

Loan transactions

Loans to KMP and their related parties (including close family members of the KMP and entities over which the KMP and/or their close family members have control, joint control or significant influence) are provided in the ordinary course of business. Normal commercial terms and conditions are applied to all loans. Any discounts provided to KMP are the same as those available to all employees of the Consolidated Entity. There have been no write downs or amounts recorded as provisions during FY17.

Details of loans held by KMP and their related parties during the financial year, where the individual's aggregate loan balance exceeded $100,000 at any time in this period, are as follows:

	Balance at 1 September 2016 $	Interest charged during the year $	**Balance at 31 August 2017 $**	Highest balance during the year $
Executives				
Matthew Baxby	1,052,990	46,575	**1,105,970**	1,349,504
Michelle Thomsen	352,876	18,034	**323,140**	352,876
Brendan White	251,009	12,330	**341,326**	341,465
Other Related Parties				
Richard Haire related parties	191,000	8,194	**191,000**	191,696
Jon Sutton related parties	762,899	36,681	**1,296,199**	1,459,792
Warwick Negus related parties (1)	-	76,189	**-**	2,809,063

(1) Warwick Negus was appointed as a Director of the Bank on 22 September 2016

Details regarding the aggregate of loans made, guaranteed or secured by any entity in the economic entity to all Group Executives and their related parties, and the number of individuals in each group are as follows:

	Balance at 1 September 2016 $	Interest charged during the year $	**Balance at 31 August 2017 $**	**Number in group at 31 August 2017 #**
Executives	1,690,202	78,414	**1,788,768**	4
Other Related Parties	953,899	121,065	**1,487,199**	3

Other transactions

Transactions with KMP and their related parties (other than loans and shares) during the financial year were related to personal banking, investment, finance leasing, insurance policy and deposit transactions. These transactions are on normal commercial terms and conditions, in the ordinary course of business and are considered trivial or domestic in nature.

On 26 May 2015, the Bank issued 15,000 Wholesale Capital Notes [1] at a price of $10,000 per note. Details of those notes issued to BOQ Directors are set out below:

	Balance at 31 August 2017 $	Interest earned for the year $
Roger Davis	**200,000**	8,884
David Willis	**70,000**	3,109
Total	**270,000**	**11,993**

(1) Capital notes are classified as non-current.

Indemnification of officers

The Bank's Constitution provides that all officers of the Bank are indemnified by the Bank against liabilities incurred by them in the capacity of officer to the full extent permitted by the *Corporations Act 2001*.

Insurance of officers

Since the end of the previous financial year the Bank has paid insurance premiums in respect of a Directors' and Officers' liability insurance contract. The contract insures each person who is or has been a Director or Executive officer (as defined in the *Corporations Act 2001*) of the Bank against certain liabilities arising in the course of their duties to the Bank and its controlled entities. The Directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the insurance contract as such disclosure is prohibited under the terms of the contract.

Directors' interests

Directors' interests as at the date of this report were as follows:

Roger Davis	18,043
Jon Sutton	194,438
Warwick Negus	-
Bruce Carter	17,503
Richard Haire	7,347
John Lorimer	12,000
Karen Penrose	9,500
Margaret Seale	11,043
Michelle Tredenick	10,635
David Willis	2,132

Audit and Non-audit services

During the year, KPMG, the Bank's auditor, has performed certain other services in addition to their statutory duties. The Board has considered the non-audit services provided during the year by the auditor is compatible with, and did not compromise, the auditor's independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Bank and have been reviewed by the Audit Committee to ensure they do not impact the integrity and objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor's independence as set out in APES 110 *Code of Ethics for Professional Accountants*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Bank or acting as an advocate for the Bank or jointly sharing risks and rewards.

Details of the amounts paid to the auditor of the Bank, KPMG and its related practices for audit and non-audit services provided during the year are set out below:

	Consolidated		Bank	
KPMG Australia	**2017 $000**	**2016 $000**	**2017 $000**	**2016 $000**
Audit services				
- Audit and review of the financial reports	**1,561**	1,215	**1,029**	860
- Other regulatory and audit services	**250**	277	**162**	160
	1,811	1,492	**1,191**	1,020
Audit-related services				
- Other assurance services	**744**	716	**533**	619
- Regulatory assurance services	**191**	144	**191**	144
	935	860	**724**	763
Non-audit services				
- Taxation services	**189**	120	**189**	120
- Other	**215**	70	**215**	70
	404	190	**404**	190

Directors' Report

For the year ended 31 August 2017

Lead Auditor's Independence Declaration

The lead auditor's independence declaration is set out on page 75 and forms part of the Directors' report for the year ended 31 August 2017.

Director and Management changes

Warwick Negus was appointed as a Non-Executive Director on 22 September 2016.

Vimpi Juneja (Group Executive Product & Strategy) ceased employment on 31 August 2017.

Management attestation

The Board has been provided with a written statement from the Group's Managing Director and CEO and Chief Financial Officer, confirming the accompanying financial statements and notes are in accordance with the *Corporations Act 2001* and they present a true and fair view in all material respects of the Group's financial position and performance as at and for the year ended 31 August 2017.

The Directors' declaration can be found on page 143 of the financial statements.

Environmental regulation

The Group's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation. The Board confirms that the Group is not aware of any breach of environmental requirements.

Subsequent events

Dividends have been determined after 31 August 2017. The financial effect of the dividends has not been brought to account in the financial statements for the year ended 31 August 2017, other than accrued interest on the Convertible Preference Shares. Further details with respect to the dividend amounts per share, payment date and dividend reinvestment plan can be obtained from Section 2.4 Dividends of the consolidated financial statements.

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

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:

Roger Davis

Chairman
11 October 2017

Jon Sutton

Managing Director and CEO
11 October 2017

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 audit of Bank of Queensland Limited for the financial year ended 31 August 2017 there have been:

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

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

KPMG

Robert Warren
Partner
Sydney
11 October 2017

2017

Financial Statements

Income Statements

For the year ended 31 August 2017

		Consolidated		Bank	
	Section	**2017 $m**	2016 $m	**2017 $m**	2016 $m
Interest income	2.1	**2,046**	2,157	**2,015**	2,147
Less: Interest expense	2.1	**1,120**	1,221	**1,280**	1,370
Net interest income	2.1	**926**	936	**735**	777
Other operating income	2.1	**156**	155	**347**	295
Net banking operating income		**1,082**	1,091	**1,082**	1,072
Premiums from insurance contracts		**68**	70	**-**	-
Investment revenue		**2**	3	**-**	-
Less: Claims and policyholder liability expense from insurance contracts		**49**	47	**-**	-
Net insurance operating income	2.1	**21**	26	**-**	-
Total operating income before impairment and operating expenses	2.1	**1,103**	1,117	**1,082**	1,072
Less: Expenses	2.2	**548**	554	**508**	510
Less: Impairment on loans and advances	3.4	**48**	67	**32**	37
Profit before income tax		**507**	496	**542**	525
Less: Income tax expense	2.3	**155**	158	**126**	146
Profit for the year		**352**	338	**416**	379
Profit attributable to:					
Equity holders of the parent		**352**	338	**416**	379
Earnings per share					
Basic earnings per share - Ordinary shares (cents)	2.6	**90.9**	89.8		
Diluted earnings per share - Ordinary shares (cents)	2.6	**87.8**	85.5		

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

Statements of Comprehensive Income

For the year ended 31 August 2017

	Consolidated		Bank	
	2017 $m	2016 $m	**2017 $m**	2016 $m
Profit for the year	**352**	338	**416**	379
Other comprehensive income, net of income tax				
Items that may be reclassified subsequently to profit or loss				
Cash flow hedges:				
Net gains / (losses) taken to equity	**13**	(75)	**19**	(76)
Net losses transferred to profit and loss	**23**	12	**23**	12
Foreign currency translation differences on foreign operations	**-**	(1)	**-**	-
Net change in fair value of financial assets available-for-sale	**3**	24	**3**	24
Net gains transferred to profit and loss for financial assets available-for-sale	**(14)**	(10)	**(14)**	(10)
Other comprehensive expense, net of income tax	**25**	(50)	**31**	(50)
Total comprehensive income for the year	**377**	288	**447**	329
Total comprehensive income attributable to:				
Equity holders of the parent	**377**	288	**447**	329

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

Balance Sheets

As at 31 August 2017

		Consolidated		Bank	
	Section	2017 $m	2016 $m	2017 $m	2016 $m
Assets					
Cash and liquid assets	3.1	914	1,228	537	703
Due from other financial institutions - term deposits		58	68	8	10
Financial assets available-for-sale	3.3	3,934	3,739	4,027	3,930
Financial assets held for trading	3.3	1,837	1,591	1,837	1,591
Derivative financial assets	3.8	109	180	107	180
Loans and advances at amortised cost	3.4	43,590	42,896	39,348	38,881
Other assets		214	127	501	229
Shares in controlled entities	6.5	-	-	867	872
Property, plant and equipment		60	60	53	51
Deferred tax assets	2.3	55	80	52	81
Intangible assets	4.1	872	869	793	802
Investments in joint arrangements	6.7	15	15	-	-
Amounts due from controlled entities		-	-	324	24
Total assets		51,658	50,853	48,454	47,354
Liabilities					
Due to other financial institutions - accounts payable at call		262	209	262	209
Deposits	3.2	37,169	36,720	37,501	37,523
Derivative financial liabilities	3.8	333	498	333	490
Accounts payable and other liabilities		390	355	327	311
Current tax liabilities		7	14	6	14
Provisions	4.2	42	47	33	35
Insurance policy liabilities	5.1	16	25	-	-
Borrowings	3.5	9,651	9,398	6,230	5,281
Total liabilities		47,870	47,266	44,692	43,863
Net Assets		3,788	3,587	3,762	3,491
Equity					
Issued capital		3,360	3,243	3,367	3,250
Reserves		57	33	48	18
Retained profits		371	311	347	223
Total Equity		3,788	3,587	3,762	3,491

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

Statements of Changes in Equity

For the year ended 31 August 2017

Consolidated	Ordinary shares $m	Employee benefits reserve $m	Equity reserve for credit losses $m	Cashflow hedge reserve $m	Available-for-sale reserve $m	Retained profits $m	Total equity $m
Year ended 31 August 2017							
Balance at beginning of the year	**3,243**	**27**	**81**	**(153)**	**78**	**311**	**3,587**
Total comprehensive income for the year							
Profit for the year	-	-	-	-	-	352	352
Other comprehensive income, net of income tax							
Cash flow hedges:							
Net gains taken to equity	-	-	-	13	-	-	13
Net losses transferred to profit and loss	-	-	-	23	-	-	23
Net change in fair value of financial assets available-for-sale	-	-	-	-	3	-	3
Net gains transferred to profit and loss for financial assets available-for-sale	-	-	-	-	(14)	-	(14)
Total other comprehensive income / (expense)	-	-	-	36	(11)	-	25
Total comprehensive income / (expense) for the year	-	-	-	36	(11)	352	377
Transactions with owners, recorded directly in equity Contributions by and distributions to owners							
Issues of ordinary shares (1)	12	-	-	-	-	-	12
Dividend reinvestment plan	105	-	-	-	-	-	105
Dividends to shareholders	-	-	-	-	-	(292)	(292)
Equity settled transactions	-	(1)	-	-	-	-	(1)
Total contributions by and distributions to owners	117	(1)	-	-	-	(292)	(176)
Balance at the end of the year	**3,360**	**26**	**81**	**(117)**	**67**	**371**	**3,788**

(1) On 21 October 2016, 1,050,000 ordinary shares were issued at $11.15 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 issue of shares under the BOQ Restricted Share Plan and BOQ Employee Share Plan.

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

Statements of Changes in Equity

For the Year Ended 31 August 2017

Consolidated	Ordinary shares $m	Employee benefits reserve $m	Equity reserve for credit losses $m	Cashflow hedge reserve $m	Translation reserve $m	Available-for-sale reserve $m	Retained profits $m	Total equity $m
Year ended 31 August 2016								
Balance at beginning of the year	3,122	34	81	(90)	1	64	257	3,469
Total comprehensive income for the year								
Profit for the year	-	-	-	-	-	-	338	338
Other comprehensive income, net of income tax								
Cash flow hedges:								
Net losses taken to equity	-	-	-	(75)	-	-	-	(75)
Net losses transferred to profit and loss	-	-	-	12	-	-	-	12
Foreign currency translation difference on foreign operations	-	-	-	-	(1)	-	-	(1)
Change in fair value of financial assets available-for-sale	-	-	-	-	-	24	-	24
Net gains transferred to profit and loss for financial assets available-for-sale	-	-	-	-	-	(10)	-	(10)
Total other comprehensive income / (expense)	-	-	-	(63)	(1)	14	-	(50)
Total comprehensive income / (expense) for the year	-	-	-	(63)	(1)	14	338	288
Transactions with owners, recorded directly in equity Contributions by and distributions to owners								
Issues of ordinary shares (1)	20	-	-	-	-	-	-	20
Dividend reinvestment plan	104	-	-	-	-	-	-	104
Dividends to shareholders	-	-	-	-	-	-	(284)	(284)
Equity settled transactions	-	(9)	-	-	-	-	-	(9)
Transfer to cash settled transactions	(2)	2	-	-	-	-	-	-
Treasury shares (2)	(1)	-	-	-	-	-	-	(1)
Total contributions by and distributions to owners	121	(7)	-	-	-	-	(284)	(170)
Balance at the end of the year	3,243	27	81	(153)	-	78	311	3,587

(1) On 26 October 2015, 1,130,000 ordinary shares were issued at $13.79 and on 9 February 2016, 374,000 ordinary shares were issued at $12.63 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 issue of shares under the BOQ Restricted Share Plan and BOQ Employee Share Plan.

(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 Statements of Changes in Equity should be read in conjunction with the accompanying notes.

Statements of Changes in Equity

For the year ended 31 August 2017

Bank	Ordinary shares $m	Employee benefits reserve $m	Equity reserve for credit losses $m	Cashflow hedge reserve $m	Available-for-sale reserve $m	Retained profits $m	Total equity $m
Year ended 31 August 2017							
Balance at beginning of the year	**3,250**	**27**	**68**	**(155)**	**78**	**223**	**3,491**
Total comprehensive income for the year							
Profit for the year	-	-	-	-	-	416	416
Other comprehensive income, net of income tax							
Cash flow hedges:							
Net gains taken to equity	-	-	-	19	-	-	19
Net losses transferred to profit and loss	-	-	-	23	-	-	23
Net change in fair value of financial assets available-for-sale	-	-	-	-	3	-	3
Net gains transferred to profit and loss for financial assets available-for-sale	-	-	-	-	(14)	-	(14)
Total other comprehensive income / (expense)	-	-	-	42	(11)	-	31
Total comprehensive income / (expense) for the year	-	-	-	42	(11)	416	447
Transactions with owners, recorded directly in equity Contributions by and distributions to owners							
Issues of ordinary shares [(1)]	12	-	-	-	-	-	12
Dividend reinvestment plan	105	-	-	-	-	-	105
Dividends to shareholders	-	-	-	-	-	(292)	(292)
Equity settled transactions	-	(1)	-	-	-	-	(1)
Total contributions by and distributions to owners	117	(1)	-	-	-	(292)	(176)
Balance at the end of the year	**3,367**	**26**	**68**	**(113)**	**67**	**347**	**3,762**

(1) On 21 October 2016, 1,050,000 ordinary shares were issued at $11.15 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 issue of shares under the BOQ Restricted Share Plan and BOQ Employee Share Plan.

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

Statements of Changes in Equity

For the Year Ended 31 August 2017

Bank	Ordinary shares $m	Employee benefits reserve $m	Equity reserve for credit losses $m	Cashflow hedge reserve $m	Available-for-sale reserve $m	Retained profits $m	Total equity $m
Year ended 31 August 2016							
Balance at beginning of the year	3,128	34	68	(91)	64	128	3,331
Total comprehensive income for the year							
Profit for the year	-	-	-	-	-	379	379
Other comprehensive income, net of income tax							
Cash flow hedges:							
Net losses taken to equity	-	-	-	(76)	-	-	(76)
Net losses transferred to profit and loss	-	-	-	12	-	-	12
Net change in fair value of financial assets available-for-sale	-	-	-	-	24	-	24
Net gains transferred to profit and loss for financial assets available-for-sale	-	-	-	-	(10)	-	(10)
Total other comprehensive income / (expense)	-	-	-	(64)	14	-	(50)
Total comprehensive income / (expense) for the year	-	-	-	(64)	14	379	329
Transactions with owners, recorded directly in equity Contributions by and distributions to owners							
Issues of ordinary shares [(1)]	20	-	-	-	-	-	20
Dividend reinvestment plan	104	-	-	-	-	-	104
Dividends to shareholders	-	-	-	-	-	(284)	(284)
Equity settled transactions	-	(9)	-	-	-	-	(9)
Transfer to cash settled transactions	(2)	2	-	-	-	-	-
Total contributions by and distributions to owners	122	(7)	-	-	-	(284)	(169)
Balance at the end of the year	3,250	27	68	(155)	78	223	3,491

(1) On 26 October 2015, 1,130,000 ordinary shares were issued at $13.79 and on 9 February 2016, 374,000 ordinary shares were issued at $12.63 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 issue of shares under the BOQ Restricted Share Plan and BOQ Employee Share Plan.

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

Statements of Cash Flows

For the year ended 31 August 2017

	Section	Consolidated 2017 $m	Consolidated 2016 $m	Bank 2017 $m	Bank 2016 $m
Cash flows from operating activities					
Interest received		**1,990**	2,156	**1,846**	2,024
Fees and other income received		**137**	130	**176**	172
Dividends received		**1**	1	**1**	1
Interest paid		**(1,066)**	(1,263)	**(1,225)**	(1,403)
Cash paid to suppliers and employees		**(478)**	(502)	**(440)**	(482)
Income tax paid		**(143)**	(174)	**(141)**	(172)
		441	348	**217**	140
Increase in operating assets:					
Loans and advances at amortised cost		**(699)**	(2,259)	**(485)**	(2,147)
Other financial assets		**(484)**	(395)	**(390)**	(416)
Increase / (decrease) in operating liabilities:					
Deposits		**440**	1,925	**(217)**	2,088
Net cash outflow from operating activities	**3.1**	**(302)**	(381)	**(875)**	(335)
Cash flows from investing activities					
Acquisition of BOQF Cashflow Finance Pty Ltd (1)	6.5	**(14)**	-	**-**	-
Disposal of vendor finance entity, net of cash		**19**	-	**-**	-
Receipt of third party loan repayment		**95**	-	**-**	-
Payments for property, plant and equipment		**(18)**	(16)	**(17)**	(8)
Payments for intangible assets		**(46)**	(67)	**(40)**	(72)
Cash distribution received from equity accounted investments		**-**	3	**-**	-
Capital injection into controlled entities		**-**	-	**-**	(10)
Proceeds from sale of property, plant and equipment		**13**	12	**1**	-
Net cash outflow from investing activities		**49**	(68)	**(56)**	(90)
Cash flows from financing activities					
Proceeds from issue of ordinary shares		**12**	20	**11**	20
Proceeds from borrowings	3.5	**4,090**	3,515	**2,734**	2,392
Proceeds from foreign exchange instruments		**-**	57	**10**	-
Repayment of other financing activities		**-**	-	**(57)**	(703)
Repayments of borrowings	3.5	**(3,963)**	(2,818)	**(1,788)**	(1,003)
Payments for treasury shares		**(12)**	(20)	**(12)**	(20)
Dividends paid		**(188)**	(180)	**(188)**	(180)
Dividends received		**-**	-	**55**	69
Net cash inflow from financing activities		**(61)**	574	**765**	575
Net increase / (decrease) in cash and cash equivalents		**(314)**	125	**(166)**	150
Cash and liquid assets at beginning of year		**1,228**	1,103	**703**	553
Cash and liquid assets at end of year	3.1	**914**	1,228	**537**	703

(1) Entity was formerly known as Centerpoint Alliance Premium Funding Pty Ltd.

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

Notes to the Financial Statements

For the Year Ended 31 August 2017

Notes to the Financial Statements

For the Year Ended 31 August 2017

Section 1. Basis of preparation

1.1 Reporting entity

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

The consolidated financial statements of the Bank for the financial year ended 31 August 2017 comprise 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.

1.2 Basis of accounting

(a) Statement of compliance

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and interpretations issued by the Australian Accounting Standards Board ('AASB') and the *Corporations Act 2001*. The consolidated financial statements and notes thereto also comply with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB'). The consolidated financial statements were authorised for issue by the Directors on 11 October 2017.

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis with the exception of the following assets and liabilities which are stated at their fair value:

- derivative financial instruments;
- financial assets held for trading;
- financial assets available-for-sale; and
- assets and liabilities acquired through business combinations.

(c) Functional and presentation currency

The consolidated financial statements are presented in Australian dollars, which is the Bank's functional currency.

(d) Rounding

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 in this financial report and Directors' report have been rounded off to the nearest million dollars, unless otherwise stated.

1.3. Use of estimates and judgements

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, 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 results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. These accounting policies have been consistently applied throughout the Consolidated Entity.

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

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described below:

- Provision for impairment – Section 3.4;
- Financial instruments – Section 3.7;
- Carrying value of goodwill and other intangible assets – Section 4.1;
- Provisions – Section 4.2; and
- Contingent liabilities – Section 6.3.

Notes to the Financial Statements

For the Year Ended 31 August 2017

Section 2. Financial performance

2.1 Operating income

	Consolidated		Bank	
	2017 $m	2016 $m	2017 $m	2016 $m
Interest income				
Loans and advances	**1,900**	2,002	**1,738**	1,729
Securities at fair value	**146**	155	**277**	418
Total interest income	**2,046**	2,157	**2,015**	2,147
Interest expense				
Retail deposits	**611**	662	**612**	656
Wholesale deposits and borrowings	**509**	559	**668**	714
Total interest expense	**1,120**	1,221	**1,280**	1,370
Net interest income	**926**	936	**735**	777
Income from operating activities				
Other customer fees and charges	**90**	98	**118**	122
Share of fee revenue paid to Owner Managed Branches	**(8)**	(10)	**(8)**	(10)
Securitisation income	**-**	-	**42**	50
Net income/(expense) from financial instruments and derivatives at fair value	**(4)**	13	**(3)**	12
Commissions	**31**	26	**13**	12
Management fee – controlled entities	**-**	-	**19**	27
Foreign exchange income – customer based	**11**	9	**11**	9
Net profit / (loss) on sale of property, plant and equipment	**12**	11	**-**	(1)
Other income	**24**	8	**155**	74
Total income from operating activities	**156**	155	**347**	295
Net insurance operating income	**21**	26	**-**	-
Total operating income	**1,103**	1,117	**1,082**	1,072

Interest income and expense

Interest income and expense for all interest bearing financial instruments are recognised in the profit or loss using the effective interest rates of the financial assets or financial liabilities to which they relate.

Other operating income

Other operating income and expense that are considered an integral part of the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate. Non-yield related application and activation lending fee revenue is recognised when the loan is disbursed or the commitment to lend expires. Service fees that represent the recoupment of the costs of providing the service are recognised on an accrual basis when the service is provided.

Dividends are recognised when control of a right to receive consideration is established.

Notes to the Financial Statements

For the Year Ended 31 August 2017

2.2 Expenses

		Consolidated		Bank	
	Section	**2017 $m**	2016 $m	**2017 $m**	2016 $m
Operating expenses					
Advertising		**23**	23	**16**	17
Commissions to Owner Managed Branches		**6**	7	**6**	6
Communications and postage		**20**	21	**19**	20
Printing and stationery		**4**	4	**4**	4
Processing costs		**10**	20	**10**	20
Other		**31**	24	**33**	21
		94	99	**88**	88
Administrative expenses					
Professional fees		**13**	12	**12**	9
Directors fees		**2**	2	**2**	2
Other		**6**	5	**9**	8
		21	19	**23**	19
IT expenses					
Data processing		**71**	67	**67**	62
Amortisation – computer software (intangible)	4.1	**38**	28	**36**	27
Depreciation – IT equipment		**1**	1	**1**	1
		110	96	**104**	90
Occupancy expenses					
Lease rentals		**33**	34	**30**	32
Depreciation – plant, furniture, equipment and leasehold improvements		**9**	9	**8**	9
Other		**3**	3	**3**	2
		45	46	**41**	43
Employee expenses					
Salaries, wages and superannuation contributions		**232**	241	**209**	220
Payroll tax		**12**	14	**11**	13
Equity settled transactions		**11**	12	**10**	10
Other		**9**	11	**9**	11
		264	278	**239**	254
Other					
Amortisation – acquired intangibles	4.1	**14**	16	**13**	16
Total expenses		**548**	554	**508**	510

Notes to the Financial Statements

For the Year Ended 31 August 2017

2.3 Income tax expense and deferred tax

Income tax expense

The major components of income tax expense along with a reconciliation between pre-tax profit and tax expense are detailed below:

	Consolidated		Bank	
	2017 $m	2016 $m	**2017 $m**	2016 $m
Current tax expense				
Current year	**136**	138	**112**	127
Adjustments for prior years	**-**	(4)	**1**	(2)
	136	134	**113**	125
Deferred tax expense				
Origination and reversal of temporary differences	**19**	24	**13**	21
Total income tax expense	**155**	158	**126**	146
Deferred tax recognised in equity				
Cash flow hedge reserve	**18**	(23)	**20**	(23)
Other	**(5)**	6	**(5)**	6
	13	(17)	**15**	(17)
Numerical reconciliations between tax expense and pre-tax profit				
Profit before tax – continuing operations	**507**	496	**542**	525
Profit before tax	**507**	496	**542**	525
Income tax using the domestic corporate tax rate of 30% (2016: 30%)	**152**	149	**163**	158
Increase in income tax expense due to:				
Non-deductible expenses	**10**	10	**10**	9
Decrease in income tax expense due to:				
Non-assessable income	**(5)**	-	**-**	-
Other [(1)]	**(2)**	(1)	**(47)**	(21)
	155	158	**126**	146
Income tax expense on pre-tax net profit	**155**	158	**126**	146

(1) In the Bank, this includes the impact of dividends received from subsidiary Group members which are eliminated at a Group level, and the dilutionary impact to pro-forma tax expense relating to franking credits on external dividends received on investments.

Notes to the Financial Statements

For the Year Ended 31 August 2017

2.3 Income tax expense and deferred tax (continued)

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
Consolidated	**2017 $m**	2016 $m	**2017 $m**	2016 $m	**2017 $m**	2016 $m
Accruals	**2**	4	**-**	-	**2**	4
Capitalised expenditure	**-**	-	**(6)**	(7)	**(6)**	(7)
Provisions for impairment	**68**	77	**-**	-	**68**	77
Other provisions	**19**	19	**-**	-	**19**	19
Equity reserves	**4**	17	**-**	-	**4**	17
Other	**8**	3	**(40)**	(33)	**(32)**	(30)
Total tax assets / (liabilities)	**101**	120	**(46)**	(40)	**55**	80
Bank						
Accruals	**1**	1	**-**	-	**1**	1
Capitalised expenditure	**-**	-	**(3)**	(4)	**(3)**	(4)
Provisions for impairment	**55**	62	**-**	-	**55**	62
Other provisions	**17**	18	**-**	-	**17**	18
Equity reserves	**2**	17	**-**	-	**2**	17
Other	**8**	3	**(28)**	(16)	**(20)**	(13)
Total tax assets / (liabilities)	**83**	101	**(31)**	(20)	**52**	81

Unrecognised deferred tax assets

Deferred tax assets have not been brought to account for the following items as realisation of the benefit is not regarded as probable:

	2017 $m	2016 $m
Gross income tax losses [1]	**28**	29
Gross capital gains tax losses	**51**	92

(1) Income tax losses are subject to utilisation over an expected 10-15 year period.

Notes to the Financial Statements

For the Year Ended 31 August 2017

2.3 Income tax expense and deferred tax (continued)

Accounting for income tax

Income tax expense comprises current and deferred tax. Income tax is recognised in profit or loss in the Income Statement except to the extent that it relates to items recognised directly in equity, or other comprehensive income.

Current tax is the expected tax payable / receivable on the taxable income / loss for the year and any adjustment to the tax payable / receivable in respect of previous years. It is measured using tax rates enacted or substantially enacted at the reporting date.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax assets are recognised for unused tax losses and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantially enacted at the reporting date. The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Consolidated Entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Tax Consolidation

The Bank is the head entity in the tax-consolidated group comprising all the Australian wholly-owned subsidiaries. The implementation date for the tax-consolidated group was 1 September 2003.

Current tax expense / income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using a 'group allocation' approach by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries is assumed by the head entity in the tax-consolidated group and are recognised as amounts payable (receivable) to (from) other entities in the tax-consolidated group in conjunction with any Tax Funding Arrangement amounts. Any difference between these amounts is recognised by the Bank as an equity contribution, or distribution from the subsidiary.

Any subsequent period amendments to deferred tax assets arising from unused tax losses as a result of a revised assessment of the probability of recoverability is recognised by the head entity only.

Nature of tax funding and tax sharing arrangements

The Bank, in conjunction with other members of the tax-consolidated group, has entered into a tax funding agreement which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. The tax funding agreement requires payments to (from) the head entity equal to the current tax liability (asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity, resulting in the Bank recognising an inter-entity payable (receivable) equal in amount to the tax liability (asset) assumed.

Contributions to fund the current tax liabilities are payable as per the Tax Funding Arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

The Bank, in conjunction with other members of the tax-consolidated group, has also entered into a Tax Sharing Agreement ('TSA'). The TSA provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the TSA is considered remote.

Notes to the Financial Statements

For the Year Ended 31 August 2017

2.4 Dividends

	Bank			
	2017		2016	
	Cents per share	$m	Cents per share	$m
Ordinary shares				
Final 2016 dividend paid 22 November 2016 (2015: 24 November 2015)	**38**	**145**	38	141
Interim 2017 dividend paid 17 May 2017 (2016: 19 May 2016)	**38**	**147**	38	143
		292		284
Convertible Preference Shares ('CPS')				
Second half CPS dividend paid on 17 October 2016 (2015: 15 October 2015)	**268**	**8**	258	8
First half CPS dividend paid on 18 April 2017 (2016: 15 April 2016)	**249**	**8**	257	8
		16		16

All dividends paid on ordinary and preference shares have been fully franked at 100%. Since the end of the financial year, the Directors have determined the following dividends:

	Cents per share	$m
Final ordinary share dividend	38	149
Special ordinary share dividend	8	31
Second half CPS dividend	245	7

The final and special ordinary share dividend payments will be fully franked and paid on 23 November 2017 to owners of ordinary shares at the close of business on 3 November 2017 (record date). Shares will be quoted ex-dividend on 2 November 2017. The second half CPS dividend will be fully franked and paid on 16 October 2017 to owners of the CPS at the close of business on 28 September 2017 (record date). CPS will be quoted ex-dividend on 27 September 2017.

	Bank	
	2017 $m	2016 $m
30% franking credits available to shareholders of the Bank for subsequent financial years	**101**	118

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends. All the franked dividends paid or declared by the Bank since the end of the previous financial year were franked at the tax rate of 30%.

The balance of the Bank's dividend franking account at the date of this report, after adjusting for franking credits and debits that will arise on payment of income tax and dividends relating to the year ended 31 August 2017, is $101 million credit calculated at the 30% tax rate (2016: $118 million credit). It is anticipated, based on these franking account balances that the Bank will continue to pay fully franked dividends in the foreseeable future.

Dividend reinvestment plan

The Bank of Queensland Dividend Reinvestment Plan ('DRP') has been suspended for the 2017 final and special ordinary share dividend payments. The Board has resolved to reactivate the DRP on the next trading day following the payment of the final and special ordinary dividends.

The DRP provides shareholders with the opportunity to reinvest all or part of their entitlement to a dividend into new shares. The price for shares issued or transferred under the DRP is an amount 1.5% (2016: 1.5%) less than the arithmetic average, rounded to four decimal places, of the daily volume weighted average price of:

- all shares sold in the ordinary course of trading on the ASX automated trading system; and
- where shares are sold on trading platforms of Australian licensed financial markets operated by persons other than ASX, all shares sold in the ordinary course of trading on such of those trading platforms determined by the Board from time to time,

during the 10 trading day period commencing on the second trading day after the Record Date in respect of the relevant dividend.

The calculation of the daily volume weighted average price shall not include certain transactions, as outlined in the DRP terms and conditions.

If, after this calculation there is a residual balance, that balance will be carried forward (without interest) and added to the next dividend for the purpose of calculating the number of shares secured under the DRP at that time.

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

Notes to the Financial Statements

For the Year Ended 31 August 2017

2.5 Operating segments

Segment information

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

An operating segment is a component of the Consolidated Entity that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Consolidated Entity's other components. All operating segments' operating results are regularly reviewed by the Consolidated Entity's Managing Director & CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

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 Consolidated Entity has determined and presented the following two segments based on information provided to the chief operating decision maker.

Banking

Retail banking, commercial, personal, small business loans, equipment, debtor finance, treasury, savings and transaction accounts.

Insurance

Customer credit insurance, life insurance, accidental death insurance, funeral insurance and motor vehicle gap insurance.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects is measured differently from operating profit or loss in the consolidated financial statements. Income taxes are managed within the individual operating segments and thus disclosed this way.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Consolidated Entity's total revenue in 2017 or 2016.

While the Consolidated Entity does have some operations in New Zealand, the business segments operate principally in Australia.

The following table presents income, profit and certain asset and liability information regarding the Consolidated Entity's operating segments.

	Banking		Insurance		Segment Total	
	2017 $m	2016 $m	**2017 $m**	2016 $m	**2017 $m**	2016 $m
Income						
External	**1,082**	1,091	**21**	26	**1,103**	1,117
Inter-segment	**3**	2	**(1)**	(1)	**2**	1
Total operating income	**1,085**	1,093	**20**	25	**1,105**	1,118
Segment profit before income tax	**495**	479	**12**	17	**507**	496
Income tax expense	**151**	153	**4**	5	**155**	158
Segment profit after income tax	**344**	326	**8**	12	**352**	338
Results						
Interest income	**2,046**	2,157	**-**	-	**2,046**	2,157
Interest expense	**1,120**	1,221	**-**	-	**1,120**	1,221
Depreciation and amortisation	**48**	38	**-**	-	**48**	38
Impairment losses on loans and advances	**48**	67	**-**	-	**48**	67
Segment assets	**51,624**	50,807	**79**	92	**51,703**	50,899
Segment liabilities	**47,881**	47,262	**32**	47	**47,913**	47,309

Notes to the Financial Statements

For the Year Ended 31 August 2017

2.5 Operating segments (continued)

The following table sets out the reconciliation between the operating segments and the Consolidated Entity:

	2017 $m	2016 $m	2017 $m	2016 $m
	Revenue		Segment profit before tax	
Segment total	**1,105**	1,118	**507**	496
Elimination of inter-segment revenue	**(2)**	(1)	**-**	-
Consolidated total	**1,103**	1,117	**507**	496
	Assets		Liabilities	
Segment total	**51,703**	50,899	**47,913**	47,309
Elimination of inter-segment bank accounts	**(45)**	(46)	**(45)**	(46)
Adjustment for other consolidation eliminations	**-**	-	**2**	3
Consolidated total	**51,658**	50,853	**47,870**	47,266

2.6 Earnings per share

Basic earnings per share ('EPS') is calculated by dividing the relevant earnings by the average weighted number of shares on issue. Diluted EPS takes into account the dilutive effect of all outstanding share rights vesting as ordinary shares.

	Consolidated	
	2017 $m	2016 $m
Earnings reconciliation		
Net profit	**352**	338
Basic earnings	**352**	338
Effect of distributions on CPS	**15**	16
Effect of capital notes	**7**	7
Diluted earnings	**374**	361

Weighted average number of shares used as the denominator	**2017 Number**	2016 Number
Number for basic earnings per share		
Ordinary shares	**386,861,957**	376,043,290
Number for diluted earnings per share		
Ordinary shares	**386,861,957**	376,043,290
Effect of award rights	**1,797,630**	1,270,402
Effect of CPS	**24,505,955**	29,553,372
Effect of capital notes	**12,169,313**	14,661,251
	425,334,855	421,528,315
Earnings per share		
Basic earnings per share - Ordinary shares (cents)	**90.9**	89.8
Diluted earnings per share - Ordinary shares (cents)	**87.8**	85.5

Notes to the Financial Statements

For the Year Ended 31 August 2017

Section 3. Capital and Balance Sheet management

3.1 Cash and liquid assets

Components of cash and liquid assets

Cash and liquid assets comprise cash at branches, cash on deposit and balances with the Reserve Bank of Australia. Cash flows from the following activities are presented on a net basis in the statements of cash flows:

- Sales and purchases of trading securities;
- Customer deposits in and withdrawals from deposit accounts; and
- Loan drawdowns and repayments.

	Consolidated		Bank	
	2017 $m	2016 $m	2017 $m	2016 $m
Notes, coins and cash at bank	705	957	328	432
Remittances in transit	209	271	209	271
Total	914	1,228	537	703

Notes to the statements of cash flows

Reconciliation of profit for the year to net cash provided by operating activities.

Profit from ordinary activities after income tax	352	338	416	379
Add / (less) items classified as investing / financing activities or non-cash items				
Depreciation	9	10	9	10
Amortisation	14	16	13	16
Dividends received from subsidiaries	-	-	(55)	(70)
Software amortisation and impairment	38	29	37	28
Equity settled transactions	11	12	11	10
Investments equity accounted	7	3	7	-
(Profit) / loss on sale of property, plant and equipment	(4)	(5)	5	2
Profit on disposal of vendor finance entity	(16)	-	-	-
Decrease in due from other financial institutions	10	23	2	9
Increase in financial assets	(495)	(418)	(396)	(440)
Increase in loans and advances at amortised cost	(624)	(2,175)	(442)	(2,038)
Increase / (decrease) in derivatives	4	(46)	4	(40)
Decrease in provision for impairment	(28)	(16)	(23)	(14)
Decrease in deferred tax asset	11	28	8	14
(Increase) / decrease in other assets	(88)	(12)	(286)	6
Increase in amounts due from controlled entities	-	-	(226)	(222)
Increase / (decrease) in due to other financial institutions	53	(50)	53	(50)
Increase / (decrease) in deposits	449	1,989	(22)	2,146
Increase / (decrease) in accounts payable and other liabilities	6	(32)	16	(21)
Decrease in current tax liabilities	(7)	(42)	(8)	(41)
Decrease in provisions	(5)	(15)	(3)	(15)
Increase / (decrease) in deferred tax liabilities	9	(2)	5	(4)
Decrease in insurance policy liabilities	(8)	(16)	-	-
Net cash outflow from operating activities	(302)	(381)	(875)	(335)

Notes to the Financial Statements

For the Year Ended 31 August 2017

3.2 Deposits

Deposits are initially recognised at fair value, net of any directly attributable transaction costs. Subsequent to initial measurement, they are measured at amortised cost using the effective interest method.

	Consolidated		Bank	
	2017 $m	2016 $m	**2017 $m**	2016 $m
Deposits at call	**13,512**	12,797	**13,802**	13,557
Term deposits	**18,646**	18,589	**18,688**	18,632
Certificates of deposit	**5,011**	5,334	**5,011**	5,334
Total deposits	**37,169**	36,720	**37,501**	37,523
Concentration of deposits:				
Customer deposits	**30,190**	29,122	**30,480**	29,881
Wholesale deposits	**6,979**	7,598	**7,021**	7,642
Total deposits	**37,169**	36,720	**37,501**	37,523

3.3 Financial assets

Refer to section 3.7 for the accounting policy on financial assets.

	Consolidated		Bank	
	2017 $m	2016 $m	**2017 $m**	2016 $m
Available-for-sale				
Debt instruments	**3,931**	3,730	**4,024**	3,921
Unlisted equity instruments	**3**	9	**3**	9
Total available-for-sale	**3,934**	3,739	**4,027**	3,930
Held for trading				
Floating rate notes and bonds	**720**	688	**720**	688
Negotiable certificates of deposit	**1,117**	903	**1,117**	903
Total held for trading	**1,837**	1,591	**1,837**	1,591

Notes to the Financial Statements

For the Year Ended 31 August 2017

3.4 Loans and advances at amortised cost

Loans and advances at amortised cost

Loans and advances are originated by the Bank and are recognised upon cash being advanced to the borrower. Loans and advances are initially recognised at fair value, plus incremental directly attributable transaction costs. They are subsequently measured at each reporting date at amortised cost using the effective interest method.

	Consolidated		Bank	
	2017 $m	2016 $m	**2017 $m**	2016 $m
Residential property loans – secured by mortgages	**29,853**	29,888	**29,853**	29,888
Personal loans	**232**	233	**232**	233
Overdrafts	**248**	255	**248**	255
Commercial loans	**9,001**	8,355	**8,856**	8,356
Credit cards	**75**	71	**75**	71
Leasing finance	**4,780**	4,745	**299**	323
Gross loans and advances at amortised cost	**44,189**	43,547	**39,563**	39,126
Less:				
Unearned lease finance income	**(372)**	(395)	**(33)**	(38)
Specific provision for impairment	**(106)**	(116)	**(90)**	(96)
Collective provision for impairment	**(121)**	(140)	**(92)**	(111)
Total loans and advances at amortised cost	**43,590**	42,896	**39,348**	38,881

Loans and advances and other assets at amortised cost

If there is evidence of impairment for any of the Consolidated Entity's financial assets carried at amortised cost, the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, excluding future credit losses that have not been incurred. The cash flows are discounted at the financial asset's original effective interest rate. The loss is recognised in profit or loss in the Income Statement.

(i) Specific impairment provisions

Impairment losses on individually assessed loans and advances are assessed on a case-by-case basis. If there is objective evidence that an individual loan or advance is impaired, a specific provision for impairment is raised. The amount of the specific provision is based on the carrying amount of the loan or advance, including the security held against the loan or advance and the present value of expected future cash flows. Any subsequent write-offs for bad debts are then made against the specific provision for impairment.

(ii) Collective impairment provisions

Where no evidence of impairment has been identified for loans and advances, these loans and advances are grouped together on the basis of similar credit characteristics for the purpose of calculating a collective impairment loss. Collective impairment provisions are based on historical loss experience applied to current observable data. The amount required to bring the collective provision for impairment to its required level is charged to profit or loss in the Income Statement.

Notes to the Financial Statements

For the Year Ended 31 August 2017

3.4 Loans and advances at amortised cost (continued)

Provision for impairment

	Consolidated		Bank	
	2017 $m	2016 $m	**2017 $m**	2016 $m
Specific provision:				
Balance at the beginning of the year	**116**	126	**96**	106
Add: Expensed during the year	**67**	73	**45**	43
Less: Bad debts written off	**(74)**	(79)	**(49)**	(46)
Transfers from / (to) collective provision	**2**	2	**2**	(1)
Unwind of discount	**(5)**	(6)	**(4)**	(6)
Balance at the end of the year	**106**	116	**90**	96
Collective provision:				
Balance at the beginning of the year	**140**	146	**111**	114
Add: Released during the year	**(17)**	(4)	**(17)**	(4)
Transfers (to) / from specific provision	**(2)**	(2)	**(2)**	1
Balance at the end of the year	**121**	140	**92**	111
Total provisions for impairment	**227**	256	**182**	207

Lease receivables

Loans and advances at amortised cost include the following finance lease receivables for leases of certain property and equipment where the Consolidated Entity is the lessor.

	Consolidated		Bank	
	2017 $m	2016 $m	**2017 $m**	2016 $m
Gross investment in finance lease receivables:				
Less than one year	**1,807**	1,744	**24**	17
Between one and five years	**2,858**	2,879	**220**	256
More than five years	**115**	122	**55**	50
	4,780	4,745	**299**	323
Unearned lease finance income	**(372)**	(395)	**(33)**	(38)
Net investment in finance leases	**4,408**	4,350	**266**	285
The net investment in finance leases comprise:				
Less than one year	**1,647**	1,575	**23**	16
Between one and five years	**2,661**	2,669	**197**	228
More than five years	**100**	106	**46**	41
	4,408	4,350	**266**	285

Notes to the Financial Statements

For the Year Ended 31 August 2017

3.4 Loans and advances at amortised cost (continued)

Transfer of financial assets

Securitisation program

Through its REDS Securitisation and Warehouse Trusts ('RMBS Trusts'), REDS EHP Securitisation Trusts ('REDS EHP Trusts') and Impala Securitisation programs, the Bank packages loans and advances through a series of securitisation vehicles from which debt securities are issued to investors. The Bank is entitled to any residual income from the vehicles after all payments to investors and costs of the programs have been met. The securitisation vehicles are consolidated and included in the 'Loans and advances' section of the Bank's Balance Sheet. The note holders have recourse only to the loan pool of assets. Refer to Section 6.10 (a)(ii) for further information.

Covered bond program

The Bank issues covered bonds for funding and liquidity purposes. The bonds are issued to external investors and are secured against a pool of the Bank's housing loans. Housing loans are assigned to a bankruptcy remote structured entity to provide security for all obligations payable on the covered bonds issued by the Bank. The covered bond holders have dual recourse to the Bank and the cover pool of assets. The Bank is required to maintain the cover pool at a level sufficient to cover the obligations of the bonds. The Bank is entitled to any residual income of the covered bond structured entity after all payments due to the covered bond holders and any costs related to the program have been met. The housing loans are included in 'Loans and advances' and the covered bonds issued are included in 'Borrowings' on the Bank's Balance Sheet.

The following table sets out the transferred financial assets and associated liabilities of the securitisation and covered bond programs that did not qualify for derecognition under AASB 139 *Financial Instruments: Recognition and Measurement.*

	Consolidated		Bank	
	2017 $m	2016 $m	**2017 $m**	2016 $m
Transferred financial assets				
Securitisation - loans and advances at amortised cost	**2,836**	2,859	**2,921**	3,005
Covered bonds - loans and advances at amortised cost	**926**	-	**926**	-
Securistation - lease receivables	**425**	858	**-**	-
	4,187	3,717	**3,847**	3,005
Associated financial liabilities				
Securitisation liabilities - external investors	**3,429**	4,122	**-**	-
Covered bonds liabilities - external investors	**752**	-	**752**	-
Amounts due to controlled entities	**-**	-	**3,055**	3,350
	4,181	4,122	**3,807**	3,350
For those liabilities that have recourse only to transferred assets (1)				
Fair value of transferred assets	**4,201**	3,746	**3,855**	3,021
Fair value of associated liabilities	**(4,181)**	(4,122)	**(3,807)**	(3,350)
Net position	**20**	(376)	**48**	(329)

(1) The fair values of transferred assets and liabilities that reprice within 6 months are assumed to equate to the amortised cost. All other fair values are calculated using a discounted cashflow model.

Notes to the Financial Statements

For the Year Ended 31 August 2017

3.5 Borrowings

The Consolidated Entity recorded the following movements on borrowings:

	Securitisation liabilities (1) $m	Covered bonds liabilities (2) $m	EMTN program $m	ECP program $m	Subordinated notes $m	Senior unsecured notes $m	Convertible Preference Shares (3) $m	Capital notes (4) $m	Total $m
Year ended 31 August 2017									
Balance at beginning of year	4,117	-	160	341	252	4,083	296	149	9,398
Acquired during the year	-	-	-	-	-	125	-	-	125
Proceeds from issues	1,356	743	48	512	-	1,431	-	-	4,090
Repayments	(2,050)	-	(33)	(529)	(50)	(1,301)	-	-	(3,963)
Deferred establishment costs	(3)	(3)	-	-	-	(1)	-	-	(7)
Amortisation of deferred costs	4	-	-	-	(2)	1	1	1	5
Foreign exchange translation	-	9	(3)	(3)	-	-	-	-	3
Balance at end of the year	**3,424**	**749**	**172**	**321**	**200**	**4,338**	**297**	**150**	**9,651**

	Securitisation liabilities (1) $m	Covered bonds liabilities (2) $m	EMTN program $m	ECP program $m	Subordinated notes $m	Senior unsecured notes $m	Convertible Preference Shares (3) $m	Capital notes (4) $m	Total $m
Year ended 31 August 2016									
Balance at beginning of year	4,812	-	81	94	325	2,958	295	148	8,713
Proceeds from issues	1,123	-	80	473	149	1,690	-	-	3,515
Repayments	(1,815)	-	-	(216)	(220)	(567)	-	-	(2,818)
Deferred establishment costs	(3)	-	-	-	-	-	-	-	(3)
Amortisation of deferred costs	5	-	-	-	(2)	2	1	1	7
Foreign exchange translation	(5)	-	(1)	(10)	-	-	-	-	(16)
Balance at end of the year	4,117	-	160	341	252	4,083	296	149	9,398

(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) 3,000,000 CPS were issued on 24 December 2012. CPS are fully-paid, perpetual, convertible, unguaranteed and unsecured preference shares with preferred, discretionary, non-cumulative dividends. CPS will mandatorily convert into ordinary shares on 15 April 2020. The Bank is entitled to convert, redeem or transfer some or all of the CPS on the optional conversion / redemption date of 15 April 2018 subject to the prior written approval from APRA. The Bank is also entitled to convert, redeem or transfer some or all of the CPS on the occurrence of a regulatory event or tax event and in addition, conversion of the CPS into ordinary shares must occur immediately following the occurrence of a capital trigger event or a non-viability trigger event. CPS rank for payment of capital ahead of ordinary shareholders, equally with other securities or instruments ranking equally with CPS, but behind all other securities or instruments ranking ahead of CPS, and behind all depositors and other creditors.

(4) On 26 May 2015, the Bank issued 15,000 Wholesale Capital Notes ('WCN') at a price of $10,000 per note. As at 31 August 2017, 15,000 WCN were outstanding with capital distributions payable of $2 million. WCN are non-cumulative and fully paid and are issued by the Bank on a perpetual, subordinated and unsecured basis. They are not guaranteed or secured. Upon conversion, WCN holders will receive a number of ordinary shares based on the value weighted average price during a specified period. In a winding up of the Bank, if capital notes have not been converted or written-off on account of a non-viability trigger event or capital trigger event, 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. The WCN may covert to ordinary shares of the Bank in certain circumstances, which include the occurrence of a non-viability event or a capital trigger event.

Notes to the Financial Statements

For the Year Ended 31 August 2017

3.5 Borrowings (continued)

The Bank recorded the following movements on borrowings:

	Covered bonds liabilities[1] $m	EMTN program $m	ECP program $m	Subordinated notes $m	Senior unsecured notes $m	Convertible Preference Shares [2] $m	Capital notes [3] $m	Total $m
Year ended 31 August 2017								
Balance at beginning of year	-	160	341	252	4,083	296	149	5,281
Proceeds from issues	743	48	512	-	1,431	-	-	2,734
Repayments	-	(33)	(529)	(50)	(1,176)	-	-	(1,788)
Deferred establisment costs	-	-	-	-	(1)	-	-	(1)
Amortisation of deferred costs	-	-	-	(2)	1	1	1	1
Foreign exchange translation	9	(3)	(3)	-	-	-	-	3
Balance at end of the year	**752**	**172**	**321**	**200**	**4,338**	**297**	**150**	**6,230**

	Covered bonds liabilities [1] $m	EMTN program $m	ECP program $m	Subordinated notes $m	Senior unsecured notes $m	Convertible Preference Shares [2] $m	Capital notes [3] $m	Total $m
Year ended 31 August 2016								
Balance at beginning of year	-	81	94	324	2,958	295	148	3,900
Proceeds from issues	-	80	473	149	1,690	-	-	2,392
Repayments	-	-	(216)	(220)	(567)	-	-	(1,003)
Amortisation of deferred costs	-	-	-	(1)	2	1	1	3
Foreign exchange translation	-	(1)	(10)	-	-	-	-	(11)
Balance at end of the year	-	160	341	252	4,083	296	149	5,281

(1) Covered bonds liabilities are secured by a charge over covered pool of loans and advances and guaranteed by the Covered Bond Guarantor.

(2) 3,000,000 CPS were issued on 24 December 2012. CPS are fully-paid, perpetual, convertible, unguaranteed and unsecured preference shares with preferred, discretionary, non-cumulative dividends. CPS will mandatorily convert into ordinary shares on 15 April 2020. The Bank is entitled to convert, redeem or transfer some or all of the CPS on the optional conversion / redemption date of 15 April 2018 subject to the prior written approval from APRA. The Bank is also entitled to convert, redeem or transfer some or all of the CPS on the occurrence of a regulatory event or tax event and in addition, conversion of the CPS into ordinary shares must occur immediately following the occurrence of a capital trigger event or a non-viability trigger event. CPS rank for payment of capital ahead of ordinary shareholders, equally with other securities or instruments ranking equally with CPS, but behind all other securities or instruments ranking ahead of CPS, and behind all depositors and other creditors.

(3) On 26 May 2015, the Bank issued 15,000 Wholesale Capital Notes ('WCN') at a price of $10,000 per note. As at 31 August 2017, 15,000 WCN were outstanding with capital distributions payable of $2 million. WCN are non-cumulative and fully paid and are issued by the Bank on a perpetual, subordinated and unsecured basis. They are not guaranteed or secured. Upon conversion, WCN holders will receive a number of ordinary shares based on the value weighted average price during a specified period. In a winding up of the Bank, if capital notes have not been converted or written-off on account of a non-viability trigger event or capital trigger event, 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. The WCN may covert to ordinary shares of the Bank in certain circumstances, which include the occurrence of a non-viability event or a capital trigger event.

Notes to the Financial Statements

For the Year Ended 31 August 2017

3.6 Risk management

The Consolidated Entity adopts a "managed risk" approach to its banking and insurance activities. As such, the articulation of a risk aware culture is prevalent throughout the Consolidated Entity's credit, market, liquidity, insurance, operational, insurance risk and compliance policies and procedures. The Board has adopted policies in relation to the assessment, management and monitoring of these risks and ownership of the frameworks within which these risks are managed reside with the Chief Risk Officer.

The Chief Risk Officer contributes towards the achievement of the Consolidated Entity's corporate objectives through the operationalisation and progressive development of the Consolidated Entity's risk management function. The continued improvement of the Consolidated Entity's risk management function focuses on a number of key areas, with particular emphasis on:

1. the efficiency and effectiveness of the Consolidated Entity's credit, market, liquidity, operational risk and compliance management process controls and policies to support the Bank's customer proposition in line with its risk appetite;
2. to provide management and the Board with risk reporting that contributes to the further development of sound corporate governance standards;
3. to maintain regulatory compliance in line with regulators' expectations;
4. to provide a sound basis from which the Bank can progress to the required compliance level under the Basel II accord; and
5. to contribute to the Consolidated Entity achieving risk based performance management.

Group Risk is an independent function and is responsible for providing the framework, policies and procedures needed for managing credit, liquidity, market, operational risk and compliance throughout the Group. Policies are set in line with the governing strategy and risk guidelines set by the Board.

Monitoring

The Consolidated Entity's enterprise risk management framework incorporates active management and monitoring of a range of risks including (but not limited to):

1. Market
2. Credit
3. Liquidity
4. Insurance.

(a) Market risk

Market risk is the risk that movements in market rates and prices will result in profits or losses to the Bank. The objective of market risk management is to manage and control market risk and to minimise its impact on the Consolidated Entity.

(i) Interest rate risk management

The operations of the Consolidated Entity are subject to the risk of interest rate fluctuations as a result of mismatches in the timing of the repricing of interest rates on the Consolidated Entity's assets and liabilities.

The figures in the table below indicate the potential increase / (decrease) in net interest income for an ensuing 12 month period of a 1% parallel shock increase to the yield curve. A 1% decrease in the yield curve has a materially equal but opposite impact.

Consolidated	2017 $m	2016 $m
Exposure at the end of the year	**5**	7
Average monthly exposure during the year	**1**	3
High month exposure during the year	**12**	12
Low month exposure during the year	**(15)**	(12)

(ii) Foreign exchange risk

It is the Bank's policy not to carry material foreign exchange rate exposures, net of associated hedging instruments. At balance date, there are no net material foreign exchange rate exposures.

The Bank uses cross currency swaps and foreign exchange forwards to hedge its exchange rate exposures arising from borrowing off-shore in foreign currencies. The Bank uses forward foreign exchange contracts to hedge potential exchange rate exposures created by customer-originated foreign currency transactions.

The Bank's investment in its New Zealand subsidiary is hedged by forward foreign exchange contracts which mitigate the currency risk arising from the subsidiary's net assets.

Notes to the Financial Statements

For the Year Ended 31 August 2017

3.6 Risk management (continued)

(a) Market risk (continued)

(iii) Traded market risk

Market risks attributable to trading activities are primarily measured using a parametric Value-at-Risk ('VaR') model based on historical data. VaR is a statistical technique used to quantify the potential loss in earnings from adverse market movements and is calculated over a 1-day time horizon to a 99% confidence level using 2 years of historical data. As an additional overlay to VaR, the individual market risks of interest rate, foreign exchange, credit and equity are managed using a framework that includes stress testing, scenario analysis, sensitivity and stop losses. Risks are monitored and measured against limits delegated by the Asset-Liability Committee ('ALCO') and approved by the Board's Risk Committee.

The portfolio (interest rate, foreign exchange, credit and equity) VaR for the Bank's trading portfolio for the year was as follows:

Trading VaR	2017 $m	2016 $m
Average	**0.43**	0.53
Maximum	**1.03**	1.79
Minimum	**0.15**	0.20

(b) Credit risk

Credit risk arises in the business from lending activities, the provision of guarantees including letters of credit and commitments to lend, investment in bonds and notes, financial market transactions and other associated activities. Credit risk is the potential loss arising from the possibility that customers or counterparties fail to meet contractual payment obligations to the Bank as they fall due.

The Board have implemented a structured framework of systems and controls to monitor and manage credit risk comprising:

- documented credit risk management principles which are disseminated to all staff involved with the lending process;
- documented policies;
- a process for approving risk, based on tiered delegated approval authorities, whereby the largest exposures are assessed by the Executive Credit Committee consisting of Group Executives and senior risk managers, chaired by the Chief Risk Officer;
- risk grading the Bank's commercial exposures for facilities greater than $100,000 based on items inclusive of financial performance and stability, organisational structure, industry segment and security support. Exposures within this segment of the portfolio are generally subject to annual review including reassessment of the assigned risk grade;
- an automated scorecard approval model for the Bank's retail portfolio inclusive of home loans, personal loans, and lines of credit. This model is supported by experienced risk assessment managers; and
- a series of management reports detailing industry concentrations, counterparty concentrations, loan grades and security strength ratings.

The Consolidated Entity uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operating, financing and investing activities. In accordance with its treasury risk policies, the Consolidated Entity can hold derivative financial instruments for trading purposes. Credit risk on derivative contracts used for these purposes is minimised as counterparties are recognised financial intermediaries with acceptable credit ratings determined by a recognised rating agency.

(i) Maximum exposure to credit risk

The amounts disclosed are the maximum exposure to credit risk, before taking account of any collateral held or other credit enhancements. For financial assets recognised on the Balance Sheet, the exposure to credit risk equals their carrying amount. For customer commitments, the maximum exposure to credit risk is the full amount of the committed facilities as at reporting date.

Notes to the Financial Statements

For the Year Ended 31 August 2017

3.6 Risk management (continued)

(b) Credit risk (continued)

(i) Maximum exposure to credit risk (continued)

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Consolidated		Bank	
	2017 $m	2016 $m	**2017 $m**	2016 $m
Cash and liquid assets	**914**	1,228	**537**	703
Due from other financial institutions	**58**	68	**8**	10
Other financial assets (including accrued interest)	**5,829**	5,389	**5,920**	5,579
Derivative financial instruments	**109**	180	**107**	180
Financial assets other than loans and advances	**6,910**	6,865	**6,572**	6,472
Gross loans and advances at amortised cost	**44,189**	43,547	**39,563**	39,126
Total financial assets	**51,099**	50,412	**46,135**	45,598
Customer commitments (1)	**1,733**	1,476	**959**	888
Total potential exposure to credit risk	**52,832**	51,888	**47,094**	46,486

(1) Refer to Section 6.2 for details of customer commitments.

The distribution of financial assets by credit quality at the reporting date was:

	Consolidated		Bank	
	2017 $m	2016 $m	**2017 $m**	2016 $m
Neither past due or impaired				
Gross loans and advances at amortised cost	**43,068**	42,267	**38,567**	37,992
Financial assets other than loans and advances	**6,910**	6,865	**6,572**	6,472
Past due but not impaired				
Gross loans and advances at amortised cost	**929**	1,048	**826**	935
Impaired				
Gross loans and advances at amortised cost	**192**	232	**170**	199
Total financial assets	**51,099**	50,412	**46,135**	45,598

There is no individual exposure included in impaired assets which exceeds 5% of shareholders' equity (2016: 5%).

The Bank holds collateral against loans and advances to customers in the form of mortgage interest over property, other registered securities over assets and guarantees and mortgage insurance. To mitigate credit risk, the Bank can take possession of the security held against the loans and advances as a result of customer default. To ensure reduced exposure to losses, the collateral held by the Bank as mortgagee in possession is realised promptly.

Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. An estimate of the collateral held against past due but not impaired and impaired loans and advances at amortised cost is outlined below. It is not practical to determine the fair value of collateral held against performing loans.

	Consolidated		Bank	
	2017 $m	2016 $m	**2017 $m**	2016 $m
Held against past due but not impaired assets	**1,436**	1,522	**1,384**	1,442
Held against impaired assets	**116**	156	**107**	139

Notes to the Financial Statements

For the Year Ended 31 August 2017

3.6 Risk management (continued)

(b) Credit risk (continued)

(ii) Credit quality

The credit quality categories of financial assets (High Grade, Satisfactory, Weak and Unrated) have been determined based on Standard & Poor's credit ratings, APRA risk weightings and the Bank's standard risk grading. The table below presents an analysis of the credit quality of financial assets:

	Consolidated							
	2017 $m				2016 $m			
	Gross loans & advances				Gross loans & advances			
	Retail	Commercial	Total loans & advances	Financial assets other than loans & advances	Retail	Commercial	Total loans & advances	Financial assets other than loans & advances
High Grade	24,643	4,257	28,900	6,907	24,611	3,919	28,530	6,856
Satisfactory	5,128	8,299	13,427	-	4,987	7,998	12,985	-
Weak	313	1,277	1,590	3	506	1,235	1,741	9
Unrated (1)	76	196	272	-	88	203	291	-
	30,160	14,029	44,189	6,910	30,192	13,355	43,547	6,865

	Bank							
	2017 $m				2016 $m			
	Gross loans & advances				Gross loans & advances			
	Retail	Commercial	Total loans & advances	Financial assets other than loans & advances	Retail	Commercial	Total loans & advances	Financial assets other than loans & advances
High Grade	24,643	3,370	28,013	6,476	24,611	3,050	27,661	6,272
Satisfactory	5,128	5,285	10,413	60	4,987	5,141	10,128	122
Weak	313	552	865	36	506	540	1,046	78
Unrated (1)	76	196	272	-	88	203	291	-
	30,160	9,403	39,563	6,572	30,192	8,934	39,126	6,472

(1) Loans and advances which have been classified as unrated are not secured, however these are not deemed to be weak. All other loans and advances have been included in the appropriate category.

Notes to the Financial Statements

For the Year Ended 31 August 2017

3.6 Risk management (continued)

(b) Credit risk (continued)

(iii) Loans and advances which were past due but not impaired

Loans which are 90 or more days past due are not classified as impaired assets where the estimated net realisable value of the security is sufficient to cover the repayment of all principal and interest amounts due.

		Consolidated		Bank	
		2017 $m	2016 $m	2017 $m	2016 $m
Less than 30 days	- Retail	276	359	276	359
	- Commercial	183	228	101	146
31 to 90 days	- Retail	164	163	164	163
	- Commercial	49	64	34	38
More than 90 days	- Retail	170	156	170	156
	- Commercial	87	78	81	73
		929	1,048	826	935

(iv) Concentration of exposure for gross loans and advances at amortised cost

Concentration of credit risk exists when a number of counterparties are engaged in similar activities, operate in the same geographical areas or industry sectors and have similar economic characteristics, so that their ability to meet contractual obligations is similarly affected by changes in economic, political or other conditions. The Bank monitors concentrations of credit risk by geographical location for loans and advances. An analysis of these concentrations of credit risk at the reporting date is shown below:

	Consolidated		Bank	
Geographical concentration of credit risk for loans and advances at amortised cost (before provisions and unearned income):	2017 $m	2016 $m	2017 $m	2016 $m
Queensland	20,613	20,992	19,029	19,429
New South Wales	10,412	9,531	9,143	8,331
Victoria	6,867	6,950	5,909	6,012
Northern Territory	302	318	294	312
Australian Capital Territory	311	319	293	294
Western Australia	4,510	4,359	4,155	4,079
South Australia	705	613	548	481
Tasmania	215	203	192	188
International (New Zealand)	254	262	-	-
	44,189	43,547	39,563	39,126

Notes to the Financial Statements

For the Year Ended 31 August 2017

3.6 Risk management (continued)

(c) Liquidity risk

Liquidity risk arises from the possibility that the Bank is unable to meet its financial obligations as they fall due. Liquidity risk is managed through a series of detailed policies. This includes the management of cash flow mismatches, the maintenance of a stable, core retail deposits base, the diversification of the funding base and the retention of adequate levels of high quality liquid assets.

The Consolidated Entity manages liquidity risk by maintaining adequate reserves and facilities by continuously monitoring forecast and actual cash flows, matching maturity profiles of financial assets and liabilities and monitoring liquidity scenario analysis.

Consolidated 2017	Carrying amount $m	At Call $m	3 months or less $m	3 to 12 months $m	1 to 5 years $m	Over 5 years $m	Policy holder $m	Total contractual cash flows $m
Financial liabilities								
Due to other financial institutions	262	262	-	-	-	-	-	262
Deposits	37,169	13,152	11,952	11,498	971	-	-	37,573
Derivative financial instruments (1)	13	-	6	-	2	1	-	9
Accounts payable and other liabilities	390	-	390	-	-	-	-	390
Securitisation liabilities (2)	3,424	-	261	609	2,077	659	-	3,606
Borrowings	6,227	-	221	1,917	4,474	-	-	6,612
Insurance policy liabilities	16	-	-	-	-	-	16	16
Total financial liabilities	**47,501**	**13,414**	**12,830**	**14,024**	**7,524**	**660**	**16**	**48,468**
Derivative financial instruments (hedging relationship)								
Contractual amounts payable	-	-	784	525	1,683	220	-	3,212
Contractual amounts receivable	-	-	(757)	(467)	(1,375)	(95)	-	(2,694)
	239	**-**	**27**	**58**	**308**	**125**	**-**	**518**
Off balance sheet positions								
Guarantees, indemnities and letters of credit	-	321	-	-	-	-	-	321
Customer funding commitments	-	1,412	-	-	-	-	-	1,412
	-	**1,733**	**-**	**-**	**-**	**-**	**-**	**1,733**

(1) Derivative financial instruments other than those designated in hedge relationships.

(2) Repayment of securitisation bonds is forecast based on the expected repayment profile of the underlying assets of the Trusts.

Notes to the Financial Statements

For the Year Ended 31 August 2017

3.6 Risk management (continued)

(c) Liquidity risk (continued)

Consolidated 2016	Carrying amount $m	At Call $m	3 months or less $m	3 to 12 months $m	1 to 5 years $m	Over 5 years $m	Policy holder $m	Total contractual cash flows $m
Financial liabilities								
Due to other financial institutions	209	209	-	-	-	-	-	209
Deposits	36,720	14,926	11,463	9,847	842	48	-	37,126
Derivative financial instruments [1)]	19	-	6	4	4	1	-	15
Accounts payable and other liabilities	355	-	355	-	-	-	-	355
Securitisation liabilities [(2)]	4,117	-	336	1,283	2,223	558	-	4,400
Borrowings	5,281	-	856	955	3,119	796	-	5,726
Insurance policy liabilities	25	-	-	-	-	-	25	25
Total financial liabilities	46,726	15,135	13,016	12,089	6,188	1,403	25	47,856
Derivative financial instruments (hedging relationship)								
Contractual amounts payable	-	-	1,082	436	771	229	-	2,518
Contractual amounts receivable	-	-	(1,100)	(405)	(593)	(105)	-	(2,203)
	-	-	(18)	31	178	124	-	315
Off balance sheet positions								
Guarantees, indemnities and letters of credit	-	293	-	-	-	-	-	293
Customer funding commitments	-	1,183	-	-	-	-	-	1,183
	-	1,476	-	-	-	-	-	1,476

(1) Derivative financial instruments other than those designated in hedge relationships.

(2) Repayment of securitisation bonds is forecast based on the expected repayment profile of the underlying assets of the Trusts.

Notes to the Financial Statements

For the Year Ended 31 August 2017

3.6 Risk management (continued)

(c) Liquidity risk (continued)

Bank 2017	Carrying amount $m	At Call $m	3 months or less $m	3 to 12 months $m	1 to 5 years $m	Over 5 years $m	Total contractual cash flows $m
Financial liabilities							
Due to other financial institutions	262	262	-	-	-	-	262
Deposits	37,501	13,802	11,634	11,498	971	-	37,905
Derivative financial instruments (1)	13	-	6	-	2	1	9
Accounts payable and other liabilities	327	-	327	-	-	-	327
Borrowings	6,230	-	221	1,917	4,474	-	6,612
Total financial liabilities	**44,333**	**14,064**	**12,188**	**13,415**	**5,447**	**1**	**45,115**
Derivative financial instruments (hedging relationship)							
Contractual amounts payable	-	-	784	516	859	220	2,379
Contractual amounts receivable	-	-	(763)	(472)	(613)	(95)	(1,943)
	242	**-**	**21**	**44**	**246**	**125**	**436**
Off balance sheet positions							
Guarantees, indemnities and letters of credit	-	321	-	-	-	-	321
Customer funding commitments	-	638	-	-	-	-	638
	-	**959**	**-**	**-**	**-**	**-**	**959**

(1) Derivative financial instruments other than those designated in a hedge relationships.

Notes to the Financial Statements

For the Year Ended 31 August 2017

3.6 Risk management (continued)

(c) Liquidity risk (continued)

Bank 2016	Carrying amount $m	At Call $m	3 months or less $m	3 to 12 months $m	1 to 5 years $m	Over 5 years $m	Total contractual cash flows $m
Financial liabilities							
Due to other financial institutions	209	209	-	-	-	-	209
Deposits	37,523	15,729	11,463	9,847	842	48	37,929
Derivative financial instruments (1)	19	-	6	4	4	1	15
Accounts payable and other liabilities	311	-	311	-	-	-	311
Borrowings	5,281	-	856	955	3,119	796	5,726
Total financial liabilities	43,343	15,938	12,636	10,806	3,965	845	44,190
Derivative financial instruments (hedging relationship)							
Contractual amounts payable	-	-	1,077	371	769	229	2,446
Contractual amounts receivable	-	-	(1,095)	(349)	(592)	(105)	(2,141)
	-	-	(18)	22	177	124	305
Off balance sheet positions							
Guarantees, indemnities and letters of credit	-	293	-	-	-	-	293
Customer funding commitments	-	595	-	-	-	-	595
	-	888	-	-	-	-	888

(1) Derivative financial instruments other than those designated in hedge relationships.

(d) Insurance risk

(i) Risk management objectives and policies for risk mitigation

Insurance risks are controlled through the use of underwriting procedures, adequate premium rates and policy charges and sufficient reinsurance arrangements, all of which are approved through a Board approved governance structure. Controls are also maintained over claims management practices to assure the correct and timely payment of insurance claims.

(ii) Strategy for managing insurance risk

Portfolio of risks

The Bank's insurance subsidiaries issue consumer credit insurance, term life insurance, funeral insurance, accidental death insurance and motor vehicle gap insurance contracts. The performance of the Bank's insurance subsidiaries and its continuing ability to write business depends on its ability to pre-empt and control risks. The Bank's insurance subsidiaries have a risk management strategy which has been approved by their respective Boards. It summarises the approach to risk and risk management.

Risk strategy

In compliance with contractual and regulatory requirements, a strategy is in place to ensure that the risks underwritten satisfy objectives whilst not adversely affecting the Consolidated Entity's ability to pay benefits and claims when due. The strategy involves the identification of risks by type, impact and likelihood, the implementation of processes and controls to mitigate the risks, and continuous monitoring and improvement of the procedures in place to minimise the chance of an adverse compliance or operational risk event occurring. Included in this strategy is the process for underwriting and product pricing to ensure products are appropriately priced. Capital management is also a key aspect of the Consolidated Entity's risk management strategy. Capital requirements take account of all of the various regulatory reporting requirements to which the Consolidated Entity is subject.

Prudential capital requirements

Prudential capital requirements established by the APRA are in place to safeguard policyholders' interests, which are primarily the ability to meet future claim payments to policyholders. These require the Consolidated Entity's capital base to exceed the Prudential Capital Requirement throughout the year, not just at year end. The level of capital requirements also take into account specific risks faced by the Bank's insurance subsidiaries.

Notes to the Financial Statements

For the Year Ended 31 August 2017

3.6 Risk management (continued)

(d) Insurance risk (continued)

(iii) Methods to limit or transfer insurance risk exposures

Reinsurance

The insurance subsidiaries use reinsurance arrangements to pass on or cede to reinsurers risks that are outside of the subsidiary's risk appetite.

Underwriting procedures

Strategic underwriting decisions are put into effect using the underwriting procedures detailed in the Bank's insurance subsidiaries Underwriting Policy. Such procedures include limits to delegated authorities and signing powers.

Claims management

Strict claims management procedures ensure timely and correct payment of claims in accordance with policy conditions.

Asset and liability management techniques

Assets are allocated to different classes of business using a risk based approach. The Bank's insurance subsidiaries have a mix of short and long term business and invests accordingly. Market risk is managed through investing in cash, deposits and bank issued commercial bills. No more than 35% of shareholder funds and funds backing insurance policy liabilities can be invested with any one counterparty subject to counterparty credit ratings.

(e) Concentration of insurance risk

(i) Insurance risks associated with human life events

The Bank aims to maintain a diversified profile of ages, genders, health statuses and geographic location within its portfolio of policyholders. This policy maintains a balance between the current and future profitability of the life business, and exposure to any significant external events. The distribution channels and subsequent demographic mix of the population of policyholders is sufficiently spread so that the risk concentration in relation to any particular group is small. Specific processes for monitoring identified key concentrations include monitoring sales by product type, cover type and corporate partner type.

3.7 Financial instruments

(a) Financial instrument classifications

In addition to Loans and advances and financial liabilities at amortised cost, the Bank classifies its financial instruments into one of the following four categories upon initial recognition:

(i) Financial assets held for trading

Financial assets that are held as part of the Bank's trading book (refer Section 3.3) are designated at fair value through the profit and loss. The Bank manages such financial assets and makes purchase and sale decisions based on their fair value in accordance with the Bank's documented risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognised in profit or loss in the Income Statement when incurred. Financial instruments at fair value through the profit and loss are measured at fair value, and changes therein are recognised in profit or loss in the Income Statement.

(ii) Financial assets available-for-sale

Financial assets that are intended to be held for an indefinite period of time but which may be sold in response to changes in interest rates, exchange rates and liquidity needs are classified as available-for-sale (refer Section 3.3). These assets are initially measured at fair value, plus any directly attributable transaction costs. Any changes in fair value other than impairment losses are recognised in other comprehensive income and accumulated in reserves in equity until the asset is sold. Interest income received on these assets is recorded as net interest income and any realised gains or losses recorded in other income in the Income Statement.

(iii) Receivables due from other financial institutions

Receivables due from other financial institutions are recognised and measured at amortised cost and include settlement account balances and nostro balances (an account held with a foreign bank usually in a foreign currency).

(iv) Derivative financial instruments

The Consolidated Entity uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operating, financing and investing activities. Refer to Section 3.8 for further information on derivative financial instruments.

(b) Fair value of financial instruments

The financial assets and liabilities listed below are recognised and measured at fair value and therefore their carrying value equates to their fair value:

- Financial assets available-for-sale;
- Financial assets and liabilities designated at fair value through the profit and loss; and
- Derivatives.

The fair value estimates for instruments carried at amortised cost are based on the following methodologies and assumptions:

Cash and liquid assets, due from and to other financial institutions, accounts payable and other liabilities

The fair value approximates their carrying value as they are short term in nature or are receivable or payable on demand.

Loans and advances

Loans and advances are net of specific and collective provisions for impairment and unearned income. The fair values of loans and advances that reprice within six months of year end are assumed to equate to the carrying value. The fair values of all other loans and advances are calculated using discounted cash flow models based on the maturity of the loans and advances. The discount rates applied are based on the current interest rates at the reporting date for similar types of loans and advances, if the loans and advances were performing at the reporting date. The differences between estimated fair values and carrying values reflect changes in interest rates and creditworthiness of borrowers since loan or advance origination.

Deposits

The fair value of non-interest bearing, at call and variable rate deposits and fixed rate deposits repricing within six months is the carrying value. The fair value of other term deposits is calculated using discounted cash flow models based on the deposit type and its related maturity.

Borrowings

The fair values are calculated based on a discounted cash flow model using a yield curve appropriate to the remaining maturity of the instruments.

Notes to the Financial Statements

For the Year Ended 31 August 2017

3.7 Financial instruments (continued)

(c) Comparison of fair value to carrying amounts

The tables below discloses the fair value of financial instruments where their carrying value is not a reasonable approximation of their fair value:

		Consolidated Entity			
		Carrying value		Fair value	
	Section	2017 $m	2016 $m	2017 $m	2016 $m
Assets carried at amortised cost					
Loans and advances at amortised cost	3.4	**43,590**	42,896	**43,623**	43,069
		43,590	42,896	**43,623**	43,069
Liabilities carried at amortised cost					
Deposits	3.2	**(37,169)**	(36,720)	**(37,174)**	(36,760)
Borrowings	3.5	**(9,651)**	(9,398)	**(9,650)**	(9,400)
		(46,820)	(46,118)	**(46,824)**	(46,160)

		Bank			
		Carrying value		Fair value	
	Section	2017 $m	2016 $m	2017 $m	2016 $m
Assets carried at amortised cost					
Loans and advances at amortised cost	3.4	**39,348**	38,881	**39,369**	38,983
		39,348	38,881	**39,369**	38,983
Liabilities carried at amortised cost					
Deposits	3.2	**(37,501)**	(37,523)	**(37,506)**	(37,563)
Borrowings	3.5	**(6,230)**	(5,281)	**(6,231)**	(5,284)
		(43,731)	(42,804)	**(43,737)**	(42,847)

The estimated fair values disclosed do not include the assets and liabilities that are not financial instruments.

Notes to the Financial Statements

For the Year Ended 31 August 2017

3.7 Financial instruments (continued)

(d) 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, which 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.

The fair value hierarchy classification of instruments in Section 3.7 (c).

- Loans and advances - Level 3
- Deposits and Borrowings notes - Level 2

There were no material movements in Level 3 during the year.

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

	2017			
Consolidated Entity	Level 1 $m	Level 2 $m	Level 3 [(1)] $m	Total $m
Instruments carried at fair value				
Financial assets available-for-sale	2,261	1,670	3	3,934
Financial assets designated at fair value through profit and loss	53	1,784	-	1,837
Derivative financial assets	-	109	-	109
	2,314	**3,563**	**3**	**5,880**
Derivative financial liabilities	-	(333)	-	(333)
	2,314	**3,230**	**3**	**5,547**

(1) In the current year, shares in an investment with a value of $6 million were sold and a gain of $0.7 million was recognised.

	2016			
Consolidated Entity	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Instruments carried at fair value				
Financial assets available-for-sale	1,863	1,867	9	3,739
Financial assets designated at fair value through profit and loss	-	1,591	-	1,591
Derivative financial assets	-	180	-	180
	1,863	3,638	9	5,510
Derivative financial liabilities	-	(498)	-	(498)
	1,863	3,140	9	5,012

	2017			
Bank	Level 1 $m	Level 2 $m	Level 3[(1)] $m	Total $m
Instruments carried at fair value				
Financial assets available-for-sale	2,261	1,763	3	4,027
Financial assets designated at fair value through profit and loss	53	1,784	-	1,837
Derivative financial assets	-	107	-	107
	2,314	**3,654**	**3**	**5,971**
Derivative financial liabilities	-	(333)	-	(333)
	2,314	**3,321**	**3**	**5,638**

(1) In the current year, shares in an investment with a value of $6 million were sold and a gain of $0.7 million was recognised.

Notes to the Financial Statements

For the Year Ended 31 August 2017

3.7 Financial instruments (continued)

(d) Fair value hierarchy (continued)

	2016			
Bank	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Instruments carried at fair value				
Financial assets available-for-sale	1,863	2,058	9	3,930
Financial assets designated at fair value through profit and loss	-	1,591	-	1,591
Derivative financial assets	-	180	-	180
	1,863	3,829	9	5,701
Derivative financial liabilities	-	(490)	-	(490)
	1,863	3,339	9	5,211

(e) Master netting or similar arrangements

There have been no financial assets or financial liabilities offset in the Balance Sheets. The Consolidated Entity has netting arrangements in place with counterparties on derivative financial instruments and the effects of these netting arrangements if they were to be applied in the Balance Sheets has been disclosed at Section 3.8 (c).

(f) Impairment of financial instruments policy

Financial assets other than loans and advances at amortised cost

The Consolidated Entity assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets, not carried at fair value through profit and loss, is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset and the loss event had a negative effect on the estimated future cash flow of that asset that can be estimated reliably.

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for financial assets available-for-sale the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss in the Income Statement) is reclassified from equity and recognised in profit or loss in the Income Statement as a reclassification adjustment. Impairment losses recognised in profit or loss in the Income Statement on equity instruments classified as available-for-sale are not reversed through the profit or loss in the Income Statement. For available-for-sale debt securities, if any increase in the fair value can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed through profit of loss in the Income Statement.

Notes to the Financial Statements

For the Year Ended 31 August 2017

3.8 Derivative financial instruments

(a) Fair value of derivatives

The following tables summarises the notional and fair value of the Consolidated Entity's and Bank's commitments to derivative financial instruments at reporting date. Fair value in relation to derivative financial instruments is estimated using net present value techniques. The tables below sets out the fair values of the derivative financial instruments.

	Consolidated					
	2017			2016		
	Notional Amount	Fair Value		Notional Amount	Fair Value	
	$m	Asset $m	Liability $m	$m	Asset $m	Liability $m
Derivatives at fair value through Income Statement						
Interest rate swaps	22,744	18	(12)	19,899	25	(17)
Foreign exchange forwards	139	2	(1)	113	1	(2)
Futures	8,775	8	-	6,726	9	-
	31,658	28	(13)	26,738	35	(19)
Derivatives held as cash flow hedges						
Interest rate swaps	31,196	71	(50)	36,859	136	(293)
Cross currency swaps	993	8	(5)	279	4	(20)
Foreign exchange forwards	683	1	(17)	829	5	(8)
	32,872	80	(72)	37,967	145	(321)
Derivatives designated as fair value hedges						
Interest rate swaps	1,937	-	(248)	700	-	(157)
Derivatives designated as net investment hedges						
Foreign exchange forwards	22	1	-	21	-	(1)
	66,489	109	(333)	65,426	180	(498)

Notes to the Financial Statements

For the Year Ended 31 August 2017

3.8 Derivative financial instruments (continued)

(a) Fair value of derivatives (continued)

	Bank					
	2017			2016		
	Notional Amount	Fair Value		Notional Amount	Fair Value	
	$m	Asset $m	Liability $m	$m	Asset $m	Liability $m
Derivatives at fair value through Income Statement						
Interest rate swaps	22,744	18	(12)	19,899	25	(17)
Foreign exchange forwards	161	3	(1)	133	1	(3)
Futures	8,775	8	-	6,726	9	-
	31,680	29	(13)	26,758	35	(20)
Derivatives held as cash flow hedges						
Interest rate swaps	31,136	73	(50)	36,667	136	(293)
Cross currency swaps	241	4	(5)	211	4	(12)
Foreign exchange forwards	683	1	(17)	829	5	(8)
	32,060	78	(72)	37,707	145	(313)
Derivatives designated as fair value hedges						
Interest rate swaps	1,937	-	(248)	700	-	(157)
	65,677	107	(333)	65,165	180	(490)

(b) Accounting for derivatives

The Consolidated Entity and Bank used derivative financial instruments for both hedging and trading purposes in the current year. Refer to Section 3.6 (a) for an explanation of the Consolidated Entity's and Bank's risk management framework. The Consolidated Entity uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operating, financing and investing activities. In accordance with its treasury risk policies, the Consolidated Entity can hold derivative financial instruments for trading purposes. Derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at trade date fair value and are subsequently measured at fair value at the reporting date. The gain or loss on remeasurement is recognised immediately in profit or loss in the Income Statement. However, when derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the hedge relationship.

The fair value of interest rate swaps is the estimated amount that the Consolidated Entity would receive or pay to terminate the swap at the reporting date, taking into account current interest rates and current creditworthiness of the swap counterparties. The fair value of forward exchange contracts is their quoted market price at the reporting date, being the present value of the quoted forward price. The fair value of futures contracts is their quoted market price.

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability of the cash flows of a recognised asset or liability, or a highly probable forecasted transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in other comprehensive income and accumulated in reserves in equity. The ineffective portion of any gain or loss is recognised immediately in profit or loss in the Income Statement. If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, then the associated gains and losses previously recognised directly in other comprehensive income are reclassified to profit or loss in the Income Statement in the same period or periods in which the asset acquired or liability assumed affects the Income Statement (i.e. when interest income or expense is recognised).

When a hedging instrument expires or is sold, terminated or exercised, or the Consolidated Entity revokes designation of the hedge relationship but if the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in other comprehensive income and is recognised when the transaction occurs. If the hedged transaction is no longer expected to take place, then the cumulative unrealised gain or loss is recognised immediately in profit or loss in the Income Statement.

Fair value hedges

Where an effective hedge relationship is established, fair value gains or losses on the hedging instrument are recognised in profit or loss. The hedged item attributable to the hedged risk is carried at fair value with the gain or loss recognised in profit or loss in the Income Statement. When a hedge relationship no longer meets the criteria for hedge accounting, the hedged item is accounted for under the effective interest method from that point. Any accumulated adjustment to the carrying value of the hedged item from when it was effective is released to profit or loss over the period to when the hedged item will mature.

Notes to the Financial Statements

For the Year Ended 31 August 2017

3.8 Derivative Financial Instruments (continued)

(b) Accounting for derivatives (continued)

Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any foreign currency gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income and accumulated in reserves in equity. To the extent the hedge is ineffective, a portion is recognised immediately in the Income Statement within other income or other expenses.

Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the Income Statement and are included in other income.

(c) Master netting or similar arrangements

The Consolidated Entity enters into derivative transactions under International Swaps and Derivatives Association ('ISDA') master netting agreements. Amounts owed by each counterparty are aggregated into a single net amount that is payable by one party to another. The Consolidated Entity receives and gives collateral in the form of cash in respect of derivatives and such collateral is subject to standard industry terms. The Consolidated Entity has not offset these amounts in the Balance Sheet as their ISDA agreements do not meet the criteria to do so. The Consolidated Entity has no current legally enforceable right to offset recognised amounts as the right to offset is only enforceable on the occurrence of future events. The Consolidated Entity normally settles on a net basis or realises the derivative assets and liabilities simultaneously.

The following tables set out the effect of netting arrangements on derivative financial assets and derivative financial liabilities if they were to be applied.

	2017			
Consolidated	Gross amounts as presented in the Balance Sheet $m	Net amounts of recognised assets and liabilities available for offset $m	Cash collateral $m	Net amounts if offsetting applied in the Balance Sheet $m
Derivative financial assets	**109**	**(69)**	**(22)**	**18**
Derivative financial liabilities	**(333)**	**69**	**276**	**12**

	2016			
Consolidated	Gross amounts as presented in the Balance Sheet $m	Net amounts of recognised assets and liabilities available for offset $m	Cash collateral $m	Net amounts if offsetting applied in the Balance Sheet $m
Derivative financial assets	180	(120)	-	60
Derivative financial liabilities	(498)	120	349	(29)

	2017			
Bank	Gross amounts as presented in the Balance Sheet $m	Net amounts of recognised assets and liabilities available for offset $m	Cash collateral $m	Net amounts if offsetting applied in the Balance Sheet $m
Derivative financial assets	**107**	**(69)**	**(22)**	**16**
Derivative financial liabilities	**(333)**	**69**	**276**	**12**

	2016			
Bank	Gross amounts as presented in the Balance Sheet $m	Net amounts of recognised assets and liabilities available for offset $m	Cash collateral $m	Net amounts if offsetting applied in the Balance Sheet $m
Derivative financial assets	180	(120)	-	60
Derivative financial liabilities	(490)	120	349	(21)

Notes to the Financial Statements

For the Year Ended 31 August 2017

3.9 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 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 Common Equity Tier 1 capital target range to be between 8.0% and 9.5% of risk weighted assets and the total capital range to be between 11.5% and 13.5% of risk weighted assets. As at 31 August 2017:

- Common Equity Tier 1 capital was 9.4%; and
- Total capital adequacy ratio was 12.4%.

	Level 2 entities[(1)]	
Qualifying capital	**2017 $m**	2016 $m
Common Equity Tier 1 Capital		
Paid-up ordinary share capital	**3,360**	3,243
Reserves	**1**	(18)
Retained profits, including current year profits	**365**	311
Total Common Equity Tier 1 Capital	**3,726**	3,536
Regulatory adjustments		
Goodwill and intangibles	**(870)**	(869)
Deferred expenditure	**(168)**	(158)
Other deductions	**2**	15
Total regulatory adjustments	**(1,036)**	(1,012)
Net Common Equity Tier 1 Capital	**2,690**	2,524
Additional Tier 1 Capital	**450**	450
Net Tier 1 Capital	**3,140**	2,974
Tier 2 Capital		
Tier 2 Capital	**200**	253
General reserve for credit losses	**202**	221
Net Tier 2 Capital	**402**	474
Capital base	**3,542**	3,448
Risk Weighted Assets	**28,644**	28,054
Capital Adequacy Ratio	**12.4%**	12.3%

(1) APRA Prudential Standard *APS 001* defines Level 2 as the ADI and all of its subsidiary entities other than non-consolidated subsidiaries. The non-consolidated subsidiaries excluded from Level 2 are:

- BOQ Share Plans Nominee Pty Ltd;
- 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 2007-2 REDS Trust;
- Series 2012-1E REDS Trust;
- Series 2013-1 REDS Trust;
- Series 2015-1 REDS Trust;
- Series 2017-1 REDS Trust; and
- REDS Warehouse Trust No.3.

Notes to the Financial Statements

For the Year Ended 31 August 2017

3.10 Capital and reserves

(a) Ordinary shares

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share rights are recognised as a deduction from equity, net of any tax effects.

Treasury shares

Ordinary shares of the Bank may be purchased from time to time by a subsidiary of the Bank as authorised under the Bank's Award Rights Plan. Where these shares remain unvested to employees they are treated as treasury shares and deducted from capital as required by AASB 132 *Financial Instruments: Presentation*. No profit or loss is recorded on purchase, sale, issue or cancellation of these shares.

	Consolidated		Bank	
	2017 Number	2016 Number	**2017 Number**	2016 Number
Movements during the year				
Balance at the beginning of the year – fully paid	**380,995,702**	370,768,776	**380,995,702**	370,768,776
Dividend reinvestment plan	**9,694,027**	8,722,926	**9,694,027**	8,722,926
Issues of ordinary shares (1) (2)	**1,050,000**	1,504,000	**1,050,000**	1,504,000
Balance at the end of the year – fully paid	**391,739,729**	380,995,702	**391,739,729**	380,995,702
Treasury shares (included in ordinary shares above)				
Balance at the beginning of the year	**537,337**	489,515	**-**	-
Net acquisitions and disposals during the year	**27,971**	47,822	**-**	-
Balance at the end of the year	**565,308**	537,337	**-**	-

(1) On 21 October 2016, 1,050,000 ordinary shares were issued at $11.15 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 issue of shares under the BOQ Restricted Share Plan and BOQ Employee Share Plan.

(2) On 26 October 2015, 1,130,000 ordinary shares were issued at $13.79 and on 9 February 2016, 374,000 ordinary shares were issued at $12.63 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 issue of shares under the BOQ Restricted Share Plan and BOQ Employee Share Plan.

Terms and conditions

Holders of ordinary shares are entitled to receive dividends as determined by the Bank and are entitled to one vote per share at shareholders' meetings.
In the event of winding up of the Bank, ordinary shareholders rank after preference shareholders, wholesale capital note holders and creditors and are fully entitled to any residual proceeds of liquidation.

(b) Nature and purpose of reserves

Employee benefits reserve

The employee benefits reserve is used to record the value of share based payments provided to employees, including key management personnel, as part of their remuneration. Refer to Section 6.1 for further details of these plans.

Equity reserve for credit losses

The Bank is required by APRA to maintain a general reserve for credit losses. As the Bank is unable to hold a general provision under current accounting standards, the Bank has created an equity reserve for credit losses. The equity reserve for credit losses and the eligible component of the collective provision for impairment are aggregated for the purpose of satisfying the APRA requirement for a general reserve for credit losses.

Available-for-sale reserve

Changes in the fair value of investments, such as bonds and floating rate notes classified as financial assets available-for-sale, are recognised in other comprehensive income as described in Section 3.7 (a)(ii) and accumulated in a separate reserve within equity. Amounts are reclassified to profit or loss in the Income Statement when the associated assets are sold or impaired.

Cash flow hedge reserve

The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised in other comprehensive income, as described in Section 3.8 (b). Amounts are reclassified to profit or loss when the associated hedged transaction affects profit or loss.

Notes to the Financial Statements

For the Year Ended 31 August 2017

Section 4. Other assets and liabilities

4.1 Intangible assets

	Consolidated					Bank				
	Goodwill $m	Customer related intangibles and brands $m	Computer software $m	Other $m	Total $m	Goodwill $m	Customer contracts $m	Computer software $m	Other $m	Total $m
Cost										
Balance as at 1 September 2015	675	130	310	13	1,128	619	89	292	8	1,008
Additions	-	-	60	6	66	-	-	60	6	66
Disposals	-	-	(5)	-	(5)	-	-	-	-	-
Balance as at 31 August 2016	675	130	365	19	1,189	619	89	352	14	1.074
Balance as at 1 September 2016	675	130	365	19	1,189	619	89	352	14	1,074
Additions	7	-	46	3	56	-	-	37	3	40
Balance as at 31 August 2017	**682**	**130**	**411**	**22**	**1,245**	**619**	**89**	**389**	**17**	**1,114**
Amortisation and impairment losses										
Balance as at 1 September 2015	-	95	175	10	280	-	57	165	6	228
Amortisation for the year	-	10	28	6	44	-	10	27	6	43
Disposals	-	-	(5)	-	(5)	-	-	-	-	-
Impairment	-	-	1	-	1	-	-	1	-	1
Balance as at 31 August 2016	-	105	199	16	320	-	67	193	12	272
Balance as at 1 September 2016	-	105	199	16	320	-	67	193	12	272
Amortisation for the year	-	9	38	5	52	-	8	36	5	49
Impairment	-	-	1	-	1	-	-	-	-	-
Balance as at 31 August 2017	**-**	**114**	**238**	**21**	**373**	**-**	**75**	**229**	**17**	**321**
Carrying amounts										
Carrying amount as at 1 September 2015	675	35	135	3	848	619	32	127	2	780
Carrying amount as at 31 August 2016	675	25	166	3	869	619	22	159	2	802
Carrying amount as at 31 August 2017	**682**	**16**	**173**	**1**	**872**	**619**	**14**	**160**	**-**	**793**

Notes to the Financial Statements

For the Year Ended 31 August 2017

4.1 Intangible assets (continued)

Initial recognition and measurement

Intangible assets are stated at cost less any accumulated amortisation and any impairment losses. Expenditure on internally generated goodwill, research costs and brands is recognised in the Income Statement as an expense as incurred.

Subsequent expenditure

Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation

Except for goodwill, amortisation is charged to profit and loss in the Income Statement on a straight-line basis over the estimated useful life of the intangible asset unless the life of the intangible asset is indefinite. Where applicable, intangible assets are amortised from the date they are available for use.
The amortisation period and method are reviewed on an annual basis. The amortisation rates used in the current and comparative periods are as follows:

	Years
Computer software	5-15
Customer related intangibles and brands	3-12

Impairment

As part of the Bank's periodic assessment of the carrying value of intangible assets, no material impairment indicators were identified.

Goodwill

Goodwill is the excess of the cost of acquisition over the fair value of the Bank's or the relevant entity's share of the identifiable net assets of the acquired subsidiary.

Any goodwill is tested annually for impairment, with any impairment taken directly to the profit or loss in the Income Statement.

Consideration transferred included the fair values of the assets transferred, liabilities incurred by the Consolidated Entity to the previous owners of the acquired entity, and equity interests issued by the Consolidated Entity. The aggregate carrying amounts of goodwill are:

	Consolidated		Bank	
	2017 $m	2016 $m	**2017 $m**	2016 $m
BOQ Equipment Finance Limited	**13**	13	**-**	-
Orix debtor finance division	**8**	8	**8**	8
Pioneer Permanent Pty Ltd	**24**	24	**24**	24
BOQ Home Limited	**400**	400	**400**	400
Virgin Money (Australia) Pty Limited	**43**	43	**-**	-
BOQ Specialist (Aust) Limited	**187**	187	**187**	187
BOQF Cashflow Finance Pty Ltd	**7**	-	**-**	-
Total	**682**	675	**619**	619

Impairment testing of the cash generating units containing goodwill

Goodwill on acquisition of all of the above entities has been allocated to the banking cash generating unit ('CGU'). The impairment test for goodwill is performed by comparing the CGU's carrying amount with its recoverable amount. The recoverable amount is based on the CGU's value in use. The excess of the recoverable amount over the carrying amount was $942 million (2016: $903 million).

Value in use was determined by discounting the future cash flows generated from the continued use of the CGU. The values assigned to the key assumptions represent management's assessments of future trends in retail banking and are based on both external and internal sources. Below are the key assumptions used in determining value in use:

- Cash flows were initially based on the banking segment's 3 year projections (2016: 3 years);
- Subsequent cash flows were extrapolated beyond the 3 year projections at a medium term growth rate of 5% (2016: 5%);
- An exit value has been calculated at the end of year 10 based on an implied terminal value earnings multiple of 11.5 (2016: 11.5) and a long term growth rate of 3% (2016: 3%); and
- A post-tax discount rate of 10.0% (2016: 10.0%) and a pre-tax discount rate of 14.3% (2016: 14.3%) was used.

Notes to the Financial Statements

For the Year Ended 31 August 2017

4.2 Provisions

A provision is recognised in the Balance Sheet when the Consolidated Entity has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability. The carrying amounts of the provisions recognised are:

	Consolidated		Bank	
	2017 $m	2016 $m	**2017 $m**	2016 $m
Employee benefits (1)	**24**	24	**21**	21
Leases (2)	**1**	3	**1**	1
Provision for non-lending loss (3)	**10**	8	**9**	8
Other (4)	**7**	12	**2**	5
Total provisions	**42**	47	**33**	35

(1) Employee benefits provisions consist of annual leave (represents present obligations resulting from employees' services provided up to the reporting date, calculated at discounted amounts based on remuneration wage and salary rates that the Bank expects to pay as at reporting date including related on-costs) and long service leave entitlements for employees (represents the present value of the estimated future cash outflows to be made resulting from employees' services provided to reporting date. The provision is calculated using expected future increases in wage and salary rates including related on-costs, and expected settlement dates based on turnover history. The liability is discounted using the rates attached to national corporate bonds at reporting date which most closely match the terms of maturity of the related liabilities). $20 million of this balance is classified as current.

(2) Lease provisions are classified as current.

(3) Included within the non-lending loss provision is $6 million (2016: $6 million) in respect of the Storm Financial settlement, which is classified as non-current. The remaining balance is classified as current.

(4) Other provisions relate to insurance claims reserves and restructuring costs which are classified as current.

Movements in provisions

Movements in each class of provision during the year, other than employee benefits, are as follows:

	Consolidated			Bank		
2017	Leases $m	Non-lending loss $m	Other $m	Leases $m	Non-lending loss $m	Other $m
Carrying amount at beginning of year	3	8	12	1	8	5
Additional provision recognised	-	3	1	-	3	-
Amounts utilised during the year	(2)	(1)	(6)	-	(2)	(3)
Carrying amount at end of year	**1**	**10**	**7**	**1**	**9**	**2**

Notes to the Financial Statements

For the Year Ended 31 August 2017

Section 5. Insurance business

5.1 Insurance business

(a) Basis of preparation

The effective date of the actuarial report on life insurance policy liabilities and regulatory capital requirements is 31 August 2017. The actuarial report was prepared by Mr Stephen Jones, Fellow of the Institute of Actuaries of Australia. This report indicates that Mr Jones is satisfied as to the accuracy of the data upon which life insurance policy liabilities have been determined.

The amount of life insurance and general insurance policy liabilities have been determined in accordance with methods and assumptions disclosed in this financial report and the requirements of applicable accounting standards. Specifically, policy liabilities for life insurance contracts and general insurance contracts are determined in accordance with AASB 1038 *Life Insurance Contracts* and AASB 1023 *General Insurance Contracts* respectively, and *LPS: 340 Valuation of Policy Liabilities*. These require policy liabilities to be calculated in a way which allows for the systematic release of planned margins as services are provided to policyholders and premiums are received.

At the reporting date, the projection method was used to determine the life insurance policy liabilities of the level premium funeral cover business. Policy liabilities for all other business were determined using the accumulation method. The accumulation method values policy liabilities as the provision for unearned premium reserve less a deferred acquisition cost component.

The projection method values life insurance policy liabilities as the net present value of projected policy cash flows (premiums, benefits, expenses and profit margins to be released in future periods), using best estimate assumptions about the future. Future cash flows are discounted at a risk-free discount rate derived from Government bond yields at the reporting date.

Outstanding claims liabilities and Incurred But Not Reported ('IBNR') liabilities are included in provisions.

(b) Processes used to determine actuarial assumptions

Premium earning pattern

For single premium products, the Unearned Premium Reserve ('UPR') is based on a premium earning pattern that is similar to the pattern of expected future claim payments. The future claim payments are based on an assessment of the future sum insured (e.g. outstanding loan balances for mortgage and loan protection) and future claims frequencies. Past experience is used to set these assumptions. This earning pattern is also used to recognise commissions incurred. For regular premium products, the UPR is based on the unearned proportion of premium for the given premium payment frequency.

Mortality and morbidity

Mortality and morbidity assumptions have been based on recent St Andrew's Life Insurance Pty Ltd ('Insurance company') experience, or where data was limited, on the experience of similar products issued by the Insurance company. The disputed claims provision is based on individual claim estimates and an assumed 50% probability of disputed claims being incurred.

Future maintenance expenses

For life insurance contracts valued using the projection method, maintenance unit costs are based on budgeted expenses in the year following the reporting date. For future years, the Insurance company's expense base is increased for inflation at a rate of 1.5% pa.

Voluntary discontinuances

For life insurance contracts valued using the projection method, voluntary discontinuance assumptions have been based on recent Insurance company experience. These rates are derived from the overall discontinuance rate for the individual product group and then further adjusted for duration and premium structure.

Risk-free discount rates

For life insurance contracts valued using the projection method, a risk-free discount rate based on Government bond yields at the reporting date is used. Risk-free rates are term-dependent and as at 31 August 2017 varied from 1.7% to 4.1%.

(c) Sensitivity analysis

Under Margin on Services ('MoS') reporting, changes in assumptions for life insurance contracts valued using the projection method are generally recognised by adjusting the value of future profit margins in the life insurance policy liabilities. Therefore, where a change in assumptions does not result in loss recognition, there is no impact on the policy liabilities in the current period. As at 31 August 2017, no related product groups were in loss recognition. Changes in assumptions will however give rise to a difference in the emergence of profit margins in future periods. Changes in assumptions will not affect policy liabilities determined using the accumulation method, however, claims provisions would be affected in the current period.

Variable	Impact of movement in underlying variable
Mortality rates	For contracts providing death benefits, greater mortality rates would lead to higher levels of claims occurring sooner than anticipated, increasing associated claims cost and therefore reducing profit and shareholder's equity.
Morbidity rates	The cost of disability related claims depends on both the incidence of policyholders becoming disabled and the duration which they remain so. Higher than expected incidence and duration would be likely to increase claim costs, reducing profit and shareholder equity.
Discontinuance rates	Higher than expected policy discontinuance rates reduces future premium income, however this is offset by reduced future claims costs, commissions and maintenance expenses. The likely impact would be to reduce future profit and shareholder equity.
Maintenance expenses	Higher than expected maintenance expenses would reduce future profit and shareholder equity.
Risk-free discount rate	For life insurance contracts valued using the projection method, changes in the risk-free discount rate, such as changes in market yields caused by changes in investment markets and economic conditions, impact both life insurance policy liabilities and asset values at the reporting date.

Notes to the Financial Statements

For the Year Ended 31 August 2017

5.1 Insurance business (continued)

(d) Reconciliation of movements

	2017 $m	2016 $m
Reconciliation of movements in insurance policy liabilities		
Life insurance contract policy liabilities		
Gross life insurance contract liabilities at the beginning of the financial year	17	32
Decrease in life insurance contract policy liabilities (i)	(6)	(15)
Gross life insurance contract liabilities at the end of the financial year	11	17
Liabilities ceded under reinsurance		
Opening balance at the beginning of the financial year	(1)	(1)
Decrease in life reinsurance assets (ii)	-	-
Closing balance at the end of the financial year	(1)	(1)
Net life policy liabilities at the end of the financial year	10	16
(i) plus (ii) = change in life insurance contract liabilities reflected in the Income Statement	(6)	(15)
Components of net life insurance contract liabilities		
Future policy benefits	34	41
Future charges for acquisition costs	(24)	(25)
Total net life insurance contract policy liabilities	10	16
Components of general insurance liabilities		
Unearned premium liability	5	7
Outstanding claims liability	1	2
	6	9
Total Insurance Policy Liabilities	16	25

Future policy benefits include the unearned premium components of the liability. The accumulation method has been used to calculate policy liabilities and components relating to expenses and profits are not separately calculated.

Notes to the Financial Statements

For the Year Ended 31 August 2017

5.1 Insurance business (continued)

(e) Life insurance regulatory capital requirements

The regulatory capital requirement of each fund and for the subsidiary in total is the amount required to be held in accordance with *LPS 110: Capital Adequacy*. These are amounts required to meet the prudential standards prescribed by the *Life Insurance Act 1995* to provide protection against the impact of fluctuations and unexpected adverse circumstances on the Insurance company.

The methodology and bases for determining the capital base and regulatory capital requirements are in accordance with relevant prudential requirements.

	2017		2016	
	Statutory Fund No. 1 $m	Shareholders' Fund $m	Statutory Fund No. 1 $m	Shareholders' Fund $m
Capital base				
Net Assets	33	1	29	1
Add / (subtract) regulatory adjustments to Net Assets	(16)	-	(13)	-
Total capital base	17	1	16	1
Asset risk charge	1	-	1	-
Operational risk charge	2	-	2	-
Total prescribed capital amount	3	-	3	-
Assets in excess of prescribed capital amount	14	1	13	1
Capital adequacy multiple	6	58	6	57

	2017 $m	2016 $m
Composition of capital base		
Common equity tier 1 capital	34	30
Subtract regulatory adjustments to common equity tier 1 capital	(16)	(13)
Total capital base	18	17
Prescribed Capital Amount		
Statutory Fund No. 1	3	3
Additional amount to meet Insurance company minimum	7	7
Total prescribed capital amount	10	10
Assets in excess of prescribed capital amount	8	7
Capital adequacy multiple	2	2

Notes to the Financial Statements

For the Year Ended 31 August 2017

5.1 Insurance business (continued)

(e) Life insurance regulatory capital requirements (continued)

Disaggregated information life insurance (before consolidation adjustments)

Summarised Income Statement	2017 $m	2016 $m
Revenue		
Life insurance premium revenue	51	46
Investment income	1	2
Net life insurance revenue	52	48
Expenses		
Net claims and other liability expense from insurance contracts	35	25
Other expenses	7	7
	42	32
Profit before income tax	10	16
Income tax expense	(3)	(5)
Profit after income tax	7	11
Statement of sources of profit for statutory funds		
Operating profit after income tax arose from:		
Components of profit related to movement in life insurance liabilities:		
Planned margins of revenues over expenses released	9	11
Difference between actual and assumed experience	(3)	(1)
Investment earnings on assets in excess of life insurance policy liabilities and provision	1	1
Summarised Balance Sheet		
Assets		
Investment assets	54	64
Other assets	4	3
	58	67
Liabilities		
Net life insurance liabilities	9	15
Liabilities other than life insurance liabilities	15	22
	24	37
Issued capital, reserves and retained profits		
Directly attributable to shareholders	34	30
	34	30

The life insurance business has no life investment contracts.

(e) Accounting policy

The life insurance operations of the Consolidated Entity are conducted within separate funds as required by the *Life Insurance Act 1995* and is reported in aggregate with the shareholders' fund in the Income Statement, Balance Sheet and Statement of Cash Flows of the Consolidated Entity. The life insurance operations of the Consolidated Entity comprise the selling and administration of life insurance contracts.

Life insurance contracts involve the acceptance of significant insurance risk. Insurance risk is defined as significant if, and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance (i.e. have no discernible effect on the economics of the transaction).

Insurance contracts include those where the insured benefit is payable on the occurrence of a specified event such as death, injury or disability caused by accident or illness.

Notes to the Financial Statements

For the Year Ended 31 August 2017

5.1 Insurance business (continued)

(f) Accounting policy (continued)

The insured benefit is either not linked or only partly linked to the market value of the investments held by the Consolidated Entity. Financial risks are substantially borne by the Consolidated Entity.

Monies held in the statutory fund are subject to distribution and transfer restrictions and other requirements of the *Life Insurance Act 1995*.

Under AASB 1038 *Life Insurance Contracts,* the financial statements must include all assets, liabilities, revenues, expenses and equity, irrespective of whether they are designated as relating to shareholders or policy owners. Therefore, the Consolidated Entity's financial statements comprise the total of all statutory funds and the shareholders' fund.

Insurance contract liability

Profits of the insurance contract business are brought to account on a MoS basis in accordance with guidance provided by *LPS 340: Valuation of Policy Liabilities* as determined by APRA. Under MoS, profit is recognised as fees are received and services are provided to policyholders. When fees are received but the service has not been provided, the profit is deferred. Losses are expensed when identified.

Consistent with the principle of deferring unearned profit is the requirement to defer expenditure associated with the deferred profit. MoS permits costs associated with the acquisition of policies to be charged to profit or loss in the Income Statement over the period that the policy will generate profits. Costs may only be deferred to the extent that a policy is expected to be profitable.

Profit arising from life insurance is based on actuarial assumptions, and calculated as the excess of premiums and investment earnings less claims, operating expenses and the amortisation of acquisition costs that will be incurred over the estimated life of the policies. The profit is systematically recognised over the estimated time period the policy will remain in force.

Under MoS, insurance contract liabilities may be valued using a projection approach or an accumulation approach where this does not result in a material difference to the projection approach. The Insurance Company's Directors and the appointed actuary have deemed the projection approach appropriate for the level premium funeral cover portion of the business, and the accumulation approach appropriate for the remainder of the business. Under the accumulation approach, premiums received are deferred and earned in accordance with the underlying incidence of risk. Costs of acquiring insurance contracts, both direct and indirect, are deferred to the extent that related product groups are expected to be profitable. Under the projection approach, insurance contract liabilities are valued as the net present value of projected policy cash flows (premiums, benefits, expenses and profit margins to be released in future periods), using best estimate assumptions about the future. Future cash flows are discounted at a risk-free discount rate.

Where a related product group is not expected to be profitable, the insurance contract liability is increased by the excess of the present value of future expenses over future revenues.

Revenue Recognition

Premiums in respect of life insurance contracts are recognised as revenue in the Income Statement from the date of attachment of risk. Premiums with no due date are recognised as revenue on a cash basis. Premiums with a regular due date are recognised as revenue on an accruals basis. Unpaid premiums are only recognised as revenue during the days of grace or where secured by the surrender value of the policy and are included in the intergroup balance in the Balance Sheet.

Investment income is recognised on an accruals basis. Realised and unrealised gains and losses are included in the Income Statement as investment income.

Claims expense – insurance contracts

Claims incurred all relate to the provision of services, including the bearing of risks, and are treated as expenses.

Claims are recognised when the liability to the policyholder under the policy contract has been established. Claims recognition is based upon:

- cost estimates for losses reported to the close of the financial year; and
- estimated incurred but not reported losses, based upon past experience.

Deferred acquisition costs - life insurance contracts

The fixed and variable costs of acquiring new life insurance business are deferred to the extent that such costs are deemed recoverable from future premiums or policy charges. These costs include commission, policy issue and underwriting costs, certain advertising costs and other sales costs. Acquisition costs deferred are limited to the lesser of the actual costs incurred and the allowance for the recovery of such costs in the premium or policy charges. The actual acquisition costs incurred are recorded in profit or loss in the Income Statement. The value and future recovery of these costs are assessed in determining policy liabilities. This has the effect that acquisition costs are deferred within the policy liability balance and amortised over the period that they will be recovered from premiums or policy charges.

Critical accounting judgements and estimates

The Consolidated Entity's insurance subsidiaries make estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The areas where critical accounting judgements and estimates are applied are noted as:

Policy liabilities

Policy liabilities for life insurance contracts are computed using statistical or mathematical methods, which are expected to give approximately the same results as if an individual liability was calculated for each contract. The computations are made by suitably qualified personnel on the basis of recognised actuarial methods, with due regard to relevant actuarial principles. The methodology takes into account the risks and uncertainties of the particular classes of life insurance business written. The key factors that affect the estimation of these liabilities and related assets are:

- The cost of providing benefits and administering these insurance contracts;
- Mortality and morbidity experience on life insurance products, including enhancements to policyholder benefits; and
- Discontinuance experience, which affects the Bank's ability to recover the cost of acquiring new business over the lives of the contracts.

In addition, factors such as regulation, competition, interest rates, taxes, securities market conditions and general economic conditions affect the level of these liabilities.

Notes to the Financial Statements

For the Year Ended 31 August 2017

Section 6. Other notes

6.1 Employee benefits

(a) Superannuation commitments

Superannuation plan

The Bank contributes to a number of defined contribution superannuation plans which comply with the *Superannuation Industry (Supervision) Act 1993*. Contributions are charged to profit or loss in the Income Statement as they are made.

Basis of contributions

Employee superannuation contributions are based on various percentages of employees' gross salaries. The Consolidated Entity's contributions are also based on various percentages of employees' gross salaries.

The Consolidated Entity is under no legal obligation to make superannuation contributions except for the minimum contributions required under the Superannuation Guarantee Legislation.

(b) Share based payments

The Consolidated Entity currently operates an Award Rights Plan for equity-settled compensation. The plan allows the Consolidated Entity's employees to acquire shares in the Bank. The fair value of rights granted is recognised as an employee expense with a corresponding increase to the Employee Benefits Reserve. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the rights. The fair value of the rights granted is measured using industry accepted pricing methodologies, taking into account the terms and conditions upon which the rights are granted. The fair value of the rights is expensed over the vesting period. Where rights do not vest due to failure to meet a non market condition (e.g. employee service period) the expense is reversed. Where rights do not vest due to failure to meet a market condition (e.g. Total shareholder return test) the expense is not reversed.

(i) Description of share based payments

Long-term incentives - Award Rights

The Award Rights Plan was approved by shareholders on 11 December 2008. It is an equity based program under which Award Rights are granted as long-term incentives. The two types of award rights currently granted to employees under the plan are Performance Award Rights ('PARs') and Deferred Award Rights ('DARs'). No amount is payable by employees for the grant or exercise of these award rights.

PARs

The vesting framework for PARs will depend upon when the issue has been granted. For PARs granted prior to December 2015 the vesting framework will be based on the TSR of the Bank measured against a peer group over a 2 to 3 year period. That peer group consists of the S&P / ASX 200 from time to time, excluding selected entities in resources, real estate investment trusts, telecommunications (offshore headquartered), energy and utilities and such other inclusions and exclusions the Board considers appropriate. TSR is a measure of the entire return a shareholder would obtain from holding an entity's securities over a period, taking into account factors such as changes in the market value of the securities and dividends paid over the period.

One half of an employee's PARs will vest if the Bank's TSR performance over the three year period is in the top 50% of the peer group. All of the PARs vest if the Bank's TSR performance is in the top 25%. For TSR performance between those targets, a relative proportion of the PARs between 50% and 100% would vest. If the Bank's TSR performance is below 50% of the Peer Group, no PARs vest.

For issues granted from December 2015, the vesting framework will also contain an EPS component, with 80% of the employee's PARs to vest based on the Bank's TSR performance measured against a peer group over a three year period. The remaining 20% of PARs vest based on the Bank's EPS performance, measured against a financial services peer group over a three year period.

PARs may be exercised by the employee once they have vested.

DARs

There are no market performance hurdles or vesting conditions for DARs but the holder must remain an employee of the Bank. DARs vest proportionately over three years in the ratio of 20% at the end of year one, 30% at the end of year two and 50% at the end of year three. DARs may be exercised by the employee once they have vested.

Restricted shares

The Consolidated Entity has used shares with restrictions on disposal as a non-cash, share based component of both short term and long term incentive awards.

Notes to the Financial Statements

For the Year Ended 31 August 2017

6.1 Employee benefits (continued)

(b) Share based payments (continued)

(ii) Award rights on issue

The number of award rights and restricted shares on issue for the Bank is as follows:

	Deferred Award Rights		Performance Award Rights		Restricted shares	
	2017 '000	2016 '000	**2017 '000**	2016 '000	**2017 '000**	2016 '000
Balance at beginning of the year	**1,034**	1,086	**2,061**	2,513	**239**	262
Granted during the year	**568**	553	**1,046**	954	**160**	157
Forfeited / expired during the year	**(164)**	(184)	**(335)**	(538)	**-**	-
Exercised during the year	**(393)**	(421)	**(395)**	(868)	**(171)**	(180)
Outstanding at the end of the year	**1,045**	1,034	**2,377**	2,061	**228**	239

(iii) Measurement of fair values

The fair value of the PARs and DARs has been measured using the trinomial pricing methodology.

Restricted shares have been valued based on the volume weighted average price of ordinary shares in the Bank sold on the ASX during a 10 day trading period. The shares vest on the respective expiry dates and meeting certain service conditions.

The weighted average of the inputs used in the measurement of the long term incentive award rights grants during the year were as follows:

	Deferred award rights		Performance award rights		Restricted shares	
	2017	2016	**2017**	2016	**2017**	2016
Fair value at grant date	**$11.45**	$10.96	**$6.80**	$7.04	**$11.03**	$12.35
Share price at grant date	**$11.94**	$12.17	**$11.94**	$12.09	**$11.95**	$12.45
Expected volatility	**22.9%**	25.3%	**22.9%**	22.6%	**22.9%**	21.3%
Risk free interest rate	**2.0%**	2.5%	**2.0%**	2.5%	**2.0%**	2.4%
Dividend yield	**6.3%**	5.8%	**6.3%**	5.2%	**6.3%**	5.3%

6.2 Commitments

	Consolidated		Bank	
	2017 $m	2016 $m	**2017 $m**	2016 $m
(a) Lease commitments Future rentals in respect of operating leases (principally in respect of premises) not provided for in these financial statements comprise amounts payable:				
Within 1 year	**34**	28	**34**	28
Between 1 year and 5 years	**104**	85	**104**	85
Later than 5 years	**60**	73	**60**	73
	198	186	**198**	186
(b) Customer funding commitments				
Guarantees, indemnities and letters of credit	**321**	293	**321**	293
Customer funding commitments	**1,412**	1,183	**638**	595
	1,733	1,476	**959**	888

In the normal course of business the Bank makes commitments to extend credit to its customers. Most commitments either expire if not taken up within a specified time or can be cancelled by the Bank within one year. Credit risk is significantly less than the notional amount and does not crystallise until a commitment is funded. Guarantees are provided to third parties on behalf of customers. The credit risks of such facilities are similar to the credit risks of loans and advances.

Notes to the Financial Statements

For the Year Ended 31 August 2017

6.3 Contingent liabilities

As previously disclosed in the Bank's 2016 full year and 2017 half year results, on 11 March 2016, the Bank was served with class action proceedings commenced in the New South Wales Registry of the Federal Court. The proceedings have been commenced by Petersen Superannuation Fund Pty Ltd (the Applicant) on behalf of an open class against Bank of Queensland Limited and DDH Graham Limited and relate to the affairs of the Sherwin group of companies, including Wickham Securities Limited (in Liquidation), Sherwin Financial Planners Pty Ltd (in Liquidation), DIY Superannuation Services Pty Ltd (in Liquidation) and certain of their related entities, with respect to the operation of some of the Bank's Money Market Deposit Accounts. It is the Bank's intention to continue to defend the proceedings and the Bank has filed a defence and cross-claim. It is currently not practicable for the Bank to provide an estimate of any liability in relation to the proceedings. The trial in the case is listed for 12 March 2018 (for 3 weeks). The court has ordered the parties to attend a mediation prior to 31 January 2018, and set 14 December 2017 as the date for class members to opt out of the class action and to register details of their claims.

6.4 Related parties information

(a) Controlled entities

Details of interests in material controlled entities are set out in Section 6.5.

During the year there have been transactions between the Bank and all of its controlled entities. The Bank conducted normal banking business with its operating controlled entities. Amounts owing to or from controlled entities generally attract interest on normal terms and conditions, except in respect of B.Q.L. Management Pty Ltd, BOQ Specialist Pty Ltd, BOQ Share Plans Nominee Pty Ltd, BOQ Home Pty Limited and dormant entities as set out in section 6.5(a).

The Bank receives management fees from its operating controlled entities except BOQ Home Pty Limited, BOQ Share Plans Nominee Pty Ltd and dormant entities as set out in section 6.5(a).

The Bank has a related party relationship with equity accounted joint ventures, refer to section 6.7.

(b) Key management personnel compensation

KMP have authority and responsibility for planning, directing and controlling the activities of the Bank and the Consolidated Entity, including Directors and other Executives.

KMP compensation included in 'administrative expenses' and 'employee expenses' (refer to section 2.2) is as follows:

	Consolidated and Bank	
	2017 $	2016 $
Short term employee benefits	**10,201,793**	9,501,005
Post employment benefits	**353,928**	318,687
Long term employee benefits	**106,201**	54,137
Termination benefits	**381,167**	-
Share based employment benefits	**4,853,858**	4,302,538
	15,896,947	14,176,367

Individual Directors and Executives compensation disclosures

Information regarding individual Directors and Executives compensation and some equity instruments disclosures as permitted by Regulation 2M.3.03 of the *Corporations Regulation 2001* is provided in the Remuneration Report section of the Directors' Report.

Apart from the details disclosed in the Remuneration Report, no Director has entered into a material contract with the Bank since the end of the previous financial year and there were no material contracts involving Directors' interest existing at year end.

Notes to the Financial Statements

For the Year Ended 31 August 2017

6.4 Related parties information (continued)

(c) Other financial instrument transactions with key management personnel and personally-related entities

A number of the KMP and their close family members hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities. These entities, as well as the KMP and their close family members, are related parties to the Consolidated Entity. Financial instrument transactions with KMP and their related parties during the financial year arise out of the provision of banking services, the acceptance of funds on deposit, the granting of loans and other associated financial activities. The terms and conditions of the transactions entered into with KMP and their related parties were no more favourable than those available, or which might reasonably be expected to be available on similar transactions to non-related entities, on an arm's length basis. No amounts have been written down or recorded as impaired during the year (2016: nil).

The transactions undertaken between the Consolidated Entity and KMP or their related parties up to 31 August 2017 are:

	Balance as at		For the period (1)		
	1 September 2016 $	31 August 2017 $	Total Loan Drawdowns / (Repayments) $	Total Loan / Overdraft interest $	Total Fees on Loans / Overdraft $
Term products (loans / advances)					
Executives	**1,690,202**	**1,788,768**	**19,791**	**78,415**	**360**
Other related parties (1)	**953,899**	**1,487,199**	**(2,371,886)**	**121,065**	**2,761**
Total	**2,644,101**	**3,275,967**	**(2,352,095)**	**199,480**	**3,121**

(1) Warwick Negus was appointed a Director of the Bank on 22 September 2016. On this basis, existing loans and advances between the Consolidated Entity and related parties of Mr Negus were not included in the opening balances as at 1 September 2016. Related parties of Mr Negus repaid all loans and advances with the Consolidated Entity during the year and these repayments are reflected in the Total Loan Drawdowns / (Repayments) column in the table above.

	Balance as at		For the period (2)		
	1 September 2015 $	31 August 2016 $	Total Loan Redraws / Further Advances $	Total Loan / Overdraft interest $	Total Fees on Loans / Overdraft $
Term products (loans / advances)					
Executives	2,535,149	1,690,202	(932,893)	87,386	560
Other related parties	338,448	953,899	581,869	32,846	736
Total	2,873,597	2,644,101	(351,024)	120,232	1,296

(2) Amounts are included only for the period that the Director / Executive is classified as a member of KMP.

Other transactions

Transactions with KMP and their related parties (other than loans and shares) during the financial year were related to personal banking, investment, finance leasing, insurance policy and deposit transactions. These transactions are on normal commercial terms and conditions, in the oridinary course of business and are considered trivial or domestic in nature.

On 26 May 2015, the Bank issued 15,000 Wholesale Capital Notes at a price of $10,000 per note. Details of those notes issued to BOQ Directors are set out below:

	2017		2016	
	Balance $	**Interest earned $**	Balance $	Interest earned $
Roger Davis	**200,000**	**8,884**	200,000	2,405
David Willis	**70,000**	**3,109**	70,000	842
Total	**270,000**	**11,993**	270,000	3,247

Notes to the Financial Statements

For the Year Ended 31 August 2017

6.5 Controlled Entities

(a) Particulars in relation to material controlled entities

The Group's controlled entities at 31 August 2017 are set out below. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly by the Group. The Bank owns 100% of all controlled entities with nil ownership interest held by non-controlling interests. The country of incorporation or registration is also their principal place of business.

Controlled entities:	Place of business/country of incorporation	Parent entity's interest 2017 %	Parent entity's interest 2016 %	Amount of investment 2017 $m	Amount of investment 2016 $m	Principal activities
Alliance Premium Funding Pty Ltd (1)	New Zealand	100%	-	-	-	Dormant
Bank of Queensland Limited Employee Share Plans Trust	Australia	100%	100%	-	-	Trust management
BOQ Asset Finance and Leasing Pty Ltd	Australia	100%	100%	-	-	Asset finance & leasing
BOQ Covered Bond Trust	Australia	100%	-	-	-	Issue of covered bonds
BOQ Credit Pty Limited	Australia	100%	100%	-	-	Asset finance & leasing
BOQ Equipment Finance Limited	Australia	100%	100%	15	15	Asset finance & leasing
BOQF Cashflow Finance Pty Ltd (2)	Australia	100%	-	-	-	Professional finance
BOQ Finance (Aust) Limited	Australia	100%	100%	230	230	Asset finance & leasing
BOQ Finance (NZ) Limited	New Zealand	100%	100%	22	22	Asset finance & leasing
BOQ Funding Pty Limited	Australia	100%	100%	-	-	Asset finance & leasing
BOQ Home Pty Ltd	Australia	100%	100%	157	157	Investment holding entity
BOQ Share Plans Nominee Pty Ltd	Australia	100%	100%	-	-	Trust management
BOQ Specialist (Aust) Limited	Australia	100%	100%	358	358	Professional finance and asset finance & leasing
BOQ Specialist Pty Ltd	Australia	100%	100%	-	-	Professional finance
B.Q.L. Management Pty. Ltd.	Australia	100%	100%	-	-	Trust management
B.Q.L. Nominees Pty. Ltd.	Australia	100%	100%	-	5	Dormant
B.Q.L. Properties Pty Ltd	Australia	100%	100%	-	-	Dormant
Dell Financial Services Pty Ltd	Australia	-	100%	-	-	Asset finance & leasing
Home Credit Management Pty Ltd	Australia	100%	100%	-	-	Investment holding entity
Home Financial Planning Pty Ltd	Australia	100%	100%	-	-	Dormant
Hunter Leasing Pty Ltd	Australia	100%	100%	-	-	Dormant
Impala Trust No. 1	Australia	100%	100%	-	-	Securitisation
Newcourt Financial (Australia) Pty Limited	Australia	100%	100%	-	-	Dormant
Nyala Funding Trust CMBS 2013-1	Australia	-	100%	-	-	Securitisation
Pioneer Permanent Pty Ltd	Australia	100%	100%	32	32	Dormant
Queensland Electronic Switching Pty Ltd	Australia	100%	100%	-	-	Dormant
REDS Warehouse Trust No.3	Australia	-	100%	-	-	Securitisation
Series 2007-1E REDS Trust	Australia	-	100%	-	-	Securitisation
Series 2007-2 REDS Trust	Australia	100%	100%	-	-	Securitisation
Series 2008-1 REDS Trust	Australia	100%	100%	-	-	Securitisation
Series 2008-2 REDS Trust	Australia	100%	100%	-	-	Securitisation
Series 2009-1 REDS Trust	Australia	100%	100%	-	-	Securitisation

(1) 100% wholly owned subsidiary of BOQF Cashflow Finance Pty Ltd

(2) Entity was formerly known as Centerpoint Alliance Premium Funding Pty Ltd. 100% wholly owned subsidiary of BOQ Finance (Aust) Limited

Notes to the Financial Statements

For the Year Ended 31 August 2017

6.5 Controlled Entities (continued)

(a) Particulars in relation to material controlled entities (continued)

	Place of business/ country of incorporation	Parent entity's interest		Amount of investment		Principal activities
Controlled entities:		**2017 %**	2016 %	**2017 $m**	2016 $m	
Series 2010-1 REDS Trust	Australia	**100%**	100%	**-**	-	Securitisation
Series 2010-2 REDS Trust	Australia	**100%**	100%	**-**	-	Securitisation
Series 2012-1E REDS Trust	Australia	**100%**	100%	**-**	-	Securitisation
Series 2013-1 EHP REDS Trust	Australia	**-**	100%	**-**	-	Securitisation
Series 2013-1 REDS Trust	Australia	**100%**	100%	**-**	-	Securitisation
Series 2014-1 EHP REDS Trust	Australia	**100%**	100%	**-**	-	Securitisation
Series 2015-1 REDS Trust	Australia	**100%**	100%	**-**	-	Securitisation
Series 2015-1 EHP REDS Trust	Australia	**100%**	100%	**-**	-	Securitisation
Series 2017-1 REDS Trust	Australia	**100%**	-	**-**	-	Securitisation
St Andrew's Australia Services Pty Ltd	Australia	**100%**	100%	**-**	-	Insurance
St Andrew's Insurance (Australia) Pty Ltd	Australia	**100%**	100%	**-**	-	General insurance
St Andrew's Life Insurance Pty Ltd	Australia	**100%**	100%	**-**	-	Life insurance
Statewest Financial Planning Pty Ltd	Australia	**100%**	100%	**-**	-	Dormant
Statewest Financial Services Pty Ltd	Australia	**100%**	100%	**-**	-	Dormant
Virgin Money (Australia) Pty Limited	Australia	**100%**	100%	**53**	53	Financial services
Virgin Money Financial Services Pty Ltd	Australia	**100%**	100%	**-**	-	Financial services
Virgin Money Home Loans Pty Limited	Australia	**100%**	100%	**-**	-	Dormant
				867	872	

(b) Significant restrictions

In accordance with *APS 222 Associations with related entities*, the Bank and its subsidiaries that form part of the Extended Licensed Entity have various restrictions. This includes not having unlimited exposures to related entities, including general guarantees.

(c) Acquisition of controlled entities

(i) Accounting for business combinations

Acquisitions on or after 1 July 2009

The Consolidated Entity has adopted revised AASB 3 *Business Combinations* for business combinations occurring in the financial year starting 1 July 2009. All business combinations occurring on or after 1 July 2009 are accounted for by applying the acquisition method. The Consolidated Entity has also adopted AASB 10 *Consolidated Financial Statements* which has superseded AASB 127 *Consolidated and Separate Financial Statements* (as amended in 2008). For every business combination, the Group identifies the acquirer, which is the combining entity that obtains control of the other combining entities or businesses. The Group controls an entity if it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the investee.

Contingent Liabilities

A contingent liability of the acquiree is assumed in a business combination only if such a liability represents a present obligation and arises from a past event, and its fair value can be measured reliably.

Transactions Costs

Transaction costs that the Group incurs in connection with a business combination, such as a finders fee, legal fees, due diligence fees and other professional and consulting fees are expensed as incurred.

Notes to the Financial Statements

For the Year Ended 31 August 2017

6.5 Controlled Entities (continued)

(c) Acquisition of controlled entities (continued)

(ii) Entities acquired during the year

On 30 December 2016, the Consolidated Entity acquired 100% of BOQF Cashflow Finance Pty Ltd (formerly known as Centrepoint Alliance Premium Funding Pty Ltd) for consideration of $21.4 million.

BOQF Cashflow Finance Pty Ltd ('BOQF Cashflow Finance') focuses on short term loan products in the insurance premium funding industry for predominantly small to medium sized enterprises. The Consolidated Entity purchased BOQF Cashflow Finance as an extension to the BOQ Finance business and aligned to the Bank's strategy to target profitable niche business segments. Alliance Premium Funding Limited (New Zealand entity) was also acquired as a 100% wholly owned subsidiary of BOQF Cashflow Finance.

In the seven month period from 31 December 2016 to 31 August 2017, BOQF Cashflow Finance contributed revenues of $7 million and a profit after tax of $2 million (excluding integration costs of $0.5 million) to the Consolidated Entity.

The provisional acquisition accounting had the following effect on the consolidated entity's assets and liabilities:

	Recognised values on acquisition $m	Pre-acquisition carrying amounts $m
Assets		
Cash and liquid assets	7	7
Loans and advances at amortised cost	143	144
Other assets	5	5
Total assets	**155**	**156**
Liabilities		
Accounts payable and other liabilities	16	16
Borrowings	125	125
Total liabilities	**141**	**141**
Net identifiable tangible assets and liabilities	14	15
Goodwill and other identifiable intangible assets on acquisition	7	
Total Consideration	**21**	
Consideration paid, satisfied in cash	21	
Cash acquired	7	
Net cash outflow	**(14)**	

In addition, the following entities were established during the financial year:

- Series 2017-1 REDS Trust was opened on 9 February 2017.
- BOQ Covered Bond Trust was opened on 10 May 2017.

(d) Disposal of controlled entities

The following entities were disposed during the financial year:

- Nyala Funding Trust CMBS 2013-1 was closed on 15 September 2016.
- Series 2013-1 EHP REDS Trust was closed on 19 September 2016.
- REDS Warehouse Trust No.3 was closed on 13 March 2017.
- Series 2007-1E REDS Trust was closed on 14 June 2017.
- Dell Financial Services Pty Ltd was disposed on 30 June 2017.

Notes to the Financial Statements

For the Year Ended 31 August 2017

6.6 Deed of Cross Guarantee

The Bank and certain subsidiaries are party to a Deed of Cross Guarantee ('the Deed'), which was a condition under the recently superseded ASIC Class Order 98/1418 for wholly-owned entities to be eligible for relief from certain of financial reporting obligations in Part 2M.3 of the *Corporations Act 2001*.

The subsidiaries who are party to the Deed of Cross Guarantee are:

- BOQ Credit Pty Limited;
- BOQ Equipment Finance Limited;
- BOQ Finance (Aust) Limited; and
- BOQ Funding Pty Ltd.

On 28 September 2016, ASIC replaced ASIC Class Order 98/1418 with ASIC Corporations (Wholly-owned Companies) Instrument 2016/785, which applies in relation to financial years ending on or after 1 January 2017. The financial reporting relief provided under the new ASIC Instrument is not available where an APRA-regulated entity is party to the Deed of Cross Guarantee.

The Bank is currently in the process of revoking the Deed to remove the Bank as a party, however there is a 6 month period before the revocation will become effective. Although the Deed is currently still operative, none of the subsidiaries that are party to the Deed relied on the financial reporting relief available under the ASIC Instrument for the financial year ended 31 August 2017 and each separately is preparing and lodging a financial report, directors' report and auditor's report.

The following subsidiaries who are party to the Deed of Cross Guarantee are preparing financial reports for the financial year ended 31 August 2017:

- BOQ Credit Pty Limited;
- BOQ Equipment Finance Limited; and
- BOQ Finance (Aust) Limited.

BOQ Funding Pty Ltd is a small proprietary company and is not required to prepare financial reports.

The effect of the Deed (for so long as it remains operative) is that the Bank guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries to the Deed under certain provisions of the *Corporations Act 2001*. If a winding up occurs, the Bank will only be liable in the event any creditor has not been paid in full. The subsidiaries have also given cross-guarantees in the event that the Bank is wound up.

Notes to the Financial Statements

For the Year Ended 31 August 2017

6.7 Investments in joint arrangements

The Consolidated Entity holds interests in a number of collectively and individually immaterial joint ventures that are accounted for using the equity method. The principal activity of the joint venture entities is land subdivision, development and sale.

(a) Accounting for joint arrangements

The Consolidated Entity's investments in joint venture entities are accounted for under the equity method of accounting in the consolidated financial statements. These are entities in which the Consolidated Entity has joint control over all operational decisions and activities.

Under the equity method, the investments in joint ventures are recognised at the cost of acquisition and the carrying value is subsequently adjusted by the Consolidated Entity's share of the joint venture entity's profit or loss and movement in post-acquisition reserves, after adjusting to align the accounting policies with that of the Consolidated Entity's.

The Consolidated Entity's share of the joint venture entity's net profit or loss is calculated based on the sale of land, together with any tax expense, and is brought to account based on the proportion of settled land sales contracts.

(b) Joint venture details

Set out below are the joint ventures of the Consolidated Entity as at 31 August 2017 which, in the opinion of the directors, are immaterial to the Consolidated Entity. Australia is the place of business and also the country of incorporation for all joint ventures. The proportion of ownership interest is the same as the proportion of voting rights held.

	Ownership Interest		Carrying amount	
	2017 (%)	2016 (%)	**2017 $m**	2016 $m
Ocean Springs Pty Ltd (Brighton)	**9.31**	9.31	**6**	6
Dalyellup Beach Pty Ltd (Dalyellup)	**17.08**	17.08	**8**	8
East Busselton Estate Pty Ltd (Provence)	**25.00**	25.00	**1**	1
Coastview Nominees Pty Ltd (Margaret River)	**5.81**	5.81	**-**	-
Provence 2 Pty Ltd (Provence 2)	**25.00**	25.00	**-**	-
Total equity accounted investments			**15**	15

Summary financial information for equity accounted joint ventures, not adjusted for the percentage of ownership held by the Consolidated Entity and fair value adjustments on acquisition, is contained below:

	2017 $m	2016 $m
Profit from continuing operations	**5**	12
Post-tax profit from discontinued operations	**-**	-
Other comprehensive income	**-**	-
Total comprehensive income	**5**	12

Notes to the Financial Statements

For the Year Ended 31 August 2017

6.8 Auditor's remuneration

	Consolidated		Bank	
KPMG Australia	**2017 $000**	2016 $000	**2017 $000**	2016 $000
Audit services				
- Audit and review of the financial reports	**1,561**	1,215	**1,029**	860
- Other regulatory and audit services	**250**	277	**162**	160
	1,811	1,492	**1,191**	1,020
Audit related services				
- Other assurance services	**744**	716	**533**	619
- Regulatory assurance services	**191**	144	**191**	144
	935	860	**724**	763
Non-audit services				
- Taxation services	**189**	120	**189**	120
- Other	**215**	70	**215**	70
	404	190	**404**	190

6.9 Events subsequent to balance date

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

Notes to the Financial Statements

For the Year Ended 31 August 2017

6.10 Significant accounting policies & new accounting standards

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements, and have been applied consistently across the Consolidated Entity.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to benefit from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. In the Bank's financial statements, investments in subsidiaries are carried at cost.

(ii) Securitisation

The Bank conducts a loan securitisation program whereby mortgage loans are packaged and sold to the REDS Securitisation and Warehouse Trusts ('RMBS Trusts') and the Nyala and Impala Trusts. The Bank also securitises hire purchase, chattel mortgages and finance leases which are packaged and sold to REDS EHP Securitisation Trusts ('REDS EHP Trusts').

Consolidated Entity

The Consolidated Entity receives the residual income distributed by the RMBS and REDS EHP Trusts after all payments due to investors and associated costs of the program have been met and as a result the Consolidated Entity is considered to retain the risks and rewards of the RMBS Trusts and as a result do not meet the de-recognition criteria of AASB 139 *Financial Instruments: Recognition and Measurement* ('AASB 139').

The RMBS Trusts fund their purchase of the loans by issuing floating-rate debt securities. The securities are issued by the RMBS Trusts. These are represented as borrowings of the Consolidated Entity however the Consolidated Entity does not stand behind the capital value or the performance of the securities or the assets of the RMBS Trusts. The Consolidated Entity does not guarantee the payment of interest or the repayment of principal due on the securities. The loans subject to the securitisation program have been pledged as security for the securities issued by the RMBS Trusts. The Consolidated Entity is not obliged to support any losses that may be suffered by investors and does not intend to provide such support.

The Bank does provide the securitisation programs with arm's length services and facilities, including the management and servicing of the leases securitised. The Bank has no right to repurchase any of the securitised assets and no obligation to do so, other than in certain circumstances where there is a breach of warranty within 120 days of the sale or when certain criteria are met under the clean up provision per the Trust Deed Supplement.

The transferred assets are equitably assigned to the securitisation trusts. The investors in the securities issued by the trusts have full recourse to the assets transferred to the trusts. The Bank receives the residual income distributed by the trusts after all payments due to investors and associated costs of the program have been met and as a result the Bank is considered to retain the risks and rewards of the trusts.

Bank

Interest rate risk from the RMBS and REDS EHP Trusts is transferred back to the Bank by way of interest rate and basis swaps. Accordingly, under AASB 139 the original sale of the mortgages from the Bank to the RMBS Trusts does not meet the de-recognition criteria set out in AASB 139. The Bank continues to reflect the securitised loans in their entirety and also recognises a financial liability to the RMBS Trusts. The interest payable on the intercompany financial asset / liability represents the return on an imputed loan between the Bank and the trusts and is based on the interest income under the mortgages, the fees payable by the trusts and the interest income or expense not separately recognised under the interest rate and basis swaps transactions between the Bank and the trusts.

All transactions between the Bank and the trusts are eliminated on consolidation.

(iii) Transactions eliminated on consolidation

Intra-group balances, and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(iv) Derecognition of financial assets and liabilities

Financial assets are derecognised when the contractual rights to receive cash flows from the assets have expired, or where the Bank has transferred its contractual rights to receive the cash flows of the financial assets and substantially all the risks and rewards of ownership. Financial liabilities are derecognised when they are extinguished, i.e. when the obligation is discharged, cancelled or expired.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into Australian dollars at the foreign exchange rate ruling at that date. Non-monetary items in a foreign currency that are measured at historical cost are translated using the exchange rate at the date of the transaction. Foreign exchange differences arising on translation are recognised in the profit and loss. Where a foreign currency transaction is part of a hedge relationship it is accounted for as above, subject to the hedge accounting rules set out in section 3.8.

(ii) Foreign operations

The Consolidated Entity has no foreign operations, all overseas activities are carried out through non-incorporated branches.

Notes to the Financial Statements

For the Year Ended 31 August 2017

6.10 Significant accounting policies & new accounting standards (continued)

(c) New accounting standards

The following, are the amendments to standards and interpretations applicable for the first time to the current year:

- AASB 2015-5 *Amendments to Australian Accounting Standards – Investment Entities* - These changes relate to the application of the Consolidation Exception under which:
  - An investment entity parent is required to fair value a subsidiary providing investment-related services that is itself an investment entity;
  - An intermediate parent owned by an investment entity group is exempt from preparing consolidated financial statements; and
  - When a non-investment entity investor applies the equity method, it is permitted to retain the fair value accounting applied by its investment entity associate or joint venture.
- AASB 2015-2 *Amendments to Australian Accounting Standards – Disclosure Initiative* - The amendments do not require any significant change to current practice, but should facilitate improved reporting, including an emphasis on only including material disclosures, clarity on the aggregation and disaggregation of line items, the presentation of subtotals, the ordering of notes and the identification of significant accounting policies.
- AASB 2014-9 *Amendments to Australian Accounting Standards – Equity method in Separate Financial Statements* - The standard allows the use of the equity method in separate financial statements in the accounting for associates, joint ventures and subsidiaries.
- AASB 2014-4 *Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation* - A rebuttable presumption was introduced that the use of revenue-based amortisation methods for intangible assets is inappropriate. There is limited opportunity for presumption to be overcome. For property, plant and equipment, the revenue-based depreciation cannot be used.
- AASB 2014-3 *Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations* - The effect of this amendment is that business combination accounting is required to be applied to acquisitions of interests in a joint operation that meets the definition of a 'business' under AASB 3 *Business Combinations.*
- AASB 2015-1 *Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012–2014 Cycle* - This standard sets out amendments to various Australian Accounting Standards in order to address the following items:
  - AASB 5 *Non-current Assets Held for Sale and Discontinued Operations - Changes in methods of disposal* - where an entity reclassifies an asset (or disposal group) directly from being held for distribution to being held for sale (or visa versa), an entity shall not follow the guidance in paragraphs 27–29 to account for this change.
  - AASB 7 *Financial Instruments: Disclosures* - Clarifies how an entity should apply the guidance regarding servicing contracts and the applicability of offsetting financial assets and financial liabilities.
  - AASB 119 *Employee Benefits* - Clarifies that the high quality corporate bonds used to estimate the discount rate for post-employment benefit obligations should be denominated in the same currency as the liability.
  - AASB 134 *Interim Financial Reporting* - Amends AASB 134 to clarify the meaning of disclosure of information 'elsewhere in the interim financial report' and to require the inclusion of a cross-reference from the interim financial statements to the location of this information.

The Consolidated Entity has reviewed the impact of the following and determined there to be no material impact.

The following standards and amendments have been identified as those which may impact the Consolidated Entity and the majority were available for early adoption at 31 August 2017 but have not been applied in these financial statements.

- AASB 9 *Financial Instruments* ('AASB 9') - This standard introduces changes in the classification and measurement of financial assets and liabilities, including a new expected loss model for impairment and simplifications to hedge accounting. This standard will become mandatory for the Group in the financial year beginning 1 September 2018 and a program for AASB 9 implementation has commenced.

  Impairment

  Under AASB 9 an expected credit loss (ECL) model replaces the existing AASB 139 *Financial Instruments: Recognition and Measurement* incurred loss. The change in standard will require entities to recognise expected credit losses based on unbiased forward looking information, instead of only recognising losses on the occurrence of the loss event.

  The Consolidated Entity will apply a three-stage approach to measuring the ECL based on credit transitioning between the three stages. The Group will estimate ECL through modelling the probability of default, loss given default, exposure at default and further incorporate a present value adjustment.
  - Stage 1 - Performing - This includes all financial instruments that have seen no significant increase in credit risk, since their origination or purchase. For these financial instruments an allowance of the first 12 month ECL should be provided.
  - Stage 2 - Under-performing - This includes all financial instruments that have experienced significant increase in credit risk from origination or purchase, and given the subsequent level of credit risk is not considered low. For these financial instruments an allowance for full lifetime expected credit losses should be provided.
  - Stage 3 - Non-performing (impaired) - This is for financial instruments that are credit impaired and show objective evidence of impairment (default). The proportion of these that have not been individually assessed are to be included in the collective provision.

  Hedging

  The new accounting standard requirements allow for broader application of hedge accounting and to align it more closely with risk management. While the new model does not fundamentally change the types of hedging relationships, it simplifies the effectiveness testing by removing the 80% - 125% thresholds.

  As the Group is currently assessing the AASB 9 impacts and the implementation program is still in progress, a reliable estimate of the potential financial statement impacts is yet to be determined.

Notes to the Financial Statements

For the Year Ended 31 August 2017

6.10 Significant accounting policies & new accounting standards (continued)

(c) New accounting standards (continued)

- AASB 15 *Revenue from contracts with customers* ('AASB 15')- This standard introduces a single model for revenue recognition and will replace current guidance on revenue recognition from contracts with customers. It will become mandatory for the Group in the financial year beginning 1 September 2018.

  The core principle of AASB 15 is that an entity is to recognise revenue to depict the transfer of promised goods or services to customers in amounts that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve this, the model features a contract based five-step analysis of transactions to determine the revenue recognition elements. The potential effects of this standard are yet to be determined.

- AASB 16 *Leases* ('AASB 16') - This makes changes to the accounting for leases and will replace AASB 117 *Leases.* It will become mandatory for the Group in the financial year beginning 1 September 2019.

  Lessees are required to recognise a right-of-use (ROU) asset and lease liability for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee measures ROU assets similarly to other non-financial assets and lease liabilities similarly to other financial liabilities. Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments, including inflation-linked payments. It also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. A depreciation charge will be recognised on ROU assets, while interest expense will be recognised on lease liabilities.

  AASB 16 substantially carries forward the lessor accounting requirements in AASB 117. Accordingly, a lessor continues to classify leases as operating leases or finance leases, accounting for the two types of leases differently.

  Initial assessment activities and discussions have occurred in order to identify the operating leases currently held and the system requirements. The Group is yet to evaluate the transition methods and the quantitative impact of AASB 16. Further review of leasing contracts, process and control changes, and future disclosure requirements will be undertaken. The Group's current operating lease commitments are disclosed in Section 6.2.

- AASB 17 *Insurance Contracts* - This standard will replace AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*. It will become mandatory for the Group in the financial year beginning 1 September 2021. This standard introduces new measurement approaches to be used in valuing insurance contract liabilities. Under the new model, insurance contract liabilities will represent the present value of future cash flows including a provision for risk. The potential effects of this standard are yet to be determined.

(d) Impairment of non-financial assets

Non-financial assets, other than deferred tax assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. For goodwill, and intangible assets with an indefinite life, the recoverable amount is estimated each year at the same time.

The Bank conducts an annual internal review of non-financial asset values to assess for any indicators of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets – CGU. An impairment loss is recognised in profit or loss in the Income Statement for the amount by which the asset's carrying amount exceeds its recoverable amount. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit on a pro-rata basis.

This grouping is subject to an operating segment ceiling test. Non-financial assets, other than goodwill, that suffered impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed. An impairment loss in respect of goodwill is not reversed.

(i) Calculation of recoverable amount

The recoverable amount of a non-financial asset or CGU is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

e) Leases

(i) Finance leases

Finance leases in which the Consolidated Entity is the lessor, are recorded in the Balance Sheet as loans and advances at amortised cost. They are recorded on the commencement of the lease as the net investment in the lease, being the present value of the minimum lease payments.

(ii) Operating leases

Operating leases, in which the Consolidated Entity is the lessor, are measured at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated to write off the cost of operating lease assets less their estimated residual values using the straight-line basis over the term of the lease, and is generally recognised in profit or loss. Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Operating leases in which the Consolidated Entity is the lessee, are expensed on a straight-line basis over the term of the lease, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased property. When an operating lease terminates before the lease period expires, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Notes to the Financial Statements

For the Year Ended 31 August 2017

6.10 Significant accounting policies & new accounting standards (continued)

(f) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax ('GST'), except where the amount of GST incurred is not recoverable from the Australian Tax Office ('ATO'). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from or payable to the ATO is included as a current asset or current liability in the Balance Sheet.

Cash flows are included in the Statements of Cash Flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from or payable to the ATO are classified as operating cash flows.

(g) Property, plant & equipment

(i) Recognition and initial measurement

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation and accumulated impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

(ii) Subsequent costs

Subsequent additional costs are only capitalised when it is probable that future economic benefits in excess of the originally assessed performance of the assets will flow to the Bank in future years. Where these costs represent separate components, they are accounted for as separate assets and are separately depreciated over their useful lives. Costs that do not meet the criteria for subsequent capitalisation are expensed as incurred.

(iii) Subsequent measurement

The Bank has elected to use the cost model to measure property, plant and equipment after recognition. The carrying value is the initial cost less accumulated depreciation and any accumulated impairment losses.

(iv) Depreciation

Depreciation is charged to the profit or loss in the Income Statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment.

The estimated useful lives are as follows:

	Years
IT equipment	3-10
Plant, furniture and equipment	3-20
Leasehold improvements [1]	6-12

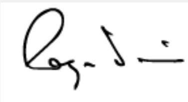
(1) Or term of lease if less.

The residual value if significant is reassessed annually.

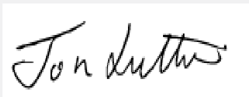
Directors' Declaration

1. In the opinion of the Directors of Bank of Queensland Limited (the 'Bank'):
   (a) the consolidated financial statements and notes and the Remuneration Report included within the Directors' Report set out on pages 47 to 142, are in accordance with the *Corporations Act 2001* (Cth), including:
      (i) giving a true and fair view of the financial position of the Bank and Consolidated Entity as at 31 August 2017 and of their performance, for the year ended on that date; and
      (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
   (b) there are reasonable grounds to believe that the Bank and Consolidated Entity will be able to pay its debts as and when they become due and payable.
2. The Directors have been given the declarations required by Section 295A of the *Corporations Act 2001* (Cth) from the Managing Director and CEO and Chief Financial Officer for the financial year ended 31 August 2017.
3. The Directors draw attention to Section 1.2 (a) to the financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the Directors:



Roger Davis
Chairman
11 October 2017



Jon Sutton
Managing Director and CEO
11 October 2017

Independent Auditor's Report

To the shareholders of Bank of Queensland Limited

Report on the audits of the Financial Reports

Opinions

We have audited the consolidated *Financial Report* of Bank of Queensland Limited (the Consolidated Entity Financial Report). We have also audited the Financial Report of Bank of Queensland Limited (the Bank Financial Report).

In our opinion, each of the accompanying Consolidated Entity Financial Report and Bank Financial Report are in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the *Consolidated Entity*'s and of the *Bank*'s financial position as at 31 August 2017 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The respective *Financial Reports* of the Consolidated Entity and the Bank comprise:

- the Balance Sheets as at 31 August 2017
- Income Statements, Statements of Comprehensive Income, Statements of Changes in Equity, and Statements of Cash Flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

The *Consolidated Entity* consists of Bank of Queensland Limited (the *Bank*) and the entities it controlled at the year-end or from time to time during the financial year.

Basis for opinions

We conducted our audits in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

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

We are independent of the Consolidated Entity and Bank in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audits of the Financial Reports in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

The Key Audit Matters we identified for the Consolidated Entity and Bank are:

- Specific and collective impairment provisions for loans and advances at amortised cost
- Value of goodwill
- Value of intangible computer software
- Fair value measurement of financial instruments.

Key Audit Matters are those matters that, in our professional judgment, were of most significance in our respective audits of the Financial Reports of the current period.

These matters were addressed in the context of our audits of each of the Financial Reports as a whole, and in forming our opinions thereon, and we do not provide a separate opinion on these matters.

Specific and collective provisions for impairment of loan and advances at amortised cost (Consolidated Entity: AUD 227m and Bank: AUD 182m)	
Refer to Section 3.4 *Loans and advances at amortised cost* and Section 3.6 *Risk management* to the Financial Reports	
The Key Audit Matter	**How the matter was addressed in our audits**
The Consolidated Entity and Bank hold both specific and collective provisions for impairment against loans and advances. We consider this a Key Audit Matter given that the assessment of the specific and collective impairment provisions is complex and we are required to exercise a high level of judgement in considering the adequacy of the provisions. In addition, the collective provision includes a model adjustment to allow for model and economic uncertainties.	Our audit procedures included: • Testing a sample of key credit risk monitoring controls, including controls over loan risk ratings, annual assessments of loans, security valuations, and probability of default and loss given default calculations for significant portfolios. • Testing a sample of IT system controls, including certain controls over the integrity of the IT systems that are relevant to loans and advances and the calculation inputs into the specific and collective provisions.

Independent Auditor's Report

To the shareholders of Bank of Queensland Limited

<table>
<tr><th colspan="2">Specific and collective provisions for impairment of loan and advances at amortised cost (Consolidated Entity: AUD 227m and Bank: AUD 182m) (continued)</th></tr>
<tr><td colspan="2">Refer to Section 3.4 Loans and advances at amortised cost and Section 3.6 Risk management to the Financial Reports</td></tr>
<tr><th>The Key Audit Matter (continued)</th><th>How the matter was addressed in our audits (continued)</th></tr>
<tr><td>We focused on the significant assumptions the Consolidated Entity and Bank applied in estimating specific and collective provisions, being:
Expected future cash flows – the Consolidated Entity and Bank forecast future cash flows based on the assessment of an impaired loan and advance specific circumstances. This assessment is complex and will vary according to the individual circumstances of the underlying loan and advance.
Estimated recoverable amount of assets held as security –in estimating the specific provision, the Consolidated Entity and Bank will estimate the value of the security through use of using external valuation experts and/or various valuation techniques.
Key assumptions used in estimating the collective provision – these include whether default is likely (probability of default) and if a default were to occur, what the loss would be (loss given default). The Consolidated Entity and Bank determine these assumptions based on historical experience and the expert knowledge of the risk characteristics of their portfolios of loans and advances.
We involved our senior team members with the assessment of key assumptions applied in the collective provision models given their highly specialised nature.</td><td>Testing, on a sample basis, specific impairment provisions held against individual loans and advances. This included:
inspection of the latest correspondence with the borrower;
comparing the security values used in the calculation of impairment provisions to reports from external valuation experts used by the Consolidated Entity and Bank;
comparing the consistency of methods applied in estimating the expected future cash flows and estimated sale proceeds;
evaluating the accuracy of previous impairment provision estimates; and considering current economic conditions and specific areas of credit risk concentration, such as industries and geographies, which may impact on security values, and challenging the Consolidated Entity's and Bank's judgement with respect to estimated recoverable values.
We tested the governance and control over the application of the collective provision model adjustments. This included assessing the components of model adjustments, trends in the credit risk concentration of specific portfolios, and our understanding of economic conditions in higher-risk geographies.</td></tr>
</table>

<table>
<tr><th colspan="2">Value of goodwill (Consolidated Entity: AUD 682m and Bank: AUD 619m)</th></tr>
<tr><td colspan="2">Refer to Section 4.1 Intangible assets to the Financial Reports</td></tr>
<tr><th>The Key Audit Matter</th><th>How the matter was addressed in our audits</th></tr>
<tr><td>The assessment of the value of goodwill is considered a Key Audit Matter due to the subjectivity of forward-looking assumptions used in the value-in-use model and the significance of goodwill to the financial positions of the Consolidated Entity and Bank. We focused on the significant forward-looking assumptions applied in their value-in-use model, including:
Forecast operating cash-flows, forecast growth rates and the terminal value earnings multiple – the sector in which the Consolidated Entity and Bank operates is highly competitive and experiencing slower growth and regulatory change and therefore difficult to forecast. As the model is sensitive to changes in these assumptions, this drives additional audit effort specific to their feasibility and consistency of the application to the Consolidated Entity and Bank's strategy.
Discount rate – this is complicated in nature and varies according to the conditions and environment the relevant cash generating unit (CGU) is subject to from time to time. The Consolidated Entity and Bank's modelling is sensitive to changes in the discount rate.
We involved our valuation specialists and senior team members with the assessment of this Key Audit Matter.</td><td>Working with our valuation specialists, our audit procedures included:
Considering the appropriateness of the value-in-use method applied by the Consolidated Entity and Bank to perform the annual test of goodwill for impairment against the requirements of the accounting standards.
Assessing the historical accuracy of forecast operating cash flows and earnings estimates by comparing actual past performance against previous forecasts and growth rates. Given the inherent uncertainty involved in estimating forecast operating cash flows and growth rates, this informed our areas of focus in current year cash flow forecasts.
Based on our expertise and industry knowledge, comparing the discount rate, growth rate and terminal value earnings multiples with external data to form our own assessments of the feasibility of key assumptions used in the model.
Performing a sensitivity analysis of the model by varying key inputs and estimates such as forecast operating cash-flows, growth rates and discount rate, within a reasonably possible range, to inform our procedures and to identify bias.</td></tr>
</table>

Independent Auditor's Report

To the shareholders of Bank of Queensland Limited

Value of intangible computer software (Consolidated Entity: AUD 173m and Bank: AUD 160m)	
Refer to Section 4.1 *Intangible assets* to the Financial Reports	
The Key Audit Matter	**How the matter was addressed in our audits**
The assessment of value of intangible computer software is considered a Key Audit Matter due to the complexity of the methodology applied in estimating the value of internally generated computer software. We focused on the significant assumptions the Consolidated Entity and Bank applied in estimating the value of internally generated computer software, including: • Capitalisation of costs – The Consolidated Entity's and Bank's estimation of the value of intangible computer software is based on actual costs incurred with external developers and internal staff salary costs. In capitalising these costs, the Consolidated Entity and Bank have performed an analysis to determine that the computer software meets the definition of an intangible asset in accordance with the accounting standards. This assessment is subjective in nature. We specifically focused on the realisation and timing of future economic benefits and the allocation of costs incurred to specific phases of a project, including the assumptions and methodologies used in recording and capitalising of staff salaries. • Expected useful life – Once internally generated computer software is 'in-use', the Consolidated Entity and Bank estimate the useful life of the computer software and amortise the asset over this period. This assessment is based on the intended use of the asset. This can be judgemental and dependent upon future events, including advances in technology. We focused on the consistency of the application of the useful life period, the utilisation of the computer software, and the analysis of impairment indicators performed by the Consolidated Entity and Bank.	Our audit procedures included: • Evaluating the Consolidated Entity's and Bank's capitalisation policy against the capitalisation criteria and guidance set out in the relevant accounting standards. • For a sample of internally generated computer software projects currently under development, challenging the Consolidated Entity's and Bank's application of the capitalisation policy. We challenged: › the selection of assumptions and methodologies used in the estimation of future economic benefits and capitalising project related costs, including looking for evidence of management bias; › the nature of project costs capitalised by testing a sample of capitalised costs to the project scope of work and the capitalisation criteria of the accounting standards; and › the Consolidated Entity and Bank assessment of projects not yet classified as 'in-use' for any projects with indicators of 'ready for use' and should therefore begin to be amortised over a defined useful life. For a sample of internally generated computer software classified as 'in-use', we compared the useful life adopted to the expected period of economic benefit forecast to be realised through the use of the software. In assessing the forecast period of economic benefit, we considered the completeness of impairment triggers evaluated by the Consolidated Entity and Bank, including challenging assumptions with respect to intended use and the remaining useful life of computer software.

Fair value measurement of financial instruments • Financial assets available for sale (Consolidated Entity: AUD 3,934m and Bank: AUD 4,027m) • Financial assets held for trading (Consolidated Entity and Bank: AUD 1,837m) • Derivative financial assets (Consolidated Entity: AUD 109m and Bank: AUD 107m) • Derivative financial liabilities (Consolidated Entity and Bank: AUD 333m)	
Refer to Sections 3.3 *Financial assets*, 3.6 *Risk management*, 3.7 *Financial instruments* and 3.8 *Derivative financial instruments* to the Financial Reports	
The Key Audit Matter	**How the matter was addressed in our audits**
This is considered a Key Audit Matter due to the judgement we exercised when considering assumptions and techniques used by the Consolidated Entity and Bank to determine the fair value of financial instruments. The level of judgement increased where internal models were used to determine fair value, as opposed to quoted market prices. Due to the judgmental nature in the application of valuation techniques, this necessitated additional audit focus, including the use of valuation specialists to assess the suitability and consistency with generally accepted valuation principles.	Our audit procedures included: • Assessing the design and operating effectiveness of certain controls relating to financial instruments measured at fair value, including controls over the trade confirmation and market risk monitoring processes. • For financial instruments where the Consolidated Entity and Bank use valuation models to estimate fair value, for a sample of instruments, we worked with our valuations specialists to recalculate the valuations using KPMG's independent models. This involved researching and quality checking external data, conducting independent mark-to-market analysis, developing thresholds and assessing deviations.

Independent Auditor's Report

To the shareholders of Bank of Queensland Limited

Other Information

Other Information is financial and non-financial information in Bank of Queensland Limited's annual reporting which is provided in addition to the Financial Reports and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinions on the Financial Reports do not cover the Other Information and, accordingly, we do not and will not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audits of the Financial Reports, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Reports or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Reports

The Directors are responsible for:

- preparing the Financial Reports that give a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal controls to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Consolidated Entity and Bank's ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Consolidated Entity or Bank or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audits of the Financial Reports

Our objective is:

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

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

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audits of the Financial Reports is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_files/ar2pdf. This description forms part of our Auditor's Report.

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Bank of Queensland Limited for the year ended 31 August 2017, complies with *Section 300A* of the *Corporations Act 2001*.

KPMG

Robert Warren
Partner
Sydney
11 October 2017

Directors' responsibilities

The Directors of the Bank are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A* of the *Corporations Act 2001*.

Our responsibilities

We have audited the Remuneration Report included in pages 47 to 72 of the Directors' report for the year ended 31 August 2017.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards.*

Shareholding Details

As at Monday 25 September 2017, the following shareholding details applied:

1. Twenty largest ordinary shareholders

Shareholder	No. of ordinary shares	%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	89,317,510	22.80
J P MORGAN NOMINEES AUSTRALIA LIMITED	35,659,316	9.10
CITICORP NOMINEES PTY LIMITED	22,243,529	5.68
NATIONAL NOMINEES LIMITED	18,390,154	4.69
MILTON CORPORATION LIMITED	7,306,078	1.87
CITICORP NOMINEES PTY LIMITED	4,855,360	1.24
BNP PARIBAS NOMINEES PTY LTD	4,410,813	1.13
BNP PARIBAS NOMS PTY LTD	3,085,401	0.79
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	2,445,624	0.62
WASHINGTON H SOUL PATTINSON AND COMPANY LIMITED	1,069,347	0.27
NAVIGATOR AUSTRALIA LTD	1,068,190	0.27
BKI INVESTMENT COMPANY LIMITED	810,000	0.21
CARLTON HOTEL LIMITED	767,873	0.20
KARATAL HOLDINGS PTY LTD	692,344	0.18
THE MANLY HOTELS PTY LIMITED	655,540	0.17
PRUDENTIAL NOMINEES PTY LTD	650,000	0.17
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED	647,450	0.17
BOQ SHARE PLANS NOMINEE PTY LTD	565,260	0.14
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LTD	562,419	0.14
AMP LIFE LIMITED	511,220	0.13
Total	**195,713,428**	**49.96**

The above table includes shareholders that may hold shares for the benefit of third parties.

Voting rights

On a show of hands every person present who is a holder of ordinary shares or a duly appointed representative of a holder of ordinary shares has one vote, and on a poll each member present in person or by proxy or attorney has one vote for each share that person holds.

Shareholding Details

As at Monday 25 September 2017, the following shareholding details applied:

2. Twenty largest CPS shareholders

Shareholder	No. of ordinary shares	%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	84,573	2.82
J P MORGAN NOMINEES AUSTRALIA LIMITED	80,972	2.70
BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD DRP	58,793	1.96
BNP PARIBAS NOMS PTY LTD	50,077	1.67
MILTON CORPORATION LIMITED	50,000	1.67
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED	43,365	1.45
NAVIGATOR AUSTRALIA LTD	34,208	1.14
NULIS NOMINEES (AUSTRALIA) LIMITED	32,756	1.09
DOMER MINING CO PTY LTD	32,200	1.07
HAVENFLASH PTY LTD	21,000	0.70
JVSF PTY LIMITED	19,500	0.65
JILLIBY PTY LTD	17,800	0.59
MKD HOLDINGS PTY LTD	12,780	0.43
CAVILLWOOD INVESTMENTS PTY LTD	12,070	0.40
BCITF (QLD)	10,000	0.33
EASTCOTE PTY LTD	10,000	0.33
F & B INVESTMENTS PTY LTD	10,000	0.33
SOUTHERN METROPOLITAN CEMETERIES	10,000	0.33
JILRIFT NO 2 PTY LTD	9,482	0.32
AUSTRALIAN EXECUTOR TRUSTEES LIMITED	9,289	0.31
Total	**608,865**	**20.30**

The above table includes shareholders that may hold shares for the benefit of third parties.

Voting rights

The CPS do not give the holders any voting rights at any general shareholders meetings, except in certain circumstances.

3. Distribution of equity security holders

	Ordinary Shares		CPS	
Category	**2017**	2016	**2017**	2016
1 - 1,000	**57,437**	58,885	**5,537**	5,850
1,001 - 5,000	**29,024**	29,088	**339**	342
5,001 - 10,000	**5,527**	5,336	**28**	27
10,001 - 100,000	**2,764**	2,713	**14**	9
100,001 - and over	**75**	70	**-**	1
Total	**94,827**	96,092	**5,918**	6,229

The number of ordinary shareholders holding less than a marketable parcel is 2,523.

The number of convertible preference shareholders holding less than a marketable parcel is 1.

Shareholding Details

4. Partly paid shares

There are no partly paid shares.

5. The names of substantial shareholders in the Bank and the number of shares in which each has an interest as disclosed in substantial shareholder notices given to the Bank

As at Monday 25 September 2017, there were no substantial shareholders in the Bank per the meaning within the *Corporations Act 2001*.

6. Securities exchange listing

The shares of Bank of Queensland Limited ('BOQ') and CPS ('BOQPD') are quoted on the ASX.

BOQ's EMTN and covered bonds are listed on the London Stock Exchange.

7. Options

At 31 August 2017 there were no options over unissued ordinary shares.

8. On market buy-back

There is no current on market buy-back.

9. Other information

BOQ is a publicly listed company limited by shares and is incorporated and domiciled in Australia.

Shareholder Information

Share Registry

Link Market Services Limited

Level 15, 324 Queen Street
Brisbane Qld 4000

Australia: 1800 779 639
International: +61 2 8280 7626
Email: boq@linkmarketservices.com.au

linkmarketservices.com.au

Company Details

Bank of Queensland Limited
ABN 32 009 656 740
ACN 009 656 740

Registered office:
Level 6, 100 Skyring Terrace
Newstead Qld 4006

Telephone: +61 7 3212 3333
Investor Relations: +61 7 3212 3990

boq.com.au
twitter.com/boq
facebook.com.au/BOQOnline

Customer Service

Australia: 1300 55 72 72
International: +61 7 3336 2420

Postal address:
GPO Box 898
Brisbane Qld 4001

Key Shareholder Dates

Dividend dates for ordinary shares only are:

2017

Final ex-dividend date	2 November 2017
Final dividend record date	3 November 2017
Final dividend payment date	23 November 2017
Annual General Meeting	30 November 2017

2018

Financial half year end	28 February 2018
Interim results and dividend announcement	12 April 2018
Interim ex-dividend date	26 April 2018
Interim dividend record date	27 April 2018
Interim dividend payment date	16 May 2018
Financial full year end	31 August 2018
Full year results and dividend announcement	4 October 2018
Final ex-dividend date	24 October 2018
Final dividend record date	25 October 2018
Final dividend payment date	14 November 2018
Annual General Meeting	29 November 2018

5 Year Financial Summary

$ millions (unless otherwise stated)	2017 $m	2016 $m	2015 $m	2014 $m	2013 $m
Financial performance					
Net interest income	**926**	937	907	761	695
Non interest income	**175**	173	180	169	163
Total income	**1,101**	1,110	1,087	930	858
Operating expenses	**(513)**	(520)	(500)	(408)	(380)
Underlying profit before tax (1)	**588**	590	587	522	478
Loan impairment expense	**(48)**	(67)	(74)	(86)	(115)
Cash earnings before tax	**540**	523	513	436	363
Cash earnings after tax attributable to ordinary shareholders (2)	**378**	360	357	301	248
Statutory net profit after tax	**352**	338	318	261	186
Financial position					
Gross loans and advances (3)	**43,817**	43,152	40,975	38,426	35,302
Total assets	**51,658**	50,853	48,018	46,905	42,528
Customer deposits	**30,190**	29,122	26,914	26,266	23,968
Total liabilities	**47,869**	47,266	44,549	43,564	39,711
Total equity	**3,788**	3,587	3,469	3,341	2,817
Shareholder performance					
Market capitalisation at balance date	**4,932**	4,020	4,698	4,560	3,070
Share price at balance date ($)	**12.59**	10.55	12.67	12.58	9.60
Basic cash earnings per share (cents) (4)	**97.6**	95.6	97.3	89.5	78.1
Diluted cash earnings per share (cents) (4)	**93.9**	90.7	92.2	87	75.1
Fully franked dividend per ordinary share (cents)	**76**	76	74	66	58
Fully franked special dividend per ordinary share (cents)	**8**	-	-	-	-
Dividend payout ratio to ordinary shareholders (excluding special dividend)	**78%**	80%	77%	87%	99%
Dividend payout ratio to ordinary shareholders (including special dividend)	**87%**	80%	77%	87%	99%
Cash earnings ratios (5)					
Net Interest Margin (6)	**1.87%**	1.94%	1.97%	1.82%	1.69%
Cost-to-income ratio	**46.6%**	46.8%	46.0%	43.9%	44.3%
Return on average ordinary equity	**10.4%**	10.3%	10.7%	10.4%	9.4%
Capital adequacy					
Common equity tier 1 ratio	**9.39%**	9.00%	8.91%	8.63%	8.63%
Total capital adequacy ratio	**12.37%**	12.29%	12.72%	12.02%	12.24%

(1) Underlying profit before tax is profit before impairment on loans and advances, significant items and tax.
(2) Cash earnings after tax exclude significant items (tax effected).
(3) Before specific and collective provisions.
(4) Basic and diluted earnings per share for FY13 have been adjusted for the effect of the rights issue that occurred during the financial year.
(5) Excludes impact of significant items.
(6) Excludes amortisation of fair value adjustments (acquisitions).

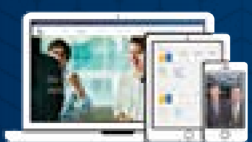
Glossary

Term	Description
APRA Prudential Standard ('APS')	Prudential standards issued by APRA which are applicable to ADIs.
Australian Accounting Standards ('AASB')	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 Equipment Lessors Association ('AELA')	AELA is the national association for the equipment leasing and financing industry.
Australian Prudential Regulation Authority ('APRA')	APRA is the prudential regulator of banks, insurance companies and superannuation funds, credit unions, building societies and friendly societies.
Australian Securities Exchange ('ASX')	Australian Securities Exchange or ASX Limited (ABN 98 008 624 691) and the market 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-for-Sale ('AFS')	Available-for-sale is an accounting term used to classify financial assets. AFS assets represent securities and other financial investments that are neither held for trading, nor held to maturity. Under IFRS, AFS assets are defined as being all financial assets that do not fall into one of the other IFRS financial asset classifications.
Average interest earning assets	Average balance over the period for a bank's assets that accrue interest income.
Bank of Queensland Limited ('the Bank') ('BOQ')	The Bank is a for-profit entity primarily involved in providing retail banking, leasing finance, and insurance products to its customers.
Basel 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%)
Cash Earnings	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
Committed Liquidity Facility ('CLF')	The Reserve Bank provides a CLF as part of Australia's implementation of the Basel III liquidity reforms. The facility, which is required because of the limited amount of government debt in Australia, is designed to ensure that participating ADIs have enough access to liquidity to respond to an acute stress scenario, as specified under the relevant APS.
Common Equity Tier 1 ('CET1')	Capital that is recognised as the highest quality component of capital under APRA prudential standards.
Common Equity Tier 1 ratio ('CET1 ratio')	CET1 capital divided by total risk-weighted assets calculated in accordance with relevant APS.
Consolidated Entity ('the Group')	The Bank and its subsidiaries
Convertible Preference Shares ('CPS')	CPS are fully paid, non-cumulative, perpetual, convertible, unguaranteed and unsecured preference shares with preferred, discretionary dividends, issued by the Bank.
Cost to Income ratio ('CTI')	Operating expenses divided by net operating income.
Corporations Act 2001	*The Corporations Act 2001* (Cth)
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 per share.
Dividend reinvestment plan ('DRP')	Provides shareholders with the opportunity to convert all or part of their entitlement to a dividend into new shares.
Dividend Yield	Dividend shown as a percentage of the share price.
Earnings per share ('EPS')	Measures of earnings attributed to each equivalent ordinary share over a twelve month period. Calculated by dividing the company's earnings by the weighted average number of shares on issue in accordance with AASB 133 *Earnings per share.*
Equipment Hire Purchase ('EHP')	EHP trust under the REDS securitisation program, issuing asset backed securities to the term market.
Effective tax rate	Income tax expense divided by profit before tax.
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.
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.

Glossary

Term	Description
Gross Loans and Advances ('GLA')	Initially recognised at fair value plus incremental direct transaction costs and subsequently measured at each reporting date at amortised cost using the effective interest method.
High Quality Liquid Asset ('HQLA1')	Comprises of the Bank's notes and coins and marketable securities representing claims on or guaranteed by the Australian Government or Semi-Government authorities.
Impaired assets	Exposures that have deteriorated to the point where full collection of principal and interest is in doubt.
Interest bearing liabilities	The Bank's liabilities that accrue interest expense.
International Accounting Standard ('IAS')	A set of accounting standards developed by the International Accounting Standards Board stating how particular types of transactions and other events should be reflected in financial statements. These standards are currently being phased out and replaced by IFRS (see below)
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 including HQLA1 and assets able to be pledged as collateral to the RBA under the CLF.
Liquidity Coverage Ratio ('LCR')	The ratio of high quality liquid assets that can be converted into cash easily and immediately in private markets, to total net cash flows required to meet the Group's liquidity needs for a 30 day calendar liquidity stress scenario as determined in accordance with APS.
Margin on Services ('MoS')	MoS is the financial reporting method used by life insurers under Australian Accounting Standards. It requires that revenue from the provision of a life insurance contract is recognised in line with the provision of the life insurance service to the policyholder, over the expected life of the life insurance policy.
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 available stable funding relative to the amount of required stable funding. This ratio should be equal to at least 100% on an on-going basis. "Available stable funding" 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 (OBS) 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.
Owner Managed Branch ('OMB')	A branch which is run by a franchisee.
Real Estate Debt Securities ('REDS')	An acronym to describe the BOQ securitisation programs.
Residential Mortgage Backed Securities ('RMBS')	A reference to a financial debt security that is secured by a pool of mortgages on residential property. Mortgages with varying credit ratings are grouped together and sold in tranches to investors by issuers as a source of funding.
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.
Risk Weighted Assets ('RWA')	A quantitative measure of various risks including credit, operational, market and securitisation as defined by APS.
Share capital	Consolidated Entity's issued and paid-up capital.
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.
Unearned Premium Reserve ('UPR')	The UPR represents the total amount of premiums received but not yet earned or recognised as revenue.
Virgin Money ('VMA')	Virgin Money (Australia) Pty Ltd and its subsidiaries. The VMA entities are subsidiaries of the 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 similar to CPS as the notes may convert into common shares in certain circumstances as described in the offer documentation of the notes.

BOQ



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