2020 ANNUAL REPORT

Year ended 31 August 2020

BOQ GROUP

SUPPORTING SMALL BUSINESS THROUGH STRONG CUSTOMER RELATIONSHIPS

COVER STORY

Valued BOQ customers, Charmaine, Garry and their son, Chris Ashford, are proud owners/operators of All Purpose Coatings – a family run business based in Sumner, Brisbane (QLD), which manufactures and supplies protective coating solutions for residential, commercial and industrial flooring and walls.

The Ashfords have much to be proud of, as it is no small feat growing a business from three employees housed in a residential double garage in 2005 to a national, multi-million dollar business driven by a team of 30 people.

The Ashfords have been loyal BOQ customers since 2012 when they secured finance from John Lynch, Middle Park branch Owner-Manager, for their first commercial building. They approached a variety of banks during this time but opted to do business with the Middle Park team due to a less cumbersome process led by a deeply knowledgeable, empathetic banker who understood the nuances and complexity of their business.

The Ashfords are quick to say how much they appreciate how receptive the BOQ team is and how open the lines of communication are. They are particularly thankful for the fact that they are able to call John directly on his mobile, bypassing queues and saving precious time and for the personal touch John applies to their interactions. In the Ashfords' words, "Customer service is so strong at BOQ. John handles everything, which makes the process as simple as possible – he even hand delivers documents to our premises!" This level of customer service is a clear demonstration of BOQ's purpose of creating prosperity for our customers and values of empathy and making a difference.

Over the years, further financing has been secured by the Ashfords for a new commercial building, multiple commercial vehicles, rental properties and personal home loans. BOQ is proud to partner with the Ashfords and looks forward to walking alongside the family well into the future as they continue to help the Australian economy prosper.

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ABOUT THIS REPORT

ABOUT THIS REPORT

This year's Annual Report includes details of BOQ's purpose and values, strategy, our value creation story, operations, audited financial statements and other statutory disclosures. The report predominantly focuses on our financial performance, with further detail on our non-financial performance measures contained in the 2020 Sustainability Report. We are continuing to enhance our reporting to explain to stakeholders how we deliver long-term value.

Unless otherwise stated, the Annual Report encompasses all BOQ activities for the financial year commenced 1 September 2019 and ended 31 August 2020. All monetary values in this document are presented in Australian dollars, which is the Bank's functional currency. Our Operating and Financial review is contained in pages 12-63 of this report.

OTHER DOCUMENTS IN OUR 2020 REPORTING SUITE

BOQ produces a range of reports designed to meet the evolving expectations of a wide number of stakeholders. Our 2020 annual reporting suite also includes the following documents:

SUSTAINABILITY REPORT

Our 2020 Sustainability Report outlines information about our performance against social, environmental and economic opportunities and challenges. This report is available on the Annual Reports page of our website and is supported by supplementary information available on the Sustainability section of our website.

CORPORATE GOVERNANCE STATEMENT

Our 2020 Corporate Governance Statement discloses how we have complied with the ASX Corporate Governance Council's Corporate Governance Principles & Recommendations *(4th edition)* and is available on the Corporate Governance page of our website.

FY20 INVESTOR MATERIALS

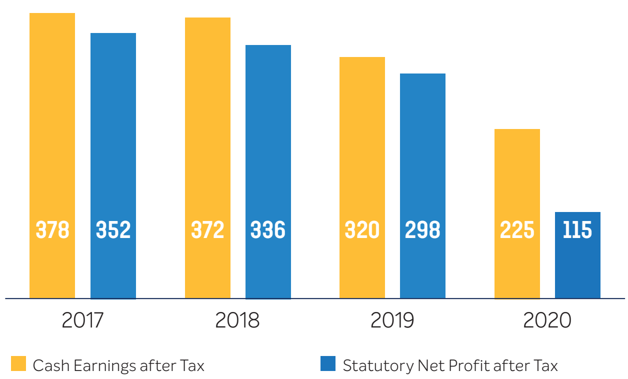
Our FY20 Investor Materials provide a high level overview of the Group's performance along with a detailed result analysis and a discussion on the outlook, which covers the macro environment and the Group's high level priorities. Investor Materials are available on the Financial Results page of our website.

We are always looking for ways to improve our reporting. Please send your questions or suggestions to our Investor Relations team at **InvestorRelations@boq.com.au**

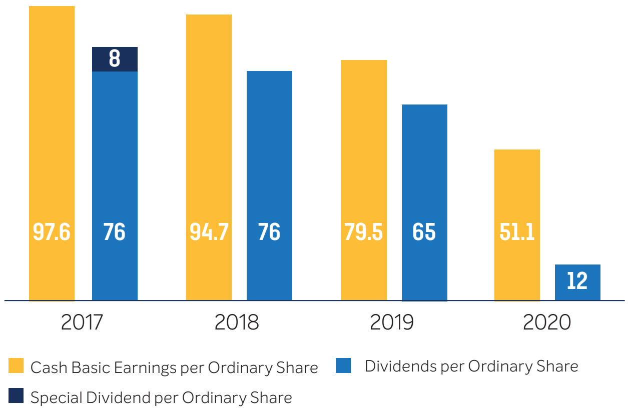
Bank of Queensland Limited I ABN 32 009 656 740 I AFSL No. 244616 I Level 6, 100 Skyring Terrace, Newstead QLD 4006

FY20 FINANCIAL RESULTS

PROFIT RESULTS
($m)



EARNINGS & DIVIDENDS
(¢ per ordinary share)



2020 CASH EARNINGS
AFTER TAX

$225m
↓30% from FY19

STATUTORY NET PROFIT
AFTER TAX

$115m
↓61% from FY19

CASH BASIC EARNINGS PER ORDINARY SHARE
(¢ PER SHARE)

51.1¢
↓36% from FY19

DIVIDENDS PER ORDINARY SHARE
(¢ PER SHARE)

12¢
↓82% from FY19

NET INTEREST MARGIN

1.91%
Down 2bps from FY19 ↓

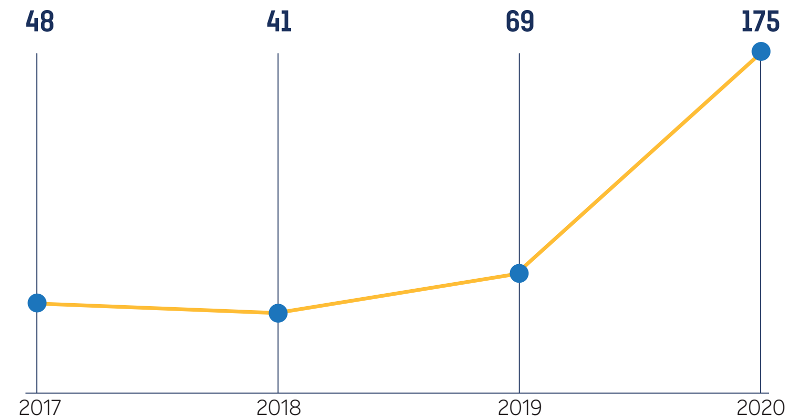
CASH COST TO INCOME RATIO

54.2%
Up 320bps from FY19 ↑

CASH RETURN ON EQUITY

5.4%
Down 290bps from FY19 ↓

LOAN IMPAIRMENT EXPENSE
($m)



$175m
37bps of gross loans and advances

5 YEAR FINANCIAL SUMMARY

$ millions (unless otherwise stated)	2020 $m	2019 $m	2018 $m	2017 $m	2016 $m
FINANCIAL PERFORMANCE (1)					
Net interest income	986	961	965	926	937
Non interest income	110	128	145	175	173
Total income	1,096	1,089	1,110	1,101	1,110
Operating expenses (2)	(594)	(555)	(527)	(513)	(520)
Underlying profit before tax (2) (3)	502	534	583	588	590
Loan impairment expense (2)	(175)	(69)	(41)	(48)	(67)
Cash earnings before tax	327	465	542	540	523
Cash earnings after tax attributable to ordinary shareholders	225	320	372	378	360
Statutory net profit after tax	115	298	336	352	338
FINANCIAL POSITION					
Gross loans and advances (4)	47,043	46,216	45,279	43,817	43,152
Total assets	56,772	55,597	52,980	51,658	50,853
Customer deposits	34,762	32,428	31,325	30,190	29,122
Total liabilities	52,541	51,738	49,124	47,869	47,266
Total equity	4,231	3,859	3,856	3,788	3,587
SHAREHOLDER PERFORMANCE					
Market capitalisation at balance date	2,785	3,721	4,565	4,932	4,020
Share price at balance date ($)	6.13	9.17	11.49	12.59	10.55
Cash basic earnings per share (cents) (5)	51.1	79.5	94.7	97.6	95.6
Cash diluted earnings per share (cents) (5)	46.3	73.9	89.3	93.9	90.7
Fully franked dividend per ordinary share (cents)	12	65	76	76	76
Fully franked special dividend per ordinary share (cents)	–	–	–	8	–
Cash dividend payout ratio to ordinary shareholders	24%	82%	81%	78% (6)	80%
CASH EARNINGS RATIOS					
Net interest margin (7)	1.91%	1.93%	1.98%	1.87%	1.94%
Cost-to-income ratio (2)	54.2%	51.0%	47.5%	46.6%	46.8%
Return on average ordinary equity	5.4%	8.3%	9.9%	10.4%	10.3%
CAPITAL ADEQUACY					
Common Equity Tier 1 ratio	9.78%	9.04%	9.31%	9.39%	9.00%
Total Capital Adequacy ratio	12.73%	12.40%	12.76%	12.37%	12.29%

(1) All amounts disclosed are on cash basis except statutory net profit after tax.

(2) Includes a $5 million prior period restatement of employee costs from Loan impairment expense to Operating expenses. The Cost-to-income ratio has also been restated.

(3) Underlying profit before tax is profit before impairment on loans and advances, significant items and tax.

(4) Before specific and collective provisions.

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

(6) This ratio was 87 per cent including special dividend.

(7) 2020, 2019 and 2018 Net Interest Margin (**NIM**) is net of offset accounts.

CHAIRMAN'S REVIEW

Dear Shareholder

Last year we committed to achieving better outcomes for our stakeholders. We recognised the need to take decisive action to improve performance and outlined five key priorities to return BOQ to profitable and sustainable growth. We foreshadowed that the transformation will take time with a difficult year ahead in FY20.

The past 12 months have been a more challenging period than we could ever have anticipated, with the impact of the devastating bush fires and the COVID-19 health pandemic, causing considerable hardship for our customers, shareholders, employees and the communities in which we operate.

Our highest priority through this period has been to ensure we live our purpose of creating prosperity for our customers, shareholders and people through empathy, integrity, and by making a difference.

Performance

Our financial performance of statutory net profit after tax of $115 million, cash earnings after tax of $225 million and the dividend of 12 cents reflect the difficult external operating environment and a year of transition. We have taken a material provision for expected credit losses resulting from the impact of the COVID-19 pandemic on our customers and a write down in our technology investment reflecting changes in our digital strategy to achieve better outcomes for our customers. While not yet reflected in our financials, we have made good progress this year in executing our transformation plan to return BOQ to profitable growth and growing long term shareholder value.

Customers

BOQ has played an important role in supporting our customers in bridging this severe economic downturn. Working closely with government, regulators, and others in the sector; we responded quickly to provide solutions for customers in hardship with financial relief for households and small businesses. We remain focused on improving our customer performance and have elevated the customer voice within BOQ.

We have improved our ranking from 5th position to 3rd on customer net promotor scores and were named 2020 MOZO People's Choice Award winner in the excellent customer service category. We have more to do to delight our customers and achieve our objective of being a leading digital bank of the future with a personal touch.

Shareholders

We recognise this has been a difficult year for you, our shareholders, with loss of shareholder value and a reduction in dividends, which we understand many of you rely on to support your income. Prudent balance sheet and capital management has been critical to ensure our support for your long term shareholder interests.

Following the capital raising in December last year we are well capitalised to fund our transformation and trade through the current credit cycle. Our intent to pay dividends remains unchanged. The future payout ratio will reflect APRA guidelines and be balanced against the ongoing assessment of the resilience of the Bank to absorb credit losses, the protection of deposit holders and debt security holders and the investment in our transformation to grow long term shareholder value.

Employees

Through the pandemic we have focused on ensuring the safety and well-being of our employees, while maintaining continuity of our operations. Our people have performed strongly over the past twelve months, executing against our strategic priorities, adapting to new ways of working whilst retaining productivity and dedicated support for our customers. We have moved with agility and our purpose led culture has driven the right behaviours. Recognising both the improved performance of our people and the difficult year experienced by shareholders, the Board has exercised its discretion to moderate the short term incentive (**STI**) compensation payment for 2020. Further, we have resolved to make no STI cash payments to senior executives this year with the award being paid in deferred equity to better align with our shareholders.

Strategy

We announced our updated strategy to the market in February this year with a transformation plan to materially improve our performance. We have five strategic priorities with the ambition to be known as the bold challenger bank with multi-brands that are digitally enabled with a personal touch. We are pleased with the progress that has been made during the year against these priorities, in particular on our digital transformation journey, while maintaining a strong financial and risk position which has been critical throughout the current pandemic.

Leadership

We recognise that quality people and strong leadership will drive our success. George Frazis commenced in his role as Managing Director & CEO in September 2019 and has already made a material difference to BOQ, bringing a performance driven approach while navigating the uncertainty of the COVID-19 economic impacts. Supporting George to strengthen the capability of BOQ's Executive and senior leadership team has been a key priority for the Board. We were pleased to welcome Ewen Stafford as our Chief Financial Officer and Chief Operating Officer, Fiamma Morton as Group Executive BOQ Business and Craig Ryman as Chief Information Officer. In FY21 Danielle Keighery will join BOQ as the Chief Customer Officer. We have materially increased the depth of talent and experience in the leadership team and believe that under the strong leadership of George we have the right skills and experience to deliver BOQ's transformation agenda.

Culture and Governance
Culture and governance remain key priorities for the Board and BOQ. During the year we conducted a cultural review and in response, embarked on a cultural transformation. At its core, is our shared commitment to our purpose and values of empathy, integrity and making a difference. We are shifting the organisation to a performance led culture with executive empowerment and accountability to deliver our plans. Our future remuneration framework has been updated to further align leadership performance with long term shareholder value creation, reduced cash payments, attracting and retaining talent and ensuring appropriate risk behaviours. We are committed to continuous improvement and excellence in corporate governance, increasing transparency in our reporting, compliance with our regulatory obligations, and protecting our license to operate.

Building a sustainable business
BOQ is committed to building a sustainable business for our stakeholders. We have a responsibility to invest and manage our business to deliver strong returns for our shareholders at the same time as improving outcomes for the community and environment. BOQ recognises the role it can play in reducing its own carbon footprint and supporting our customers on their sustainability journey.

Board renewal
Following my appointment as Chairman in October 2019, BOQ conducted a Board performance and skills matrix review. Facilitated by an independent third party, the review focused on improving the effectiveness, and performance of the Board. Since the review, the number of non-executive directors has been reduced from ten to seven, with the Board succession plan committed to improving diversity of thought, digital transformation and strategic capability. Non-negotiable attributes to strengthen the Board's dynamic include emotional intelligence, respect, constructive challenge, listening, openness to alternate views and intellectual curiosity. We implemented a Board code of conduct, restructured committees with attendance from all Directors and implemented a three term guideline for Directors. I would like to take this opportunity to thank Richard Haire and Michelle Tredenick, who retire from the Board in 2020, for their contribution to BOQ.

Looking ahead
The Board and I recognise that 2020 has been a particularly challenging year. We wish to thank you for your ongoing support of BOQ and look forward to delivering improved experiences and outcomes.

The evolving magnitude of COVID-19 is creating considerable economic dislocation, a highly uncertain operating environment and shifts in consumer behaviours, public expectations and operating models. We will continue to refine our strategy to reflect these shifts and deliver long term sustainable outcomes for our people, customers, communities and shareholders.

In keeping with our focus on health and safety, this year our AGM will be held online on Tuesday 8 December 2020 rather than at a physical location. Shareholders will have the ability to participate remotely via an online platform or by lodging their proxy, vote, or questions in advance of the AGM.

We appreciate the considerable responsibility of the Board and management to deliver better outcomes for all our stakeholders and we remain committed to doing so.

Patrick Allaway
Chairman

"Our highest priority through this period has been to ensure we live our purpose of creating prosperity for our customers, shareholders and people through empathy, integrity, and by making a difference."

MANAGING DIRECTOR AND CEO'S MESSAGE

Dear Shareholder

It has been a year like no other. Bushfires, storms, coronavirus disease (**COVID-19**) and the associated economic consequences have required the very best from our people and they have delivered. No matter the challenge, we have responded with empathy and agility, doing everything we can to best look after our customers.

While all of this was going on, we have also been getting on with making your Bank, a better bank.

Customers and Community

BOQ's strong balance sheet, combined with the commitment of our people, has enabled us to support our customers through the financial impacts of the crisis, providing much needed cash flow. We have processed more than 21,000 personal and business loan deferrals, extended credit, and implemented a number of short term fee waivers and product changes.

We recognise the role we play in the broader community. In addition to providing fast track financial relief to customers impacted by bushfires, drought, and floods, we donated $150,000 to our community partner Orange Sky, which mobilised laundry and shower vans to bushfire affected areas.

Progress against strategy

In February 2020, we set out BOQ's refreshed strategy to make BOQ a better bank. Our refreshed and strengthened executive team is getting on with it. I am very pleased with the progress we have made in the past 12 months, particularly since we updated the market in February.

We have already completed six core projects including the modernisation of our data centres to the cloud. Phase one of the Virgin Money Australia (VMA) digital bank is due to be completed by the end of the calendar year and a strategic pathway has been determined for our BOQ Blue mobile app development. We have also completed the strategic reset of our intangibles portfolio, have put in place a robust program management approach and have lifted our execution capability to ensure we continue to deliver.

Our digital transformation is a foundational investment for BOQ and I am pleased to say that we are on schedule. We have established a strong execution capability, partnering with Deloitte Digital and cloud-based technology partners to leverage their global expertise.

The digital projects already completed are providing a strategic pathway for the Retail Bank's migration to the digital platform. The VMA digital bank build will benefit from of an existing customer base and the support of the BOQ Group. The VMA platform is a market leading technology solution providing customers with a personalised digital experience. It is an API first in design and has been developed as a cloud based scalable solution, with an evergreen upgrade path, hosted in Australia. This project is key to the digital transformation of BOQ and will provide us with the ability to sustainably grow our market share through a highly efficient channel.

We have also made material changes to our home lending process, significantly reducing the 'time to yes' for our customers from more than four days down to one day.

We have delivered around $30 million in productivity savings across the Bank and have reduced our FTEs by c. three per cent. These savings have enabled us to invest in new digital, risk and regulatory programs.

We are helping our people deliver a superior customer experience. The changes we are making has seen us lift our Net Promoter Score (**NPS**) ranking from 5th in FY19 to 3rd in FY20, and our Mortgage NPS ranking improved from 11th in FY19 to 5th in FY20.

In addition, the announced sale of St Andrew's represents an important strategic milestone for BOQ. The divestment enables us to focus on our niche customer segments and it simplifies our business model.

People

As we responded to COVID-19, our internal focus was on ensuring our people could work safely and in new ways. Despite the challenging environment, the focus on empathy throughout the business saw employee engagement increase by 3 per cent during the year. We want to keep improving our employee engagement.

I am proud of our people, the support they have provided to each other, and the resilience they have demonstrated in meeting the needs of our customers. I thank them for their commitment and want to acknowledge their hard work over the course of the year.

Performance

Like many organisations, our FY20 financial performance has been impacted by both COVID-19 and by a number of strategic foundational investment. Total income increased by one per cent as we continued to grow our balance sheet while preserving our margins. Our expenses grew seven per cent during the year as we invested in risk and regulatory enhancements and key strategic investments. Impairment expense increased materially due to the additional $133 million collective provision overlay taken for estimated future loan losses related to the pandemic. These impacts resulted in a 30 per cent reduction in cash net profit after tax for FY20.

Maintaining a strong balance sheet has been important for BOQ throughout the pandemic as it has enabled us to support our customers and in turn contribute to the resilience of the broader economy. During the year we have increased our level of customer deposits by seven per cent which has further strengthened our liquidity position, and our capital remains strong with a CET1 ratio of 9.78 per cent, comfortably above APRA's unquestionably strong benchmark.

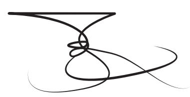
Pay and entitlements review
During the year BOQ commenced a pro-active review of historical employee pay and entitlements, which identified potential issues relating to superannuation, pay, and entitlements. I have made a full and unreserved apology to people affected by these issues and we are focused on ensuring these people are remediated fully as a matter of priority.

We will get this right and we will make sure our people, past and present receive every cent they are owed.

The future
Looking ahead, the duration and ongoing impacts from the COVID-19 pandemic remain uncertain. We are committed to supporting our customers and people throughout this period and will work closely with those requiring additional support.

With a strong capital position, good levels of liquidity, prudent growth in our balance sheet, and provisions in place to cover impacts to the lending portfolio, BOQ is well positioned to navigate through this period.

I believe we have the right team in place to deliver on our strategy, transforming BOQ into a digital bank with a personal touch, backed by a strong balance sheet, delivering value for our shareholders, customers, people, and the community.



George Frazis
Managing Director and CEO

"While FY20 has clearly been an extraordinary year, I am very pleased with the way BOQ has supported our customers and people and been able to make great progress in becoming a better bank.

We have the right team in place to deliver on our strategy, transforming BOQ in to a digital bank with a personal touch, backed by a strong balance sheet, delivering value for our shareholders, customers, people, and community."

2020 DIRECTORS' REPORT

ABOUT BOQ

BOQ is one of Australia's leading regional banks, having served customers for 146 years.

During BOQ's long history, it has evolved from a Queensland focused, retail branch-based bank to a national diversified financial services business with a focus on niche commercial lending segments, highly specialised bankers and branches run by small business owners who are deeply anchored in their communities.

We provide a range of products to support the financial needs of our customers and pride ourselves on building long term customer relationships that are digitally enabled with a personal touch.

PURPOSE AND VALUES

Our purpose is to create prosperity for our customers, shareholders and people through empathy, integrity and by making a difference. Our values are contained within the purpose statement, ensuring our people are clear on the key values to which BOQ subscribes.

During the year we refined our purpose and values, to communicate a simple and clear purpose for our people. We are committed to ensuring our purpose and values are reflected in everything we do – from the development of our strategy to our everyday interactions with our customers and communities.

We recognise we have more to do to ensure all our interactions and decisions have empathy at the core and it is an aspirational target for BOQ.

Empathy

- We seek to understand and feel what others are experiencing, then we take action to help them
- We are curious and interested in other perspectives. We ask great questions to understand where our customers and colleagues are coming from
- We do the right thing by our customers and people even where that decision may be 'no'
- We use our insights to create great experiences, by showing care, providing and receiving feedback, building trust and taking action

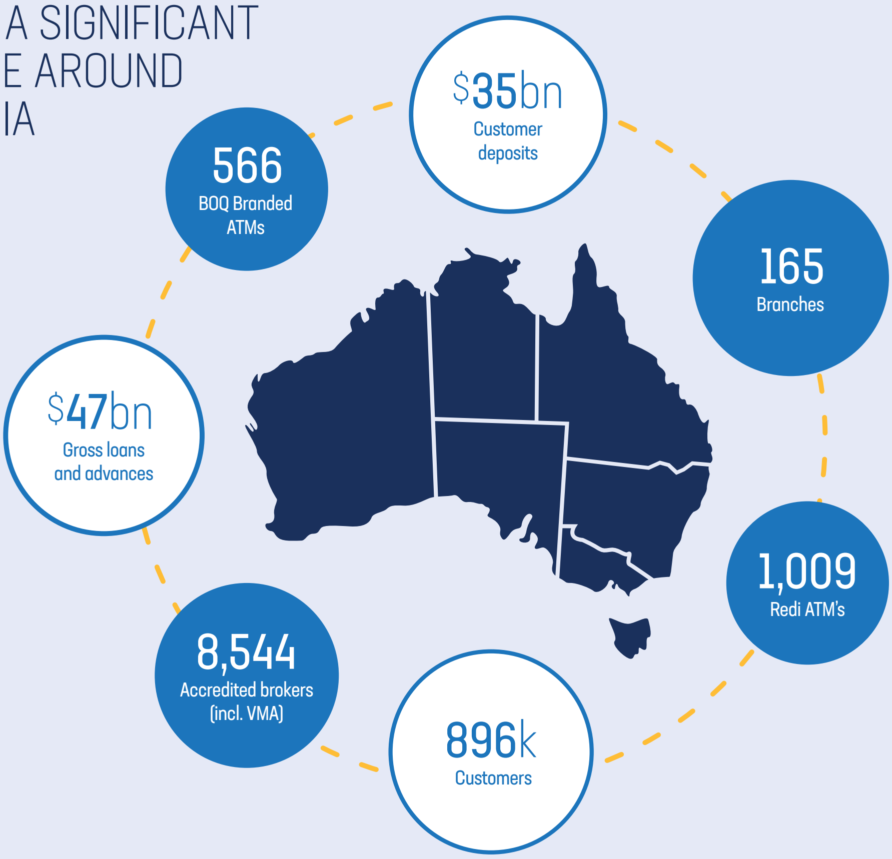
Integrity

- We take pride in doing what's right, speaking up and we do what we say we will do
- We establish high and clear standards and hold ourselves and others accountable
- We have the courage to raise and own mistakes and empower others to do the same

Making a difference

- We are bold and take reasonable risks to create prosperity
- We focus on delivering outcomes for our customers and improving the way things are done
- We achieve together and celebrate the positive impact we create

BOQ HAS A SIGNIFICANT PRESENCE AROUND AUSTRALIA



ABOUT BOQ

DISTINCTIVE BRANDS SERVING ATTRACTIVE NICHE CUSTOMER SEGMENTS

Over time, BOQ has successfully acquired a portfolio of brands which form the basis of our multi brand strategy. These different and complementary business lines provide us with a competitive advantage due to our specialised knowledge in these niche segments.

RETAIL BANKING

Retail and SME lending, deposits, credit cards and insurance

BOQ

BOQ is the Retail banking arm of the BOQ Group and is comprised of 165 branches across Australia offering a range of banking products. Our 93 Owner –Managed Branches (**OMB**) are run by local Owner–Managers who understand the importance of delivering high quality customer service and are deeply committed to the communities in which they operate.

Digital home loans, credit cards, insurance and superannuation

Virgin Money Australia (VMA)

VMA is a digital first retail financial services company which provides a wide range of financial products that are easy to understand and is a compelling alternative to the big banks. BOQ acquired VMA in 2013 and it operates as a standalone brand within the BOQ Group.

BOQ BUSINESS

Commercial lending, deposits, financial markets and insurance

BOQ Business

BOQ Business is a relationship led business with specialist bankers providing client solutions across Small Business, Agribusiness, Corporate Banking, Property Finance, Healthcare & Retirement and Tourism, Leisure & Hospitality. BOQ Business works closely with the Owner Manager network to support commercial customers who value a more intimate business banking relationship with passionate industry experts.

Asset finance and leasing

Finance

BOQ Finance is a wholly owned subsidiary of BOQ Group Limited specialising in asset finance and leasing solutions. BOQ Finance is a mid-market financier providing deep industry and product skills to its partner base. BOQ Finance has been operating in the Australian and New Zealand markets for more than 45 years.

Lending deposits, credit cards, and insurance for doctors and dentists

BOQ Specialist

BOQ Specialist delivers distinctive banking solutions to niche market segments including medical, dental and veterinary professionals. BOQ acquired the business (previously Investec Professional Finance) from Investec Bank (Australia) Limited in 2014. BOQ Specialist operates as a niche brand within BOQ's Business Bank.

GROUP FUNCTIONS

BOQ's business lines are supported by a number of Group functions including Enterprise Services, Risk, Finance, Transformation & Operations and our People & Culture teams. These key functions support our bank by managing our operations, property, strategy, finance, treasury, technology architecture, infrastructure & operations, risk, compliance, legal, human resources and corporate affairs.

RESPONDING TO COVID-19

"As a bank we have a responsibility to maintain confidence in the economy and support our customers in any way we can. During these incredibly challenging times, we understand how important it is for our customers to be able to manage their household budgets and help family businesses to conserve their cash flow."

– BOQ Managing Director and CEO, George Frazis

Our purpose led culture, with empathy at its heart, guides us in this time of uncertainty for our customers, people and shareholders.

In these difficult times, we are here for our customers. COVID-19 has caused significant disruption and volatility in financial markets. Throughout this period, BOQ's resilience has endured by maintaining strong levels of capital and liquidity. This is crucial as it gives us the capacity to support our customers during this challenging time.

BUSINESS RESILIENCE

As a Bank, we responded quickly to the evolving circumstances to ensure the stability of the BOQ business. We activated our business continuity plan, established Executive Management and Board COVID-19 management meetings and developed dashboard reporting to track leading indicators.

BOQ continues to develop scenario models to identify potential risks to our business under a range of different economic outcomes, to ensure the stability of the Bank. Our strong levels of capital and liquidity see us well positioned to weather these potential scenarios and we continue to refine the models as additional economic data becomes available.

In response to COVID-19 the Reserve Bank of Australia (**RBA**) has made a term funding facility available to banks. BOQ has accessed this facility to strengthen our liquidity position and our capacity to provide credit to the economy.

EMPLOYEE SUPPORT

The health, wellbeing and safety of our people is paramount for the Bank and we have taken a number of actions to look after our people and the communities in which we operate. BOQ uses the latest guidance provided by the Australian Department of Health and the World Health Organisation.

Banking has been recognised as an essential service and accordingly we have kept our branch network open throughout this period as well as maintaining our other operations. This has necessitated the introduction of a number of additional safety measures for our people. Key actions taken include:

- Extensive communications plan enacted
- Branch and corporate offices equipped with social distancing and hygiene products
- Increased remote working capabilities
- Suspension of non-essential business travel

CUSTOMER SUPPORT

BOQ worked swiftly and decisively with the Australian Banking Association (**ABA**), the Federal Government and regulators to establish the Banking Relief Package program for customers impacted by COVID-19. BOQ deployed 70 highly skilled individuals into the Customer Assistance Team, dedicated to assisting customers impacted by COVID-19. In addition, our Business Bankers and BOQ Specialist relationship managers have been working very closely with their customers to understand their needs during this time and to support them in accessing credit where required.

"Our relationship with BOQ has enabled us to continue to grow our business through difficult times. Bank managers and staff operate at a very high service level. They have a genuine understanding of where we are trying to go and a willingness to help and support our family."

– BOQ customer

Support for Personal Customers:

To help support everyday Australians experiencing difficulty in the current environment, BOQ's retail customers can opt to either defer their mortgage repayments for up to six months or switch to Interest Only for up to twelve months. At the end of this period, BOQ will work with these customers to assess if further assistance is required.

BOQ has actively been contacting customers accessing Banking Relief to determine their ability to commence repayments and to identify those who require additional support. At the end of FY20, 25% of personal customers that were on deferral arrangements, had commenced partial or full repayment of their loans. BOQ will continue to work closely with those requiring additional support to determine whether their loans can be restructured or whether a further four month extension of the package is appropriate.

In addition, BOQ has supported retail customers to manage their cash flow needs through:

- Offering products that offer interest only, offset and redraw facilities
- Competitive home loan and deposit products
- Temporarily pausing spending criteria for selected deposit accounts
- Temporarily pausing Cash Management Account monthly fees

Support for Business Customers:
In an effort to back Australian businesses, the Banking Relief Package for small business enables customers to defer their repayment period for up to six months on small business loans. BOQ is working closely with small business customers, currently accessing support, to determine their capacity to resume repayments, which may include restructuring of their facilities. Customers may also be eligible for an extension of the deferral for up to four months.

However, it is important to recognise that, unfortunately, a number of businesses will not recover from the impacts of COVID-19 and further deferrals or restructuring may not be in their best interest. In these circumstances BOQ will work closely with our customers to find the best solution for them.

BOQ also made a number of changes to the business product offering to support customers in managing their cash flow needs during COVID-19. These include:

- Eligible customers have access to an unsecured overdraft of up to $250k with no repayments for six months
- Reduced interest rates on Term Loans and Business Overdrafts
- Monthly account maintenance fees waived for six months on business transactional bank accounts
- Customers can apply for merchant terminal fees to be waived for three months
- Bonus interest spending criteria for business saving accounts were temporarily paused.

MANAGING OUR CREDIT RISK

BOQ is continuing to monitor the credit quality of the portfolio to assess economic impacts due to COVID-19. The full year COVID-19 collective provision overlay was increased to $133 million to account for the future economic loss as a result of the pandemic. BOQ has undertaken scenario modelling and detailed portfolio analysis to assess provisioning levels and potential credit quality impacts due to COVID-19. This analysis revealed a high level of concentration in loan deferrals to the healthcare industry, particularly dentistry. While the healthcare sector was significantly impacted at the initial outset of the pandemic, the status of customer deferrals for this segment are indicating signs of recovery. BOQ has limited exposure to high risk industries of accommodation, food, tourism, education and arts and recreation. BOQ will continue to monitor and assess the adequacy and appropriateness of the COVID-19 collective overlay.

21k (1)

CUSTOMERS GRANTED ASSISTANCE DUE TO COVID-19 RELIEF

$18m (2)

IN SME GOVERNMENT GUARANTEED LOANS FUNDED

10.5k (3)

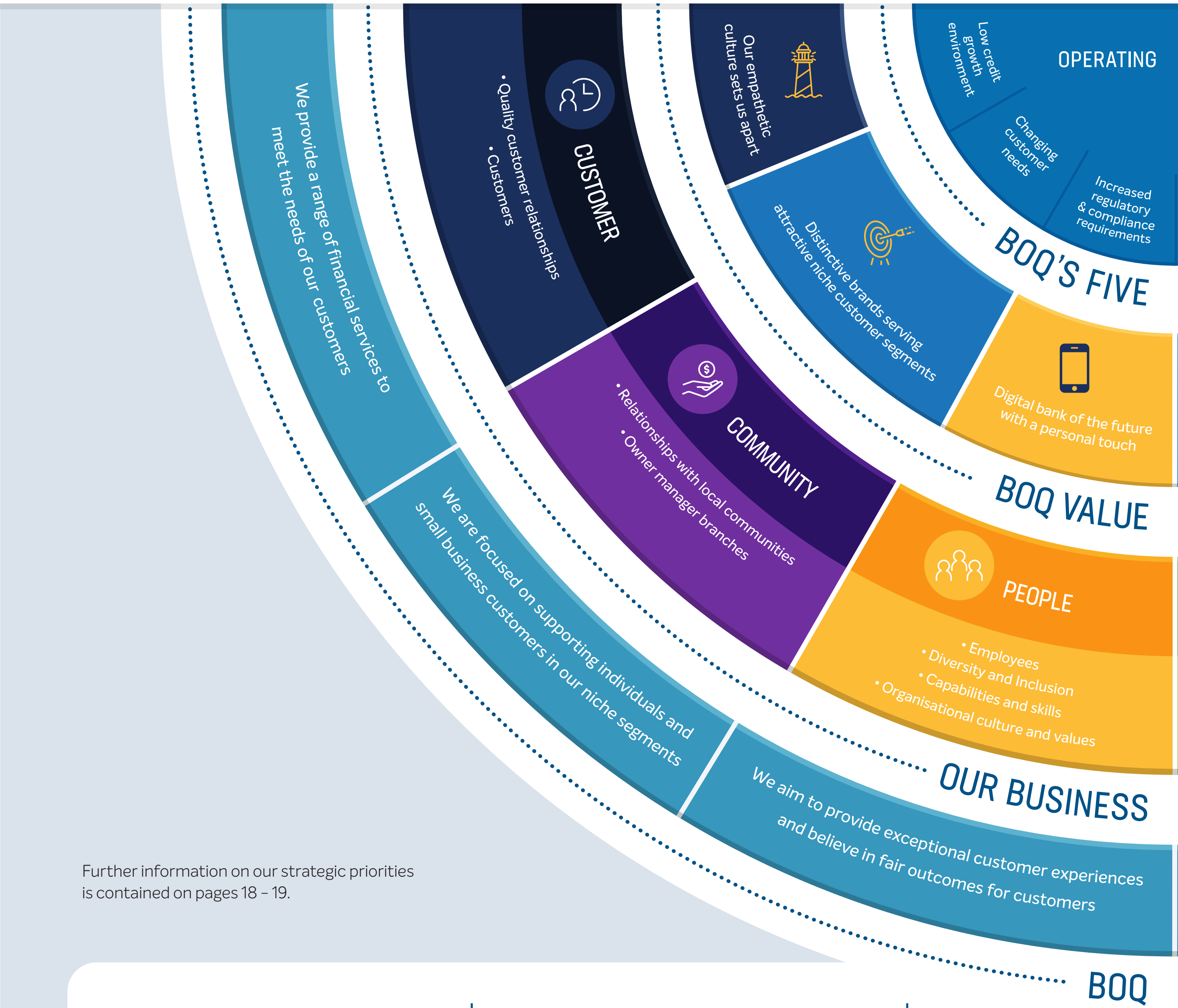
MORTGAGES DEFERRED

18k (3)

BUSINESS LOANS DEFERRED

(1) Represents total number of customers granted relief. As at August 2020 this figure had reduced to 17k.
(2) Refers to approved limits.
(3) Represents the number of accounts but does not include all requests as not all were eligible. Does not represent the value currently in relief as some loans have withdrawn/expired.

HOW WE CREATE VALUE



Further information on our strategic priorities is contained on pages 18 – 19.

BOQ — Retail and Small and Medium Enterprises (**SME**) lending, deposits, credit cards and insurance

Virgin money — Digital home loans, credit cards, insurance and superannuation

BOQ BUSINESS

BOQ VALUE

CUSTOMER

- Build trusted customer relationships with a personalised touch
- Achieve fairer customer outcomes
- Support individuals and businesses to achieve their financial goals

View our Sustainability Report →

COMMUNITY

- Experienced bankers anchored in the community
- Increase access to financial services and ongoing support
- Improve financial literacy and wellbeing of the community

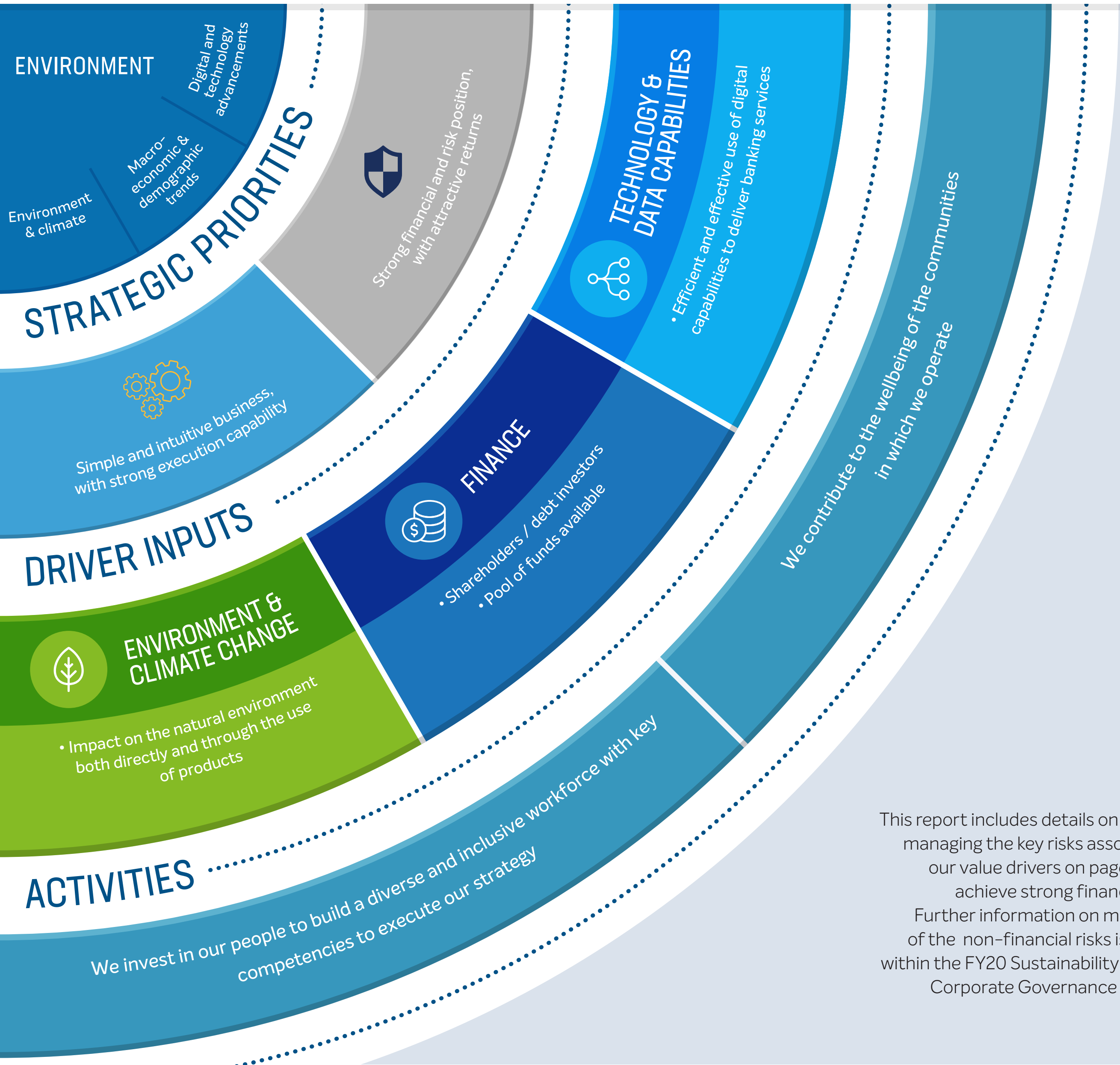
View our Sustainability Report →

PEOPLE

- A resilient, adaptable, empowered, diverse and inclusive workforce with a strong sense of purpose and ethics
- Increase skills and capabilities of our people
- BOQ is seen as an employer of choice

View our Sustainability Report →

At the core of how we create long term value for our stakeholders is our purpose led culture and execution of our strategy. This is underpinned by our value drivers and associated business activities which we undertake with the aim of delivering a set of key outcomes for our stakeholders.



This report includes details on how we are managing the key risks associated with our value drivers on pages 48–49 to achieve strong financial returns. Further information on management of the non-financial risks is contained within the FY20 Sustainability Report and Corporate Governance Statement.

OUTPUTS

Commercial lending, deposits, financial markets, insurance	BOQ SPECIALIST — Lending, deposits, credit cards, insurance for doctors and dentists	BOQ FINANCE — Asset Finance, Cashflow and Structured Finance solutions

DRIVER OUTCOMES

ENVIRONMENT & CLIMATE CHANGE

- Accountability of BOQ's impact on the environment
- Attract customers, employees and shareholders whose values and banking choices are aligned to BOQ's environmental goals
- Contribute to Australia's transition to a lower carbon economy

Pages 52–57 →

FINANCE

- Returns to shareholders and capital reinvested for future growth
- Trusted to deliver sustainable returns
- Increased market share in niche segments

Financial Performance pages 20–46 →

TECHNOLOGY & DATA CAPABILITIES

- Improve customer experience through flexible and resilient digital infrastructure
- Data insights driving customer relationships and experience
- Increase business efficiencies
- Data security, governance and privacy

View our Sustainability Report →

OUR STRATEGIC PRIORITIES AND VALUE DRIVERS

DEVELOPING AND EXECUTING AGAINST OUR STRATEGY

During FY20 BOQ delivered a refreshed strategy with the aim of delivering an exceptional customer experience through specialised bankers to create long term shareholder value.

The strategy was informed by our key differentiators; unique brands with proud history, an innovative digital offering and loyalty programme, deeply anchored in local communities with a strong customer focus and highly specialised industry expertise.

We continue to work toward a distinctive approach for our customers and people, a comprehensive digital transformation and a focus on delivering sustainable profitable growth and attractive returns.

Our strategy is built on five clear strategic priorities focused on our customers, people and shareholders. We have set ourselves bold targets and have made good progress towards these in FY20.

OUR STRATEGIC PRIORITIES	TARGET	PROGRESS	VALUE DRIVER
EMPATHETIC CULTURE	• Top 3 NPS for personal and SME customers • Employee engagement from 56% to top quartile	• Refreshed Purpose & Values • Retail NPS ranked 3rd at +17 (up from 5th in FY19) • Mortgage NPS ranked 5th at -2 (up from 11th in FY19) • Action plan implemented to manage COVID-19 hardship & deferrals • Culture survey & diagnostic completed, with action plan under development • Key executive positions filled • Employee engagement score 59% (up from 56% in FY19)	
DISTINCTIVE BRANDS	• Grow customer base to c.1.5m customers • Growing above system from FY20, optimising revenue and return • Ongoing Risk Weighted Assets (**RWA**) optimisation	• Customer base of 896k customers • Home lending growth of c.$508m (0.9x system) • Business Lending & Asset Finance growth of c.$345m (Positive to system, which is negative for both) • 95% of OMBs on new agreement • Re-invigorated 3rd party distribution	
DIGITAL BANK	• Deliver a new Digital Bank • Transition customers from old to new cloud based core services platform	• VMA phase 1 on track for soft launch in 2020 • Delivery of new mobile app for BOQS with Apple Pay • Migration of data centres to the cloud • Pathway to accelerate BOQ Retail Bank transition to future state platform being explored	
SIMPLE & INTUITIVE	• Productivity benefits of c.$90m annualised run rate from FY23, containing expense growth to <1.0% p.a. in FY21 & FY22 • Halve the products for sale from 194 • Within 1-day time to conditional approval for home lending	• Products for sale reduced by 14% • Time to Conditional yes reduced from 5 days to 1 day • ~$30m Productivity benefits in FY20 • Lifting our capability to improve delivery • FY20 expense growth less than guidance, FY21 expense growth expected to be c.2%	
STRONG FINANCIAL AND RISK POSITION	• Positive jaws in FY21, expanding in FY22 • Strong risk and compliance outcomes • Maintain group deposit-to-loan ratio of ≥70% • Capital investment of c.$100m p.a. FY20-FY22	• $340m capital raising completed • Deposit to Loan ratio 74% • Improved risk-based pricing and margin management • Governance risk and compliance tool • Forecasting neutral jaws in FY21	

ALIGNMENT OF OUR VALUE DRIVERS AND STRATEGIC PRIORITIES

In developing our strategy we have considered our core value drivers to ensure alignment of our strategic initiatives and performance metrics to these desired outcomes. The table below provides further detail on each of BOQ's value drivers and the key strategic initiatives which have been developed with the aim of delivering the value driver outcomes.

CUSTOMER

Customers and quality relationships sit at the heart of BOQ. We create value by providing a range of financial services to meet the needs of our customers. We aim to provide exceptional customer experiences and believe in fair outcomes. We aim to support individuals and businesses to achieve their financial goals.

- Building a distinctive purpose-led culture with empathy at the heart to guide fairer decisions for our customers
- Deepening our niche segment strategy leveraging experienced specialist bankers supported by high quality credit officers
- Seizing the potential of the OMB model to drive relationships within communities
- Streamlining our product set, operations and processes to create superior customer experiences

COMMUNITY

BOQ recognises the importance of contributing to the wellbeing of the wider community. Led by the owner managers, who are experienced bankers anchored in their local community, BOQ has established good relationships with the communities in which it operates. We aim to ensure ongoing access to financial services and support and improve the financial literacy and wellbeing of the community.

- Enhancing our community partnerships model to support vulnerable Australians
- Leveraging the owner manager model to build deep relationships through experienced bankers anchored in the local community
- Building a distinctive purpose led culture with empathy at the heart

PEOPLE

Our employees are key to the success of our business. We value diversity and inclusion and rely on their capabilities and skills to deliver value for stakeholders. Grounded in our organisational culture and values, we seek to build a resilient, adaptable, diverse and empowered workforce with a strong sense of purpose and ethics so that BOQ is viewed as an employer of choice.

- Embed our purpose-led, empathetic culture
- Creation of exceptional employee experiences
- Grow talent and capability

ENVIRONMENT & CLIMATE CHANGE

The natural disasters of 2020 have highlighted the impacts of climate change on our country. Banks play a central role in supporting customers through the transition to a lower carbon economy. Taking accountability of BOQ's impact on the environment will attract customers, employees and shareholders whose values are aligned to BOQ's environmental goals. Further details on BOQ's response to climate change can be found on pages 52-57.

- Reduce BOQ's carbon footprint with a long term goal of 100% renewable energy
- Support customers to transition to the lower carbon economy

FINANCE

BOQ's equity and debt investors provide us with an important source of funds which are utilised through our business activities with the aim of creating value for our stakeholders. Investors expect generated capital to be reinvested to fund future growth and are seeking sustainable returns on their investment. Further details on BOQ's financial performance can be found on pages 20-46.

- Maintain group deposit-to-loan ratio of >70%
- Ongoing RWA optimisation
- Streamline and simplify the business to deliver productivity benefits

TECHNOLOGY & DATA CAPABILITIES

Continued investment in technology and data capabilities is essential to delivering an enhanced customer experience, providing tailored products and service for customers and simplifying how we do business. Stakeholder expectations are changing rapidly and the ability to harness insights to tailor our offering will create significant value for stakeholders, while ensuring strong controls of data security, governance and privacy are in place.

- Deliver a new digital bank for VMA
- Build an intelligent data platform
- Transition customers from old to new cloud based core services platform

FINANCIAL PERFORMANCE

For the year ended 31 August 2020

1. FINANCIAL HIGHLIGHTS

1.1 RECONCILIATION OF STATUTORY PROFIT TO CASH EARNINGS

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.

Figures disclosed in this report are on a cash earnings basis unless stated as being on a statutory profit basis.

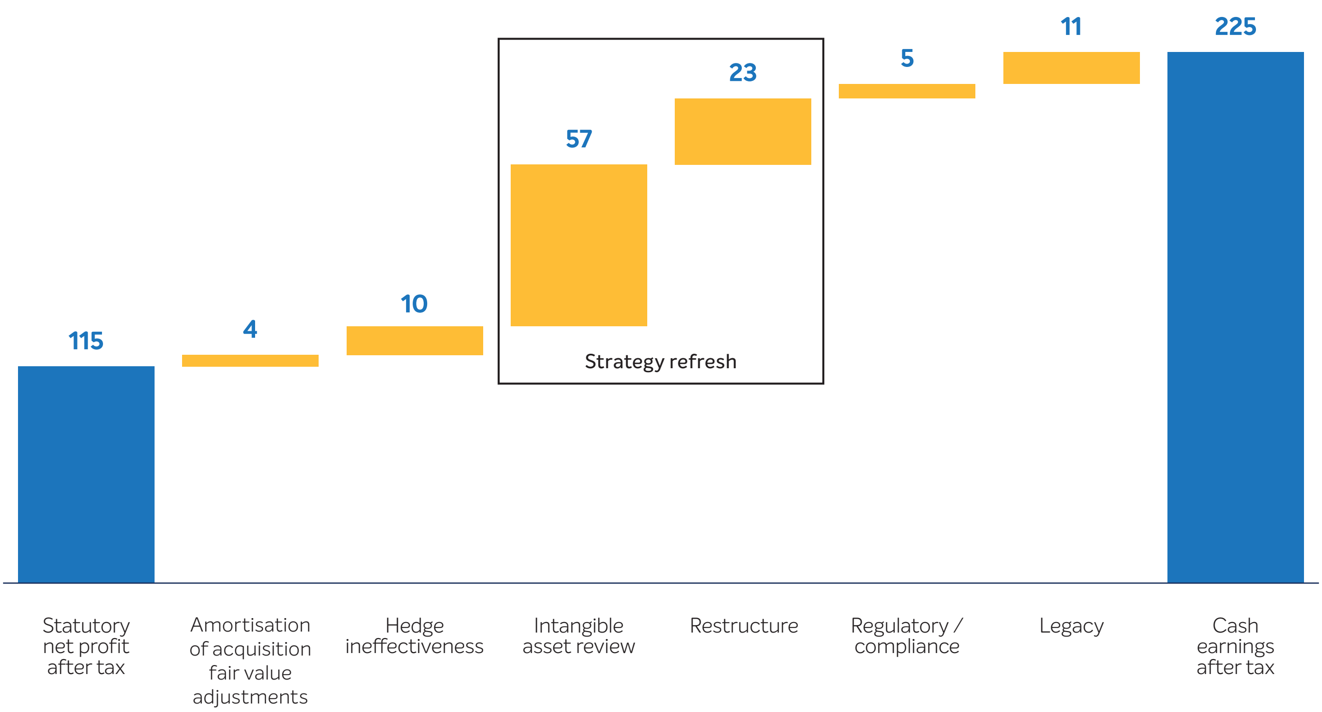
The non-statutory measures have not been subject to an independent audit or review.

Cash earnings is used to present a clear view of BOQ's underlying operating results. This excludes a number of items that introduce volatility or one off distortions of the current period performance and allows for a more effective comparison of performance across reporting periods.

The exclusions relate to:

- Amortisation of acquisition fair value adjustments – this arises from the historical acquisition of subsidiaries;
- Hedge ineffectiveness – this represents earnings volatility from hedges that are not fully effective and create a timing difference in reported profit. These hedges remain economically effective;
- Intangible asset review – this includes a non-recurring adjustment due to a change in the minimum threshold for the capitalisation of intangible assets and the amortisation acceleration and impairment of assets impacted by the BOQ Group's revised strategy;
- Restructure – this relates to the structural productivity and operating model review. The expense largely relates to redundancy costs associated with business restructures;
- Regulatory / compliance – costs associated with various regulatory and compliance matters of an extraordinary nature consistent with prior periods; and
- Legacy – adjustments for costs associated with remediation programs, including for employee pay and leave entitlements, and prior year Goods and Services Tax (**GST**). These were partly offset by the recovery of expenses in relation to historical litigation.

Reconciliation of statutory net profit to cash earnings after tax ($m)



FINANCIAL PERFORMANCE

For the year ended 31 August 2020

1.1 RECONCILIATION OF STATUTORY PROFIT TO CASH EARNINGS (CONTINUED)

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

	Year End Performance			Half Year Performance		
($ million)	**Aug-20**	**Aug-19**	Aug-20 vs Aug-19	**Aug-20**	Feb-20	Aug-20 vs Feb-20
Cash earnings after tax	**225**	320	(30%)	**74**	151	(51%)
Amortisation of acquisition fair value adjustments	**(4)**	(6)	(33%)	**(2)**	(2)	–
Hedge ineffectiveness	**(10)**	(8)	25%	**(7)**	(3)	133%
Integration / transaction costs	**–**	(1)	(100%)	**–**	–	–
Intangible asset review	**(57)**	–	100%	**(25)**	(32)	(22%)
Restructure	**(23)**	–	100%	**(8)**	(15)	(47%)
Regulatory / compliance	**(5)**	(6)	(17%)	**(3)**	(2)	50%
Legacy	**(11)**	(1)	1000%	**(7)**	(4)	75%
Statutory net profit after tax	115	298	(61%)	22	93	(76%)

(B) NON-CASH EARNINGS RECONCILING ITEMS

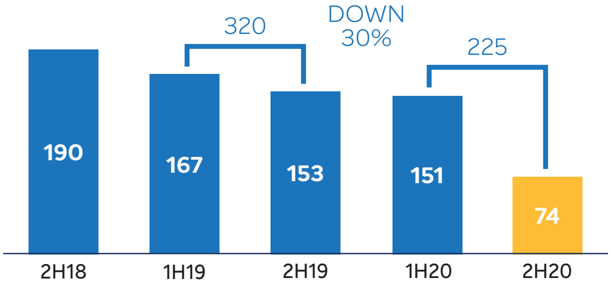
($ million)	**Cash earnings Aug-20**	VMA	Amortisation of acquisition fair value adjustments	Hedge ineffectiveness	Intangible asset review	Restructure	Regulatory / Compliance	Legacy items	**Statutory net profit Aug-20**
Net interest income	**986**	–	–	–	–	–	–	–	**986**
Non-interest income	**110**	18	–	(14)	–	–	–	–	**114**
Total income	**1,096**	18	–	(14)	–	–	–	–	**1,100**
Operating expenses	**(594)**	(18)	(5)	–	(81)	(32)	(7)	(15)	**(752)**
Underlying profit	**502**	–	(5)	(14)	(81)	(32)	(7)	(15)	**348**
Loan impairment expense	**(175)**	–	–	–	–	–	–	–	**(175)**
Profit before tax	**327**	–	(5)	(14)	(81)	(32)	(7)	(15)	**173**
Income tax expense	**(102)**	–	1	4	24	9	2	4	**(58)**
Profit after tax	225	–	(4)	(10)	(57)	(23)	(5)	(11)	115

FINANCIAL PERFORMANCE

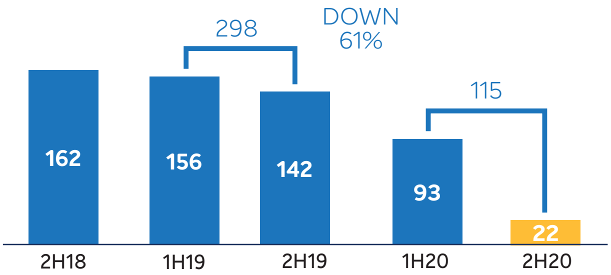
For the year ended 31 August 2020

1.2 FINANCIAL SUMMARY

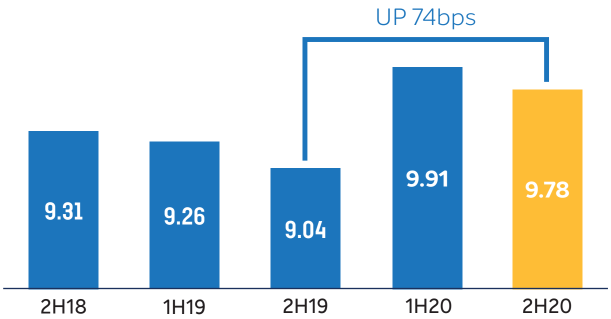
Cash earnings after tax ($m)



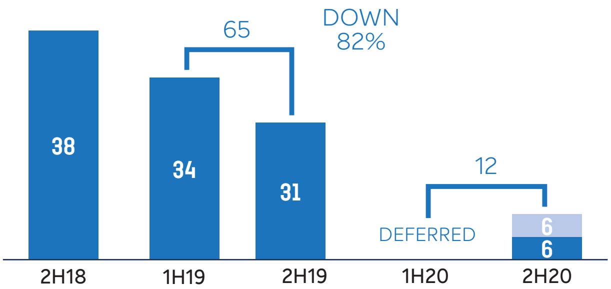
Statutory net profit after tax ($m)



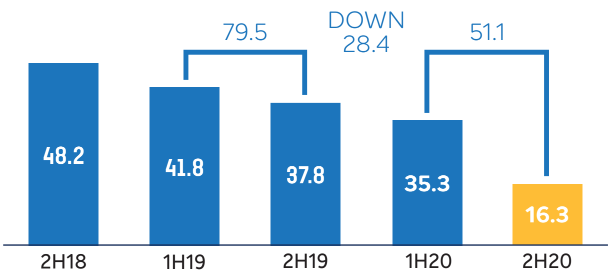
Common equity tier 1 (**CET1**) (%)



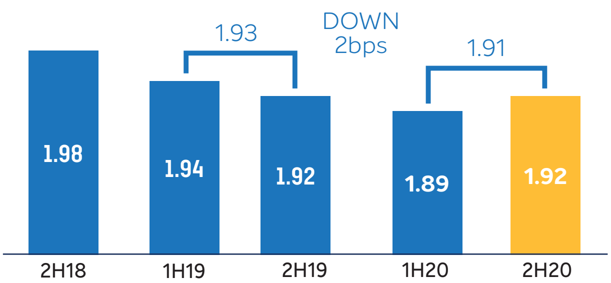
Dividends per ordinary share (cents) (1)



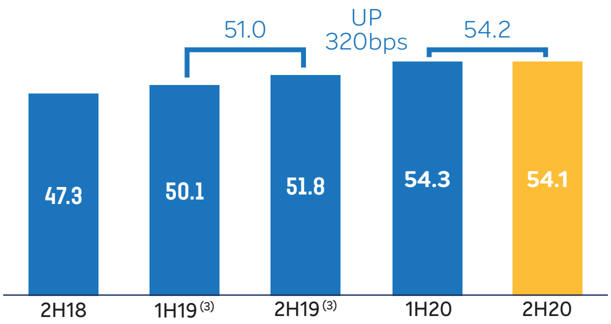
Cash basic earnings per share (**EPS**) (cents) (2)



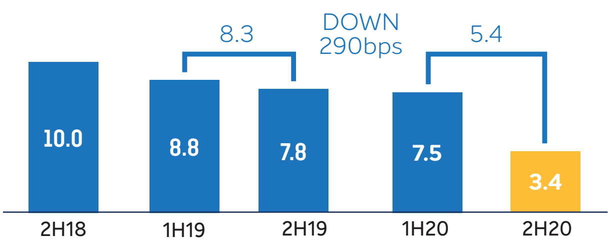
Cash net interest margin (**NIM**) (%)



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



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



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

(2) The sum of 1H20 and 2H20 EPS does not equal FY20 due to the impact of the capital raising and the uneven distribution of cash earnings after tax across the two halves of the year.

(3) Includes a $5 million prior period restatement of employee costs from loan impairment expense to operating expenses.

FINANCIAL PERFORMANCE

For the year ended 31 August 2020

1.2 FINANCIAL SUMMARY (CONTINUED)

CASH EARNINGS AFTER TAX

$225m

Down 30 per cent on FY19, primarily driven by the impact of COVID-19.

CASH NET INTEREST MARGIN

1.91%

Down by two basis points on FY19 driven by the impact of the lower interest rate environment on deposits and capital.

CASH OPERATING EXPENSES

$594m

Seven per cent increase from FY19, driven by investments in risk and regulatory programs and strategic technology projects.

LOAN IMPAIRMENT EXPENSE

$175m

Including $133 million collective provision for COVID-19.

CET1

9.78%

Increase of 74 basis points on FY19.

CASH ROE

5.4%

290 basis points reduction on FY19 primarily due to lower earnings.

As at the date of publishing this report, the novel coronavirus (**COVID-19**) pandemic has resulted in significant health, societal and economic impacts across the globe. This has been an evolving issue through the reporting period, and is reflected in an overlay within the collective provision, which appropriately reflects the facts and circumstances that existed at 31 August 2020. For more detailed assessments on the impacts of COVID-19, refer to the financial statements - Note 3.3 Loans and advances. BOQ's cash earnings after tax for FY20 was $225 million, 30 per cent below the FY19 result. Statutory net profit after tax was $115 million, a 61 per cent reduction on FY19. The reduction in earnings was the result of increased loan impairment expense, lower non-interest income and higher operating expenses. Statutory earnings were further impacted by restructuring expenses and costs associated with the intangible asset review.

NET INTEREST INCOME

Net interest income of $986 million increased by $25 million or three per cent on the prior year. This was driven by four per cent growth in average interest earning assets offset by a two basis point reduction in net interest margin to 1.91 per cent.

Gross loans and advances growth of two per cent was primarily achieved in the first half with more subdued lending growth in the second half due to the economic impact of COVID-19 and increasing competition. BOQ continued to grow home lending in niche segments through strong new business volumes while the business lending portfolio achieved positive growth compared to system.

While NIM declined two basis points compared to FY19, there was a three basis points increase in 2H20 driven by the benefit of loan repricing actions and lower hedging costs. These were partially offset by the impact of a low interest rate environment on the returns on capital and the low cost deposit portfolio.

NON-INTEREST INCOME

Non-interest income of $110 million decreased by 14 per cent on the prior year. This was a result of COVID-19, the ongoing shift in customer preference to low or no fee products, a new third party arrangement for BOQ's merchant offering and the sale of the debtor finance business in 2H19.

OPERATING EXPENSES

Total operating expenses of $594 million increased by $39 million or seven per cent on the prior year. This increase was driven by investments in risk and regulatory programs and strategic technology projects. Excluding these uplifts, underlying operating expenses were down approximately one per cent, including $30 million of productivity savings.

LOAN IMPAIRMENT EXPENSE

Loan impairment expense of $175 million increased 154 per cent on the prior year and loan impairment expense to GLAs increased by 22 basis points to 37 basis points. This included a collective provision overlay of $133 million in recognition of the impact of COVID-19 as at 31 August 2020. The provision was calculated based on the facts and circumstances existing at 31 August 2020 and forecasts of future economic conditions and supportable information that was available at that date. The provision contains significant management judgement.

CAPITAL MANAGEMENT

BOQ CET1 ratio of 9.78 per cent is unquestionably strong and BOQ remains well capitalised to withstand shocks from prevailing economic uncertainty. While this was a decrease of 13 basis points from 1H20, the deferral of the interim dividend payment ensured BOQ was able to absorb the negative impact from the increased COVID-19 overlay provision. At 9.78 per cent, there is an $89 million buffer above the upper end of the management target range of 9.0 per cent to 9.5 per cent and BOQ is well positioned going into FY21.

SHAREHOLDER RETURNS

On 7 April 2020, the Australian Prudential Regulation Authority (**APRA**) provided a letter to all authorised deposit-taking institutions (**ADIs**) and Insurers regarding capital management. APRA advised they expected that ADIs will defer dividend decisions until the outlook is clearer and robust stress testing results have been discussed with APRA. BOQ therefore determined at the time of 1H20 reporting, to defer the decision on payment of an interim dividend.

Further guidance was received on 29 July 2020 where APRA advised that banks and insurers should maintain caution in planning capital distributions. The guidance indicated that banks should seek to retain at least half of their earnings when making decisions on capital distributions (and utilise dividend reinvestment plans where possible), conduct regular stress testing, make use of capital buffers to absorb the impacts of stress and to continue to lend to support households and businesses.

BOQ has determined to pay a dividend of 12c, which represents 6c from 1H20 profits and 6c from 2H20 profits, which is 47.4 per cent of full year statutory earnings.

FINANCIAL PERFORMANCE

For the year ended 31 August 2020

2. GROUP PERFORMANCE ANALYSIS

2.1 INCOME STATEMENT AND KEY METRICS

	Year End Performance			Half Year Performance		
$ million	**Aug-20**	Aug-19	Aug-20 vs Aug-19	**Aug-20**	Feb-20	Aug-20 vs Feb-20
Net interest income	**986**	961	3%	**503**	483	4%
Non-interest income	**110**	128	(14%)	**52**	58	(10%)
Total income	**1,096**	1,089	1%	**555**	541	3%
Operating expenses [2]	**(594)**	(555)	7%	**(300)**	(294)	2%
Underlying profit	**502**	534	(6%)	**255**	247	3%
Loan impairment expense [2]	**(175)**	(69)	154%	**(147)**	(28)	425%
Profit before tax	**327**	465	(30%)	**108**	219	(51%)
Income tax expense	**(102)**	(145)	(30%)	**(34)**	(68)	(50%)
Cash earnings after tax	225	320	(30%)	74	151	(51%)
Statutory net profit after tax [1]	115	298	(61%)	22	93	(76%)

(1) Refer to Section 1.1 Reconciliation of statutory net profit to cash earnings after tax for a reconciliation of cash earnings to statutory net profit after tax.
(2) Includes a $5 million prior period restatement of employee costs from loan impairment expense to operating expenses.

		Year End Performance			Half Year Performance		
Key Metrics		**Aug-20**	Aug-19	Aug-20 vs Aug-19	**Aug-20**	Feb-20	Aug-20 vs Feb-20
SHAREHOLDER RETURNS							
Share price	($)	**6.13**	9.17	(33%)	**6.13**	7.49	(18%)
Market capitalisation	($ million)	**2,785**	3,721	(25%)	**2,785**	3,403	(18%)
Dividends per ordinary share (fully franked) [1]	(cents)	**12**	65	(82%)	**-**	-	-
CASH EARNINGS BASIS							
Basic earnings per share (**EPS**) [2] [3]	(cents)	**51.1**	79.5	(36%)	**16.3**	35.3	(54%)
Diluted EPS [2] [3]	(cents)	**46.3**	73.9	(38%)	**15.3**	32.2	(52%)
Dividend payout ratio [1]	(%)	**24.2**	82.4	(5820bps)	**-**	-	-
STATUTORY BASIS							
Basic EPS [2] [3]	(cents)	**26.2**	74.0	(65%)	**4.9**	21.7	(77%)
Diluted EPS [2] [3]	(cents)	**25.1**	69.1	(64%)	**5.4**	20.5	(74%)
Dividend payout ratio [1]	(%)	**47.4**	88.5	(4110bps)	**-**	-	-

(1) Based on APRA correspondence issued on 29 July 2020, BOQ has determined to pay a dividend which retains at least half of FY20 earnings. The dividend represents 6 cents per share from 1H20 profits and 6 cents per share from 2H20 profits. Due to the decision to defer the dividend in 1H20, no half year movement has been disclosed above.
(2) Comparatives for basic and diluted earnings per share have been adjusted for the effects of the institutional share placement and share purchase plan that occurred during the current financial period.
(3) The sum of 1H20 and 2H20 EPS does not equal FY20 due to the impact of the capital raising and the uneven distribution of cash earnings after tax across the two halves of the year.

FINANCIAL PERFORMANCE

For the year ended 31 August 2020

2.1 INCOME STATEMENT AND KEY METRICS (CONTINUED)

		Year End Performance			Half Year Performance		
Key Metrics		**Aug-20**	Aug-19	Aug-20 vs Aug-19	**Aug-20**	Feb-20	Aug-20 vs Feb-20
PROFITABILITY AND EFFICIENCY MEASURES							
CASH EARNINGS BASIS							
Net profit after tax	($ million)	**225**	320	(30%)	**74**	151	(51%)
Underlying profit (1) (2)	($ million)	**502**	534	(6%)	**255**	247	3%
NIM (3)	(%)	**1.91**	1.93	(2bps)	**1.92**	1.89	3bps
Cost to income ratio (**CTI**) (2)	(%)	**54.2**	51.0	320bps	**54.1**	54.3	(20bps)
Loan impairment expense to gross loans and advances (**GLA**) (2)	(bps)	**37**	15	22bps	**62**	12	50bps
Return on average equity (**ROE**)	(%)	**5.4**	8.3	(290bps)	**3.4**	7.5	(410bps)
Return on average tangible equity (**ROTE**) (4)	(%)	**6.9**	10.8	(390bps)	**4.3**	9.8	(550bps)
STATUTORY BASIS							
Net profit after tax	($ million)	**115**	298	(61%)	**22**	93	(76%)
Underlying profit (1) (2)	($ million)	**348**	504	(31%)	**180**	165	7%
NIM (3)	(%)	**1.91**	1.93	(2bps)	**1.92**	1.89	3bps
CTI (2)	(%)	**68.4**	54.0	1440bps	**67.1**	69.7	(260bps)
Loan impairment expense to GLA (2)	(bps)	**37**	15	22bps	**62**	12	50bps
ROE	(%)	**2.8**	7.7	(490bps)	**1.0**	4.6	(360bps)
ROTE (4)	(%)	**3.6**	10.1	(650bps)	**1.3**	6.0	(470bps)
ASSET QUALITY							
30 days past due (**dpd**) arrears	($ million)	**567**	499	14%	**567**	525	8%
90dpd arrears	($ million)	**433**	312	39%	**433**	291	49%
Impaired assets	($ million)	**195**	197	(1%)	**195**	196	(1%)
Specific provisions to impaired assets	(%)	**48**	43	500bps	**48**	43	500bps
Total provision and general reserve for credit losses (**GRCL**) coverage / GLA	(%)	**98**	70	28bps	**98**	69	29bps
CAPITAL							
CET1 ratio	(%)	**9.78**	9.04	74bps	**9.78**	9.91	(13bps)
Total capital adequacy ratio	(%)	**12.73**	12.40	33bps	**12.73**	13.21	(48bps)
Risk weighted assets (**RWA**)	($ million)	**31,576**	30,533	3%	**31,576**	31,164	1%

(1) Profit before loan impairment expense and tax.
(2) Includes a $5 million prior period restatement of employee costs from loan impairment expense to operating expenses.
(3) NIM net of offset accounts.
(4) Based on after tax earnings applied to average shareholders' equity (excluding preference shares and treasury shares) less goodwill and identifiable intangible assets (customer related intangibles/brands and computer software).

FINANCIAL PERFORMANCE

For the year ended 31 August 2020

2.2 NET INTEREST INCOME

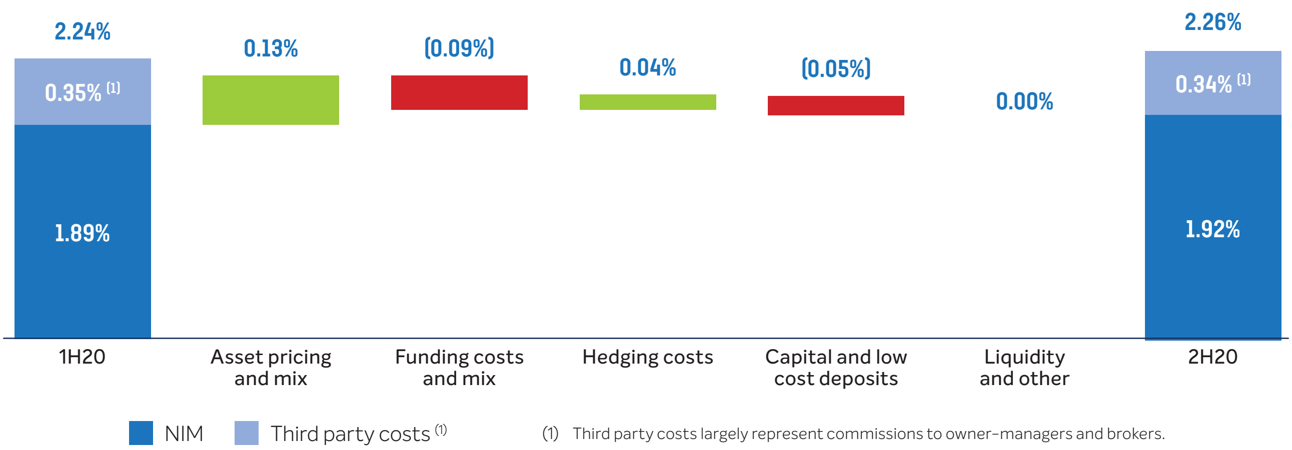
	Year End Performance			Half Year Performance		
$ million	Aug-20	Aug-19	Aug-20 vs Aug-19	Aug-20	Feb-20	Aug-20 vs Feb-20
Net interest income	986	961	3%	503	483	4%
Average interest earning assets	51,763	49,842	4%	51,926	51,407	1%
NIM	1.91	1.93	(2bps)	1.92	1.89	3bps

Net interest income increased by $25 million or three per cent in FY20 compared to FY19 driven by four per cent growth in average interest earnings assets and one extra day due to a leap year which added $2.6 million, partly offset by a two basis points decrease in NIM.

2H20 net interest income increased $20 million or four per cent on 1H20 driven by one per cent growth in average interest earnings assets, a three basis points increase in NIM and two extra days which added $5 million.

NIM increased by three basis points in the second half driven by the benefit of loan repricing actions following the RBA rate cuts in October 2019 and March 2020 combined with improved basis hedging costs. These were partially offset by intense competition for new lending and the impact of a low interest rate environment on the returns on capital and the low cost deposit portfolio.

Net interest margin - February 2020 to August 2020



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

NIM increased by three basis points on the prior half to 1.92 per cent. The key drivers of the movement are set out below.

Asset pricing and mix: Improved margin 13 basis points primarily due to not fully passing on the RBA cuts in the period to variable housing loans (12 basis points). Improved margins on fixed housing, asset finance and commercial loans and GLA mix also benefitted margin. Partially offsetting this was competition for new housing and commercial lending via more attractive front book rates and retention discounting.

Funding costs and mix: Reduced margin nine basis points primarily as a result of the delay in not fully passing on the RBA cuts to deposits over the period and the initial lag in term deposit pricing in both retail and middle markets to respond to reductions in short term rates. Margin benefitted by one basis point due to the utilisation of the Term Funding Facility which was only partially drawn down in the period.

Hedging costs: Improved margin four basis points due to lower basis costs as cash-bills spreads decreased from an average of 24 basis points to 17 points in 2H20 as well as one-off benefits from the actual overnight cash rate falling below the target RBA cash rate.

Capital and low cost deposits: A continued reduction in short and long term interest rates impacted the $4.5 billion replicating portfolio (covering BOQ's capital and invested low cost deposits), un-invested capital and low cost deposits, causing a five basis point reduction and offsetting the benefit of higher capital balances following a capital issuance in 1H20.

Liquidity and other: Third party cost reductions driven by lower payments to owner-managers relative to 1H20 following the implementation of the new scorecard, as well as higher loan break costs combined to account for a one basis point increase in NIM. This was offset by higher average liquidity balances as BOQ experienced strong retail deposit growth during the period.

FINANCIAL PERFORMANCE

For the year ended 31 August 2020

2.3 NON-INTEREST INCOME

	Year End Performance			Half Year Performance		
$ million	**Aug-20**	Aug-19	Aug-20 vs Aug-19	**Aug-20**	Feb-20	Aug-20 vs Feb-20
Banking income	**69**	82	(16%)	**33**	36	(8%)
Insurance income	**11**	11	-	**5**	6	(17%)
Other income (1)	**25**	30	(17%)	**11**	14	(21%)
Trading income	**5**	5	-	**3**	2	50%
Total non-interest income (2)	110	128	(14%)	52	58	(10%)

(1) VMA third party income and costs are included in other income as a net result.
(2) Refer to Section 1.1 (B) Non-cash earnings reconciling items for a reconciliation of cash non-interest income to statutory non-interest income.

Non-interest income of $110 million reduced $18 million or 14 per cent on FY19, which primarily reflected the impact of COVID-19 and the ongoing shift in customer preference to low or no fee products.

Banking income was $13 million or 16 per cent lower than in FY19. The reduction in banking income was largely due to the sale of the debtor finance book in 2H19, the loss of merchant terminal income following transition to a third party arrangement and COVID-19 impacts. COVID-19 impacts included reduced transaction and dishonor fee income, removal of certain fee charges and reduced transaction volumes.

Other income decreased $5 million or 17 per cent during FY20. The decrease was mainly due to a reduction in VMA third party product distribution income. COVID-19 has seen the business pause third party Velocity aligned offers as well as the distribution of travel insurance.

Trading income of $5 million was supported by active management of credit and interest rate exposure allowing BOQ to benefit from contracting credit spreads as market liquidity conditions improved following the initial COVID-19 impact.

Insurance income is discussed in detail in Section 2.4 below.

2.4 INSURANCE OVERVIEW

	Year End Performance			Half Year Performance		
$ million	**Aug-20**	Aug-19	Aug-20 vs Aug-19	**Aug-20**	Feb-20	Aug-20 vs Feb-20
Gross written premium (net of refunds)	**49**	60	(18%)	**24**	25	(4%)
Net earned premium	**50**	55	(9%)	**24**	26	(8%)
Underwriting result	**9**	8	13%	**4**	5	(20%)
Other insurance income	**1**	3	(67%)	**-**	1	(100%)
Total income	**10**	11	(9%)	**4**	6	(33%)
Consolidation adjustment	**1**	-	100%	**1**	-	100%
Group insurance result	11	11	-	5	6	(17%)

St Andrew's contributed $11 million to non-interest income in FY20, in line with FY19. Gross written premium (net of refunds) declined $11 million due to St. Andrew's materially closing to new business in 1H20. The underwriting result is $1 million higher compared to prior year with reduced net earned premium offset by reduced commission, claims and acquisition costs. Other insurance income was impacted by reduced yields on term deposits and reduced account management fees for services which ceased in 1H20.

The 2H20 underwriting result reduced due to the impact of higher current and projected claim costs, particularly unemployment claims arising from customers impacted by COVID-19. The impacts of COVID-19 have been partly mitigated with St Andrew's materially closing to new business in FY20. Services and the interests of existing policyholders remain a priority for BOQ.

FINANCIAL PERFORMANCE

For the year ended 31 August 2020

2.5 OPERATING EXPENSES

	Year End Performance			Half Year Performance		
$ million	**Aug-20**	Aug-19	Aug-20 vs Aug-19	**Aug-20**	Feb-20	Aug-20 vs Feb-20
Salaries and on costs	**269**	255	5%	**134**	135	(1%)
Employee share programs	**9**	8	13%	**5**	4	25%
Other	**5**	6	(17%)	**2**	3	(33%)
EMPLOYEE EXPENSES (1)	**283**	269	5%	**141**	142	(1%)
Data Processing	**117**	84	39%	**60**	57	5%
Amortisation - intangible assets	**39**	40	(3%)	**21**	18	17%
Depreciation - fixed assets	**1**	1	-	**1**	-	100%
TECHNOLOGY EXPENSES	**157**	125	26%	**82**	75	9%
Marketing	**17**	16	6%	**9**	8	13%
Commissions to owner-managed branches (**OMB**)	**5**	5	-	**3**	2	50%
Communications, print and stationery	**20**	22	(9%)	**9**	11	(18%)
Processing costs	**13**	15	(13%)	**7**	6	17%
Other	**28**	33	(15%)	**14**	14	-
OPERATIONAL EXPENSES	**83**	91	(9%)	**42**	41	2%
Depreciation - right-of-use assets and lease expenses (2)	**27**	30	(10%)	**14**	13	8%
Depreciation - fixed assets	**10**	10	-	**5**	5	-
Other	**2**	2	-	**1**	1	-
OCCUPANCY EXPENSES	**39**	42	(7%)	**20**	19	5%
Professional fees	**21**	18	17%	**9**	12	(25%)
Directors' fees	**2**	2	-	**1**	1	-
Other	**9**	8	13%	**5**	4	25%
ADMINISTRATION EXPENSES	**32**	28	14%	**15**	17	(12%)
Total operating expenses (1) (3) (4)	594	555	7%	300	294	2%
CTI (1)	**54.2**	51.0	320bps	**54.1**	54.3	(20bps)
Number of employees full time equivalent (**FTE**) (4)	**2,021**	2,091	(3%)	**2,021**	2,013	-

(1) Includes a $5 million prior period restatement of employee costs from loan impairment expense to operating expenses.
(2) FY20 reflects the impact of the implementation of AASB16, prior period has not been restated. Prior period reflected lease expenses.
(3) Refer to Section 1.1 (B) Non-cash earnings reconciling items for a reconciliation of cash operating expenses to statutory operating expenses.
(4) FTE numbers and operating expenses exclude VMA third party costs as the net result is included in non-interest income. Expenses relating to the VMA mortgage offering have been included in the above table.

SUMMARY

Total operating expenses of $594 million for FY20 increased by $39 million or seven per cent on the prior year. This increase was driven by investments in risk and regulatory programs and strategic technology projects. Excluding these uplifts, underlying operating expenses were down approximately one per cent, including $30 million of productivity savings.

EMPLOYEE EXPENSES

Employee expenses of $283 million for FY20 increased by $14 million or five per cent on the prior year largely due to investments in risk and regulatory programs and strategic technology projects. Expenses in 2H20 decreased $1 million or one per cent on the prior half reflecting those investments being offset by lower short term incentives and annual leave provisions as mitigation for the impacts of COVID-19, together with lower average FTEs as a result of restructures in the prior half.

FTEs at 31 August 2020 decreased by three per cent on the prior year primarily as a result of restructures. Excluding short term COVID-19 employees and the conversion of contractors to permanent employees, the reduction is five per cent.

TECHNOLOGY EXPENSES

Technology expenses of $157 million for FY20 increased by $32 million or 26 per cent on the prior year. The increase was mainly driven by investments in systems to comply with regulatory obligations including anti-money laundering, technology infrastructure, including costs associated with the transition of data centres as part of BOQ's infrastructure modernisation program, and in new technology services to support BOQ's transformation program.

Amortisation expense of $39 million for FY20 decreased by $1 million or three per cent on the prior year. This was mainly driven by a reduction in amortisation due to the intangible asset review outlined in Section 1.1. The reduction was partly offset by higher amortisation as a consequence of capital investment to deliver BOQ's transformation program.

ADMINISTRATION EXPENSES

Administration expenses of $32 million for FY20 increased by $4 million or 14 per cent on the prior year. This was primarily driven by the costs of external support for risk and regulatory projects and COVID-19-related modelling and an increase in group insurance costs.

FINANCIAL PERFORMANCE

For the year ended 31 August 2020

2.5 OPERATING EXPENSES (CONTINUED)

OPERATIONAL EXPENSES

Operational expenses of $83 million for FY20 decreased by $8 million or nine per cent on the prior year. The primary drivers were non-recurrence of impairment expenses relating to intangibles which occurred in FY19, lower discretionary expenditure as a result of COVID-19, including travel and entertainment, lower communication costs due to benefits from loyalty credits and lower processing costs as a result of declining ATM transaction volumes. These were partly offset by additional consumable and cleaning costs associated with COVID-19.

OCCUPANCY EXPENSES

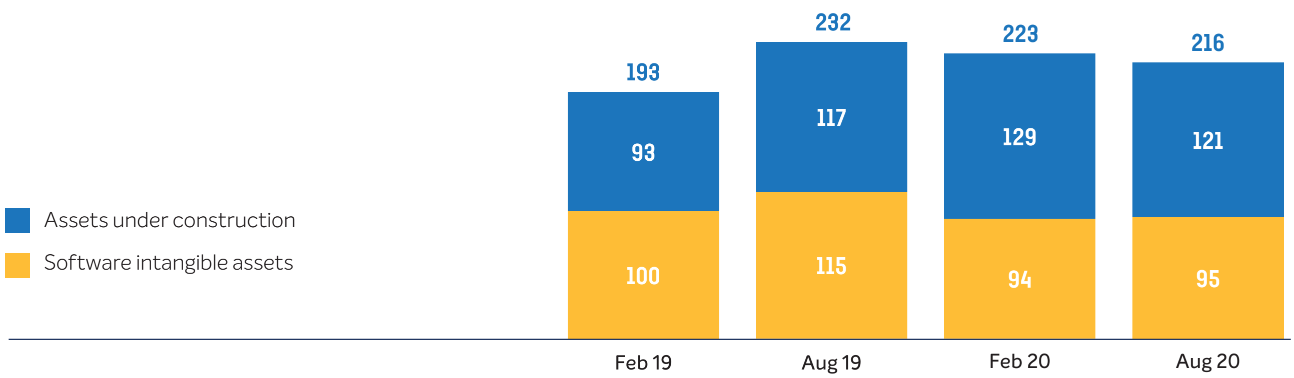
Occupancy expenses of $39 million for FY20 decreased by $3 million or seven per cent on the prior year. Occupancy expenses benefitted from the implementation of AASB 16 from 1 September 2019 with depreciation on the right-of-use asset and interest expense on the lease liability replacing the straight line lease expense.

2.6 CAPITALISED INVESTMENT EXPENDITURE

BOQ's comprehensive digital transformation plan includes investment in modernising the existing core infrastructure through migrating key data centres along with building a next generation core platform through Virgin Money Australia in order to provide an enhanced customer experience. Phase 1 is on track, delivering transaction accounts, savings accounts and credit cards, while Phase 2 will commence shortly expanding the Virgin Money Australia offering to include term deposits and lending.

In 1H20 the carrying value of intangible assets reduced following a change in the minimum threshold for the capitalisation of intangible expenses and the amortisation acceleration and impairment of assets impacted by BOQ's revised strategy. 2H20 further reduced with investment being offset by impairment charges resulting from the acceleration of the digital transformation strategy.

Carrying value of IT intangible assets ($m)



2.7 LENDING

Gross loans and advances growth of two per cent was achieved during a year characterised by subdued lending growth due to the economic impact of COVID-19. BOQ continued to grow home lending in the niche segments of BOQ Specialist and Virgin Money Australia through strong new business volumes. Commercial lending also maintained moderate growth despite a challenging environment for small business clients, particularly in the second half.

	As at				
$ million	Aug-20	Feb-20	Aug-19	Aug-20 vs Feb-20 (1)	Aug-20 vs Aug-19
Housing lending	**28,891**	28,555	27,702	2%	4%
Housing lending – APS 120 qualifying securitisation (2)	**2,264**	2,599	2,945	(26%)	(23%)
	31,155	31,154	30,647	-	2%
Commercial lending	**10,345**	10,240	10,008	2%	3%
BOQ Finance	**5,270**	5,295	5,262	(1%)	-
Consumer	**273**	309	299	(23%)	(9%)
Gross loans and advances	47,043	46,998	46,216	-	2%
Provision for impairment	**(369)**	(235)	(233)	113%	58%
Net loans and advances	46,674	46,763	45,983	-	2%

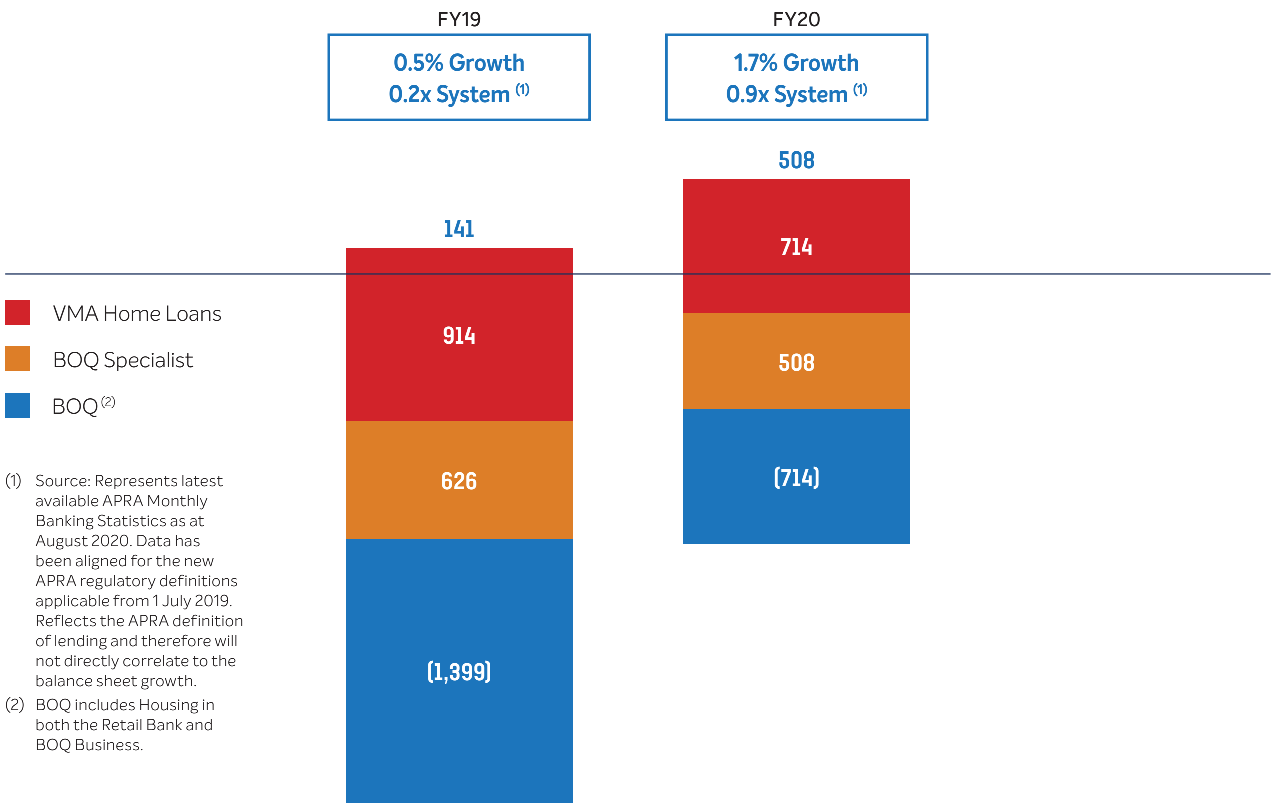
(1) Growth rates have been annualised.
(2) Securitised loans subject to capital relief under APRA Prudential Standard APS 120 Securitisation (**APS 120**).

FINANCIAL PERFORMANCE

For the year ended 31 August 2020

2.7 LENDING (CONTINUED)

Growth in housing gross loans & advances ($m)



(1) Source: Represents latest available APRA Monthly Banking Statistics as at August 2020. Data has been aligned for the new APRA regulatory definitions applicable from 1 July 2019. Reflects the APRA definition of lending and therefore will not directly correlate to the balance sheet growth.

(2) BOQ includes Housing in both the Retail Bank and BOQ Business.

HOUSING

The BOQ housing portfolio increased $0.5 billion or two per cent on prior year. FY20 was characterised by a positive first half growth profile, which flattened in the second half due to the impacts of COVID-19 and increasing competition. BOQ exited the year with strong momentum, with settlement volumes up 19 per cent on prior year, partially offset by increased customer pay downs following interest rate reductions, government support measures and a maturing VMA housing portfolio. The solid performance is underpinned by the execution of a Retail Banking strategy which included mortgage process simplification, improved retail banking and lending capability, a new franchise agreement and quality third party broker relationships.

The Virgin Money Australia mortgage portfolio continued to deliver strong growth, up $0.7 billion or 28 per cent on prior year, taking the portfolio to over $3.2 billion. The Virgin Money Australia brand is a globally recognised brand, which appeals to a different customer segment group to that of the proprietary channels. It tends to attract a more tech-savvy customer base and contributes to the Bank's geographical diversification by targeting metropolitan-based customers across Australia. Virgin Money Australia is leading the digital transformation across the BOQ Group.

BOQ Specialist mortgages grew by $0.5 billion or 10 per cent in FY20. Settlement volumes slowed in the second half as the business focused on managing client requests for COVID-19 related repayment holidays and housing markets in most states slowed. BOQ Specialist continues to deliver above system growth by focusing on building relationships with professionals in the early stages of their careers. The mortgage offering also creates future opportunities to meet the commercial lending needs of the targeted health professional market segments into the future stages of their career progression.

The BOQ blue portfolio reduced $0.7 billion on prior year, largely driven by a decline in the BOQ branch network ($0.8 billion) and Private Bank ($0.1 billion), partly offset by growth in the broker channel of $0.2 billion or five per cent.

Growth in the broker channel reflected a focus on quality third party partnerships, competitive pricing, consistency in credit decisions and improved processing times and retention rates. These contributed to monthly settlements volumes growing 30 per cent on the prior year. The broker portal, released in 2H20, will deliver further pricing and credit transparency whilst also providing the foundation for process automation in FY21.

The rate of decline in the BOQ branch portfolio slowed substantially from the prior year as a direct result of improvements delivered across the owner-managed and corporate network. The owner-managed network benefited from a revised franchise agreement, which better incentivises home lending growth, whilst a strategic focus on expanding the BOQ unique owner-manager model has yielded three new conversions in FY20. A strong pipeline of potential conversions will continue to drive expansion of this network. Corporate branches have been aided by the rollout of the new lender training program, focussed on uplifting front line capability, whilst mortgage processes have been simplified and are more efficient as a result of the improvements delivered through the home buying transformation program.

FINANCIAL PERFORMANCE

For the year ended 31 August 2020

2.7 LENDING (CONTINUED)

BUSINESS LENDING

Commercial lending and asset finance increased $345 million or three per cent in FY20, a positive result compared to system. Growth was achieved in BOQ, BOQ Specialist and BOQ Finance portfolios in 1H20, with slowing momentum in 2H20 due to the impacts of COVID-19 and economic uncertainty.

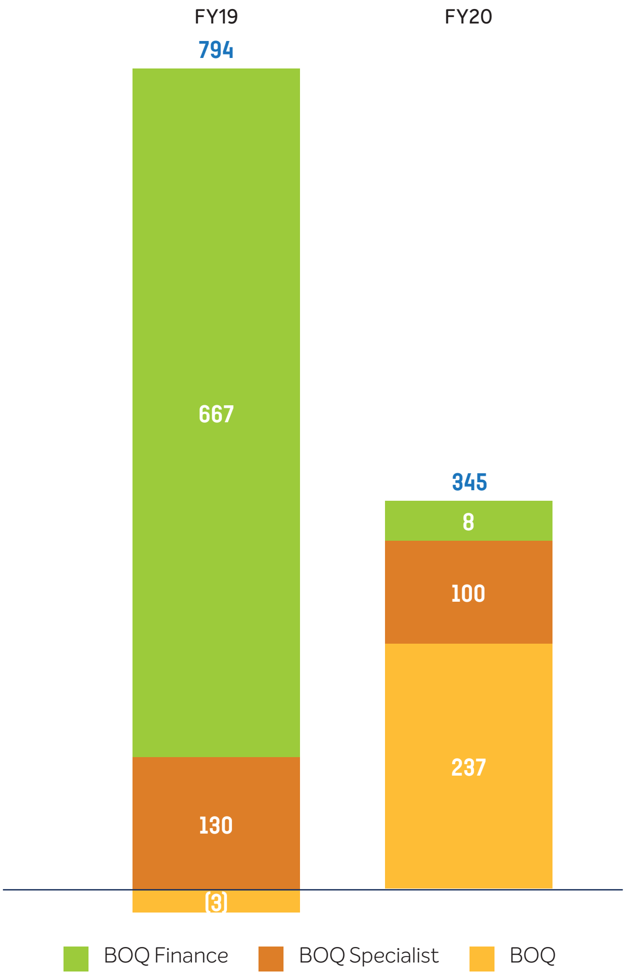
Settlement activity in Corporate and Small Business increased 16 per cent on prior year in the BOQ portfolio resulting in $237 million or three per cent growth. The small business lending portfolio decreased slightly however second half run off was at the lowest level in two years, underpinned by improved lender support and capability through the branches as part of the small business strategy. This was offset by growth in the corporate lending portfolio driven by strong first half settlements.

Agribusiness lending increased by $86 million or 14 per cent as environmental conditions improved, particularly in the second half of the year. Corporate healthcare and the hospitality and tourism industry have been impacted by COVID-19 lock down restrictions and the business has focussed on supporting customers for long term financial stability.

The BOQ Specialist commercial lending portfolio grew $100 million or three per cent in FY20. Momentum slowed in the second half due to COVID-19 restrictions on elective surgery and dentistry. The BOQ Specialist brand offers bespoke solutions to medical, dental and veterinary professionals, which results in building deeper customer relationships from graduation through to retirement and increasing the diversity of both the home lending and business lending portfolios.

BOQ Finance asset growth of $8 million was flat but represented above system growth as the market contracted. FY20 growth was down significantly on the prior year, which experienced unusually high growth levels due to the introduction of new programs and competitive pricing. The Equipment Finance portfolio grew $120 million in FY20 underpinned by Agribusiness growth of $46 million or eight per cent. This was offset by a contraction in the specialised areas of Vendor and Dealer Finance. The second half focus has been on supporting clients requiring repayment deferrals as settlement activity remained flat.

Growth in Commercial lending and asset finance ($m)



	FY19		FY20	
	Commercial (1)	BOQ Finance	Commercial (1)	BOQ Finance
Growth rate	1.3%	14.5%	3.4%	0.2%
System growth (2)(3)	2.6%	3.2%	(0.2%)	(0.9%)
Growth vs system	1.2x	4.5x	Positive	Positive

(1) Includes BOQ Specialist and BOQ.

(2) Commercial system growth represents latest available APRA Monthly Banking Statistics as at August 2020. Data has been aligned for the new APRA regulatory definitions applicable from 1 July 2019. Reflects the APRA definition of lending and therefore will not directly correlate to the balance sheet growth.

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

FINANCIAL PERFORMANCE

For the year ended 31 August 2020

2.8 CUSTOMER DEPOSITS

	As at				
$ billion	Aug-20	Feb-20	Aug-19	Aug-20 vs Feb-20 (2)	Aug-20 vs Aug-19
Term deposits	15.1	15.1	16.2	-	(7%)
Savings and investment accounts	13.3	11.8	11.2	25%	19%
Transaction accounts	3.5	2.8	2.7	50%	30%
Sub-total	31.9	29.7	30.1	15%	6%
Mortgage offsets (1)	2.8	2.6	2.3	15%	22%
Total	34.7	32.3	32.4	15%	7%
Deposit to loan ratio	74%	69%	70%	5%	4%

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

CUSTOMER DEPOSITS

Customer deposits of $34.7 billion increased $2.3 billion or seven per cent on the prior year. The growth, which was primarily in the second half of the year, reflected economic uncertainty and government stimulus payments associated with COVID-19 but was also consistent with the Bank's strategy to increase stable sources of funding.

The Retail Bank remains the primary source of customer deposits with the majority of deposits and the growth in FY20 being generated through the branch network. The majority of inflows have been through savings and investment accounts, particularly the Retail Fast Track product. This was partially offset by a managed rundown of high cost term deposits.

This has strengthened the Bank's liquidity position with the deposit to loan ratio increasing to 74 per cent from 70 per cent in the prior year.

TERM DEPOSITS

Term deposits reduced $1.1 billion or seven per cent on the prior year due to managed pricing actions to control liquidity and reduce the cost of funds in the low margin environment and changes in customer preferences towards call accounts over term deposits. This has resulted in term deposits reducing from 50 per cent of the total portfolio to 43 per cent.

SAVINGS AND INVESTMENT ACCOUNTS

Savings and investment accounts increased $2.1 billion or 19 per cent on the prior year. Both retail and commercial accounts achieved 19 per cent growth, benefitting from elevated flows associated with COVID-19.

The Fast Track savings product, which was originally released to market in December 2018, achieved annual growth of over 70 per cent and accounted for 60 per cent of growth in retail savings and investment accounts. Since its launch, this product has successfully resulted in an uplift in growth within the youth and key target customer segments.

TRANSACTION ACCOUNTS AND MORTGAGE OFFSETS

Transaction accounts and mortgage offsets increased by $0.8 billion and $0.5 billion on the prior year respectively. The majority of this growth was recorded in the second half of the year, mainly as a result of elevated flows associated with COVID-19 government stimulus payments to both small businesses and individuals.

FINANCIAL PERFORMANCE

For the year ended 31 August 2020

3. BUSINESS SETTINGS

3.1 ASSET QUALITY

		Full Year Performance			Half Year Performance		
		Aug-20	Aug-19	Aug-20 vs Aug-19	**Aug-20**	Feb-20	Aug-20 vs Feb-20
Loan impairment expense [(1)]	($ million)	**175**	69	154%	**147**	28	425%
Loan impairment expense / GLA	bps	**37**	15	22bps	**62**	12	50bps
Impaired assets	($ million)	**195**	197	(1%)	**195**	196	(1%)
30dpd arrears	($ million)	**567**	499	14%	**567**	525	8%
90dpd arrears	($ million)	**433**	312	39%	**433**	291	49%
Total provision and GRCL / GLA	bps	**98**	70	28bps	**98**	69	29bps

(1) Includes a $5 million prior period restatement of employee costs from loan impairment expense to operating expenses.

BOQ Group's total provision and GRCL coverage on GLAs increased by 28 basis points year on year driven by the $133 million overlay raised in response to the impacts of the COVID-19 pandemic as at 31 August 2020.

The loan impairment expense of $175 million for the year, or 37 basis points of GLA, increased by $106 million, driven by the $133 million COVID-19 collective provision overlay.

Arrears increased in both the 30 day and 90 day categories by $68 million and $121 million respectively on FY19. The increases were mainly driven by the Retail and BOQS portfolios due to current economic conditions.

LOAN IMPAIRMENT EXPENSE

	Full Year Performance				Half Year Performance			
	Aug-20		Aug-19		**Aug-20**		Feb-20	
	Expense ($m)	**Expense/ GLA (bps)**	Expense ($m)	Expense/ GLA (bps)	**Expense ($m)**	**Expense/ GLA (bps)**	Expense ($m)	Expense/ GLA (bps)
Retail lending	**61**	**19**	16	5	**52**	**33**	9	6
Commercial lending	**57**	**55**	21	21	**53**	**102**	4	8
BOQ Finance	**57**	**108**	32	61	**42**	**159**	15	57
Total loan impairment expense[(1)]	175	37	69	15	147	62	28	12

(1) Includes a $5 million prior period restatement of employee costs from loan impairment expense to operating expenses.

The loan impairment expense of $175 million for the year increased by $106 million, driven by the $133 million COVID-19 collective provision overlay. Specific provision impairment expense for FY20 was in line with the FY19 expense at $47 million.

Retail, Commercial and BOQ Finance all saw increases in their loan impairment expenses of $45 million (14 basis points), $36 million (34 basis points) and $25 million (47 basis points) respectively. The COVID-19 collective provision overlay was the key driver of the increases across the portfolios.

Specific provision expenses were fairly stable across Retail and Commercial with a combined increase of $1 million over the year, offset by a decrease of $1 million in the BOQ Finance specific provision expense.

Low specific provisioning is due to reduced collection and asset realisation activities in support of customers during COVID-19 and customers being on the Banking Relief Package.

FINANCIAL PERFORMANCE

For the year ended 31 August 2020

3.1 ASSET QUALITY (CONTINUED)

IMPAIRED ASSETS

$ million	As at Aug-20	Feb-20	Aug-19	Aug-20 vs Feb-20	Aug-20 vs Aug-19
Retail lending	71	74	73	(4%)	(3%)
Commercial lending	90	94	98	(4%)	(8%)
BOQ Finance	34	28	26	21%	31%
Total impaired assets	195	196	197	(1%)	(1%)
Impaired assets / GLA	41bps	42bps	43bps	(1bps)	(2bps)

Total impaired assets decreased by $2 million, down one per cent on FY19 and decreased by $1 million, down one percent from 2H20. This was driven by a number of large realisations in Retail and Commercial, offset by large new impairments in BOQ Finance.

Retail impaired assets decreased by $3 million (four per cent) from 1H20 driven by the realisations outstripping new and increased impaired assets in 2H20 and over FY20.

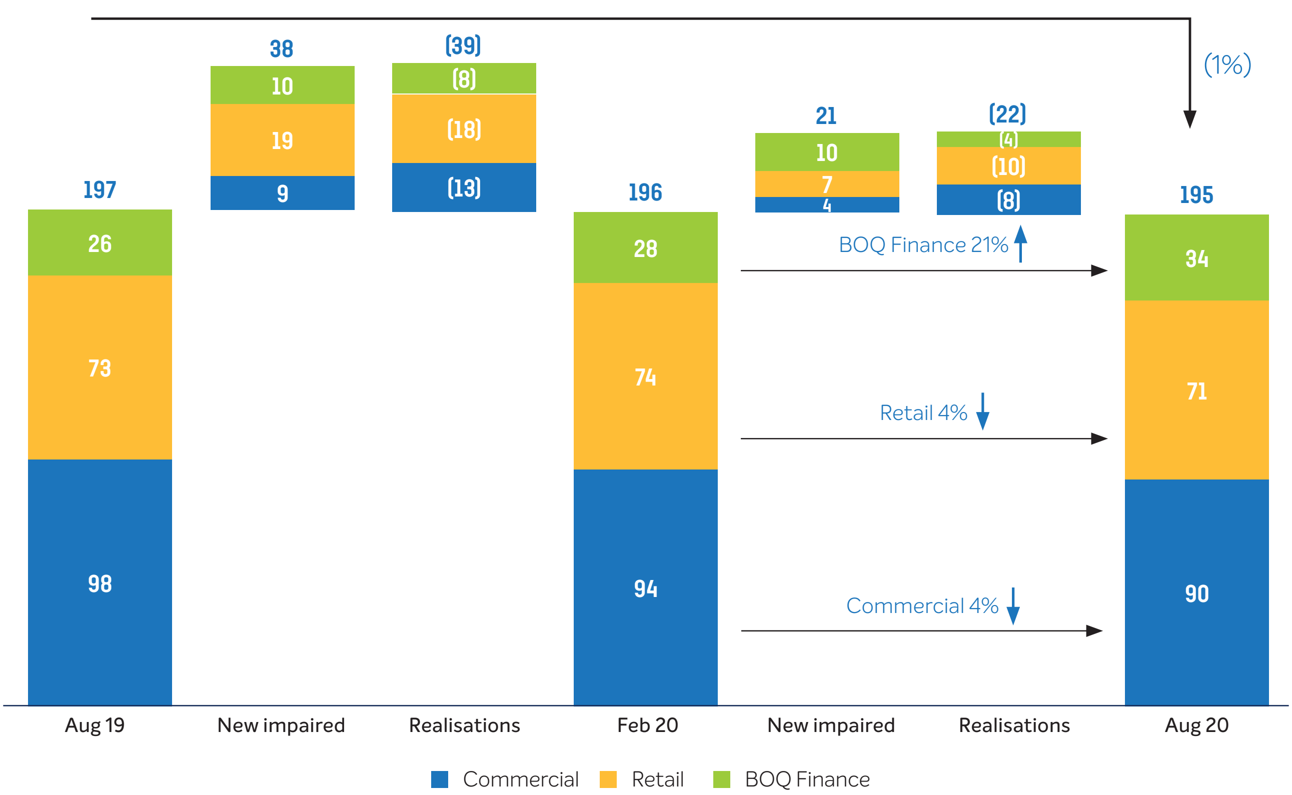
The Commercial portfolio decreased by $4 million (four per cent) from 1H20, largely due to the realisation of large facilities being replaced by lower value facilities over 1H20 and FY20.

BOQ Finance impaired assets increased by $8 million (31 per cent) over FY20, with $6 million coming from 2H20. This uplift was driven by two new exposures totalling $4 million.

BOQ Group holds five exposures with impaired balances greater than $5 million for a combined total of $54 million. Two of these exposures, greater than $10 million ($39 million combined), remained unchanged from 1H20.

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

Impaired assets ($m)



FINANCIAL PERFORMANCE

For the year ended 31 August 2020

3.1 ASSET QUALITY (CONTINUED)

PROVISION COVERAGE

$ million	Full Year performance Aug-20	Aug-19	Aug-20 vs Aug-19	Half Year Performance Aug-20	Feb 20	Aug-20 vs Feb-20
Specific provision	94	85	11%	94	85	11%
Collective provision	275	148	86%	275	150	83%
Total provisions	**369**	233	58%	**369**	235	57%
GRCL	64	62	3%	64	64	–
Specific provisions to impaired assets	48%	43%	500bps	48%	43%	500bps
Total provisions and GRCL coverage / impaired assets (1)	236%	163%	7300bps	236%	166%	7000bps
Total provisions and GRCL coverage / GLA (1)	98bps	70bps	28bps	98bps	69bps	29bps

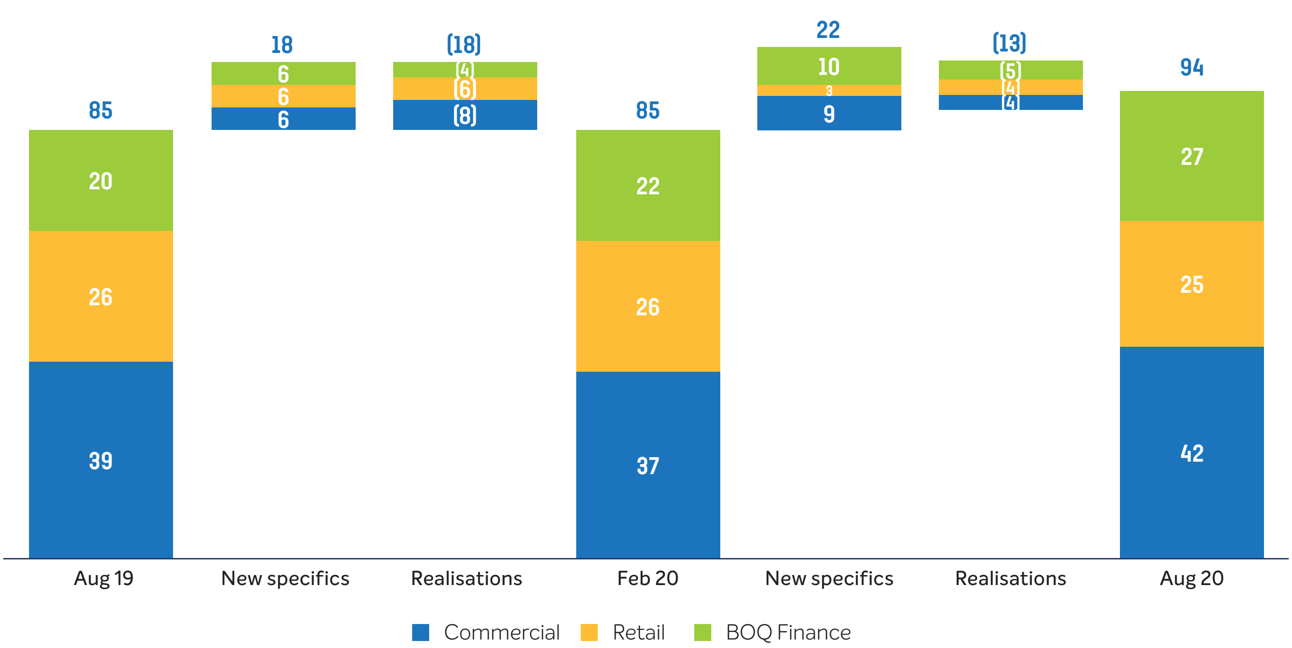
(1) GRCL gross of tax effect.

Total provisions increased by $136 million or 58 per cent to $369 million during FY20. The increase was primarily due to the $133 million COVID-19 collective provision overlay to account for the anticipated future economic loss as a result of the pandemic.

Specific provision increased by $9 million (11 per cent) taking coverage of impaired assets up to 48 per cent.

As a result of the increased collective and specific provisions, total provision coverage has increased 70 percentage points over the half, while GRCL remained stable from FY19.

Specific provisions ($m)



FINANCIAL PERFORMANCE

For the year ended 31 August 2020

3.1 ASSET QUALITY (CONTINUED)

ARREARS

Key Metrics	Portfolio Balance ($m) BOQ Group	Aug-20	Feb-20	Aug-19	Aug-20 vs Feb-20	Aug-20 vs Aug-19
Total lending - portfolio balance ($ million)		47,043	46,998	46,216	-	2%
30 days past due ($ million)		567	525	499	8%	14%
90 days past due ($ million)		433	291	312	49%	39%
		Proportion of portfolio				
30 days past due: GLAs		1.21%	1.12%	1.08%	9bps	13bps
90 days past due: GLAs		0.92%	0.62%	0.68%	30bps	25bps
By portfolio						
30 days past due: GLAs (Retail)	31,428	1.25%	1.07%	1.11%	18bps	14bps
90 days past due: GLAs (Retail)		0.97%	0.59%	0.69%	38bps	28bps
30 days past due: GLAs (Commercial)	10,345	1.40%	1.47%	1.19%	(7bps)	21bps
90 days past due: GLAs (Commercial)		1.14%	0.96%	0.90%	18bps	24bps
30 days past due: GLAs (BOQ Finance)	5,270	0.57%	0.68%	0.68%	(11bps)	(11bps)
90 days past due: GLAs (BOQ Finance)		0.19%	0.13%	0.17%	6bps	2bps

RETAIL ARREARS

Retail arrears increased in both 30 and 90 day categories by 18 and 38 basis points respectively since 1H20. This reflected the current macro-economic environment driven by the impacts of COVID-19. It is also evidence of a slower transition back to a performing status due to longer workout times to support customers during the pandemic.

COMMERCIAL ARREARS

Commercial arrears have decreased seven basis points in the 30 day category but have increased 18 basis points in the 90 day category since 1H20. The decrease in the 30 day category was driven by timing differences at 1H20 in relation to formalising the extensions of performing loans. There has been an increase in commercial arrears overall since FY19 and this is in line with expectations as COVID-19 imposed shutdowns have depressed business activity across the board.

BOQ FINANCE ARREARS

BOQ Finance arrears have decreased by 11 basis points in the 30 day category but increased six basis points in the 90 day category since 1H20. The decrease reflects improved drought conditions following the bushfire events, offset by the impact of COVID-19 in the 90 day category.

COVID-19 BANKING RELIEF PACKAGE

In line with APRA's regulatory approach, loans deferred as part of the COVID-19 Banking Relief Package are not included in arrears where the loans were otherwise performing.

FINANCIAL PERFORMANCE

For the year ended 31 August 2020

3.2 FUNDING AND LIQUIDITY

On 19 March 2020, the RBA announced it was establishing the Term Funding Facility (**TFF**) for ADIs as part of a package of measures to support the Australian economy. The facility aims to reinforce the benefits to the economy of a lower cash rate and encourages ADIs to support business.

The facility provides three-year funding to ADIs through repurchase transactions at a fixed pricing rate of 25 basis points per annum and is available to be drawn through to the end of March 2021. The BOQ TFF is comprised of an initial allowance ($1.2 billion) plus an additional allowance ($0.6 billion). As at 31 August 2020, $0.8 billion (44 per cent) of the facility has been drawn.

On 1 September 2020, the RBA announced it was providing a new supplementary allowance and an extension of the deadline for drawdowns of the additional funding allowance to 30 June 2021.

LIQUIDITY COVERAGE RATIO (LCR)

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

BOQ's LCR at 31 August 2020 was 164 per cent, which was 31 per cent higher than 1H20 and 19 per cent higher than FY19. BOQ's average LCR for 2H20 was 150 per cent, which was 15 per cent higher than the average for 1H20 of 135 per cent. The increase was a result of action taken by the RBA in response to COVID-19, specifically the inclusion of the undrawn TFF in the LCR calculation and BOQ's adjusted committed liquidity facility (**CLF**) which was increased to $3.9 billion in April 2020. Offsetting some of the increase to the ratio was the strong growth in retail at-call deposits which increased net cash outflows (**NCO**).

NET STABLE FUNDING RATIO (NSFR)

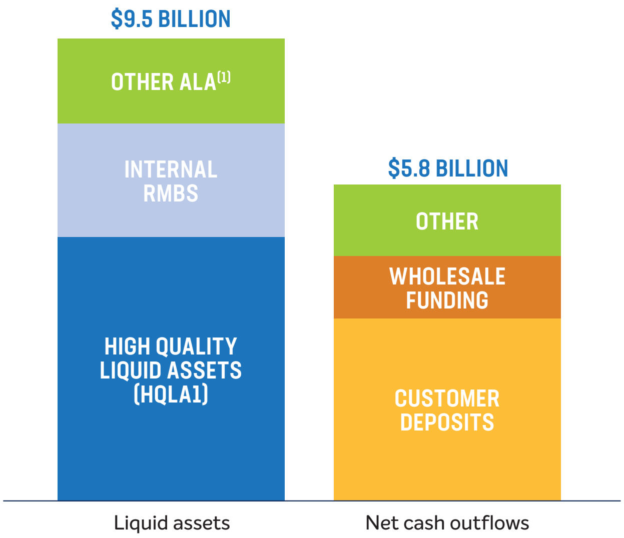
The NSFR encourages ADIs to fund their lending activities with more stable sources of funding, thereby promoting greater balance sheet resilience.

BOQ manages its NSFR on a daily basis and actively maintains a buffer above the regulatory minimum in line with BOQ's prescribed risk appetite and management ranges.

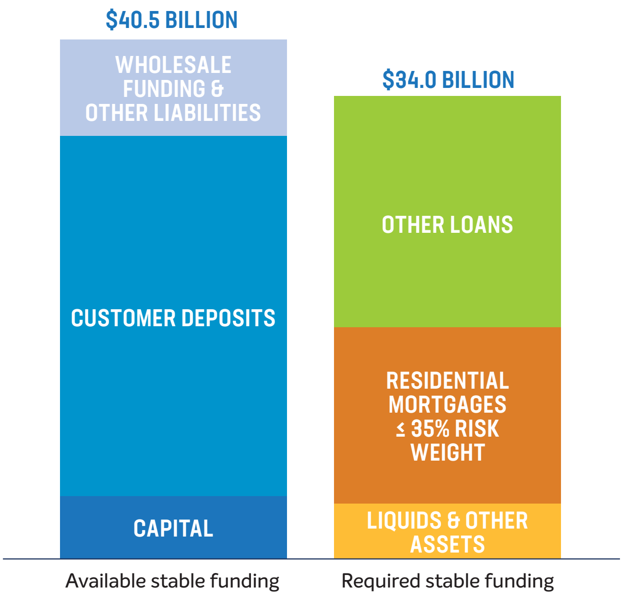
BOQ's NSFR as at 31 August 2020 was 119 per cent, which increased by seven per cent on 1H20 and also seven per cent on FY19.

The average NSFR for 2H20 was 116 per cent, a four per cent increase from the 1H20. This was mostly driven by the introduction of the TFF.

LCR - August 2020 (164%)



NSFR - August 2020 (119%)



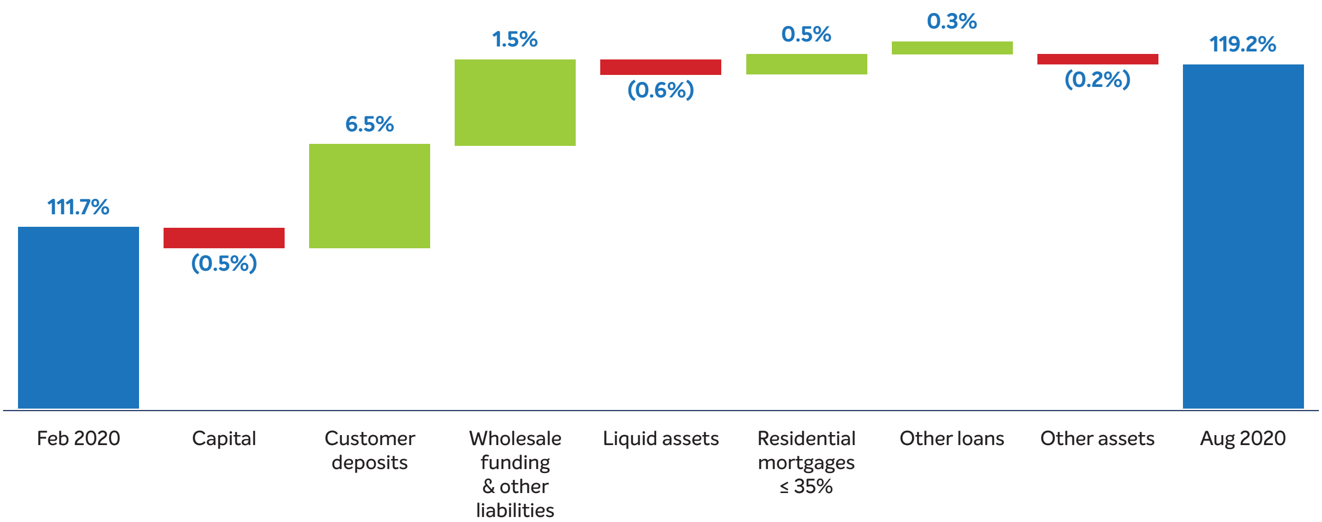
(1) Alternative liquid assets (**ALA**) qualifying as collateral for the CLF, excluding internal residential mortgage backed securities (**RMBS**), within the CLF limit.

FINANCIAL PERFORMANCE

For the year ended 31 August 2020

3.2 FUNDING AND LIQUIDITY (CONTINUED)

NSFR waterfall 29 February 2020 – 31 August 2020



LIQUID ASSETS

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

HQLA1 (cash, Australian Semi-Government and Commonwealth Government securities) and alternative liquid assets covered under the CLF provided by the RBA. CLF assets include senior unsecured bank debt, covered bonds, asset backed securities (**ABS**) and RMBS that are eligible for repurchase with the RBA.

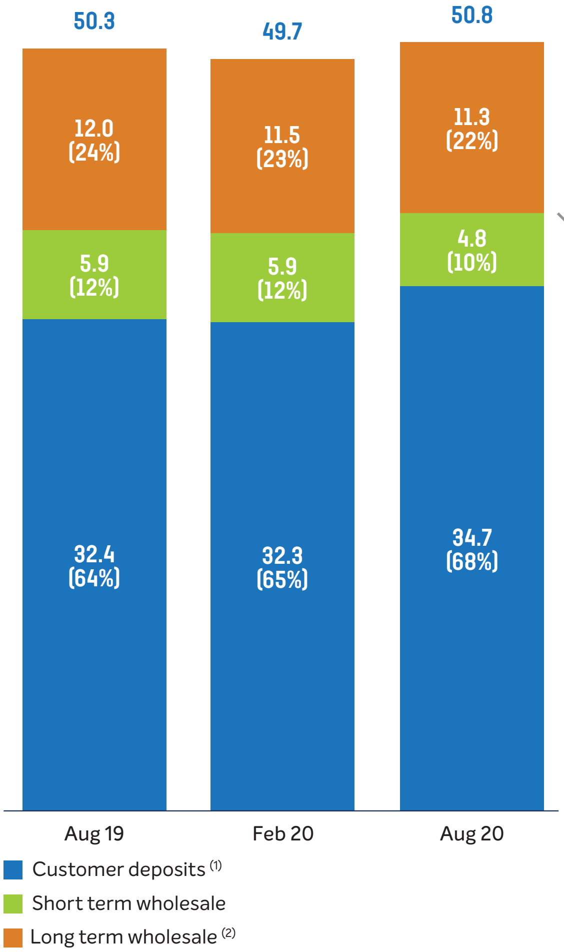
BOQ was granted a $3.4 billion RBA CLF for the 2020 calendar year. In April 2020 BOQ increased its CLF by $500 million for the remainder of the calendar year in response to COVID-19. BOQ's contingent liquidity, through its internal RMBS, was increased to allow for the additional CLF and TFF, ensuring maintenance of a sufficient buffer to physical liquidity.

FINANCIAL PERFORMANCE
For the year ended 31 August 2020

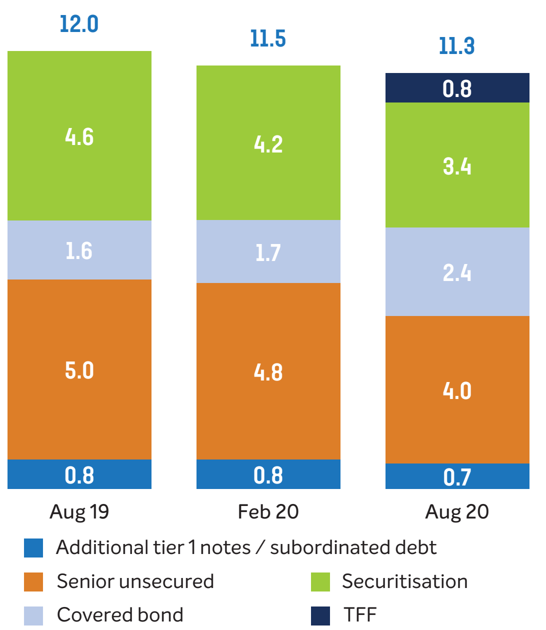
3.2 FUNDING AND LIQUIDITY (CONTINUED)

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

Funding mix ($billion)



Long term wholesale ($billion)



(1) The classification of customer deposits is defined as all deposits excluding those from financial institutions as defined under APS 210 Liquidity.
(2) Foreign currency balances have been translated at end of day spot rates.

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

In FY20 strong growth in customer deposits, a capital raising in November 2019 and two benchmark long term debt issuances, meant loan growth was funded by stable funding sources. BOQ's continued focus on growth in customer deposits through a variety of channels has seen the deposit to loan ratio increase from 70 per cent at FY19 to 74 per cent at FY20. The increase in stable funding sources has enabled BOQ to strategically manage short term wholesale runoff and therefore decrease reliance on funding from less stable sources.

FINANCIAL PERFORMANCE

For the year ended 31 August 2020

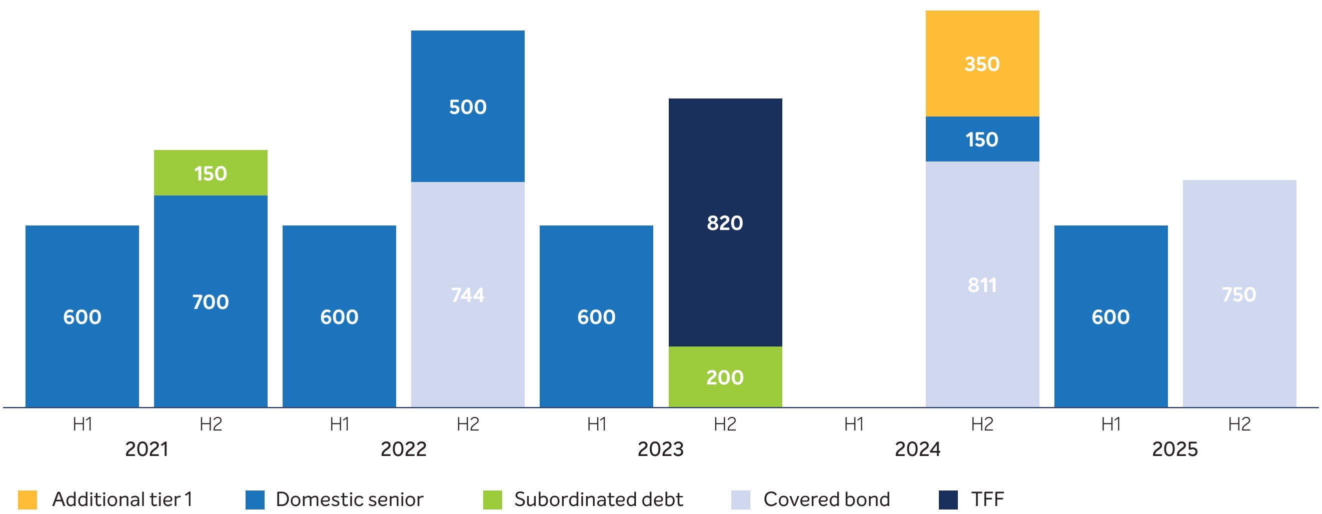
3.2 FUNDING AND LIQUIDITY (CONTINUED)

TERM FUNDING ISSUANCE

With the introduction of the TFF and inflow of customer deposits, BOQ issued only a modest amount of wholesale funding in FY20. This included a domestic $600 million senior unsecured deal in October 2019 and a $750 million domestic covered bond in May 2020, both for five years. The domestic covered bond was issued as a conditional pass-through bond, which was the first for the domestic market and evidence of BOQ's diversified debt product offering.

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

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



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

3.3 CAPITAL MANAGEMENT

CAPITAL ADEQUACY

	As at				
$ million	Aug-20	Feb-20	Aug-19	Aug-20 vs Feb-20	Aug-20 vs Aug-19
CET1	3,089	3,088	2,761	-	12%
Additional tier 1 capital	350	500	500	(30%)	(30%)
Total tier 2	580	529	525	10%	10%
Total capital base	4,019	4,117	3,786	(2%)	6%
Total RWA	31,576	31,164	30,533	1%	3%
CET1 ratio	9.78%	9.91%	9.04%	(13bps)	74bps
Total capital adequacy ratio	12.73%	13.21%	12.40%	(48bps)	33bps

FINANCIAL PERFORMANCE

For the year ended 31 August 2020

3.3 CAPITAL MANAGEMENT (CONTINUED)

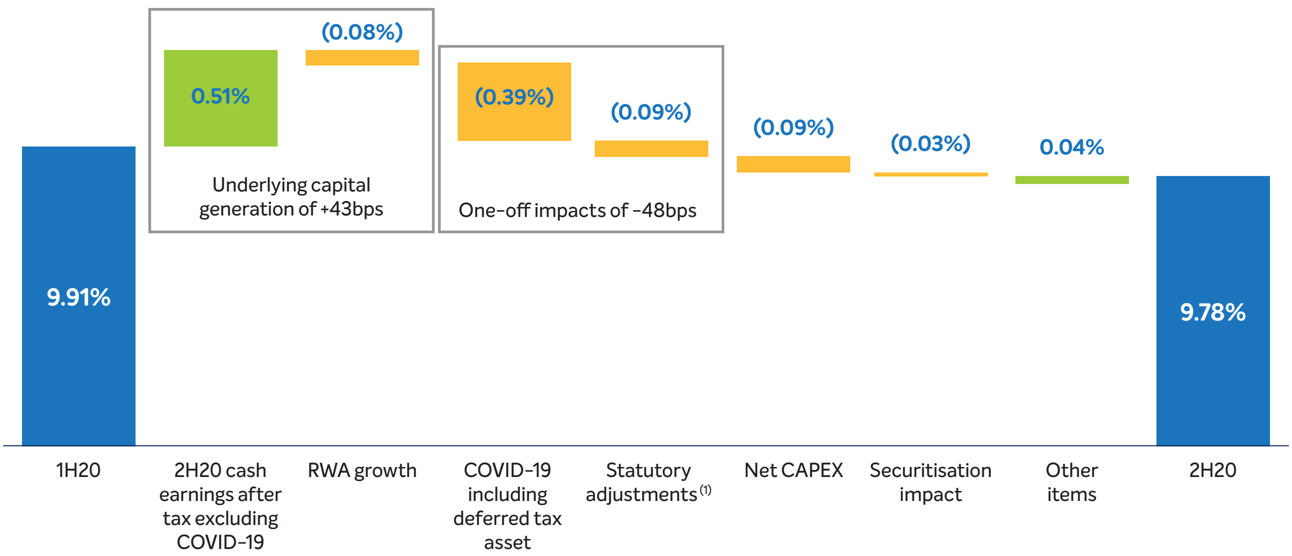
The Group's CET1 ratio decreased by 13 basis points during 2H20 from 9.91 per cent to 9.78 per cent. At 9.78 per cent BOQ has an $89 million buffer above the upper end of the management target range of 9.0 per cent to 9.5 per cent and is well positioned going into FY21.

There was 43 basis points of underlying capital generation during 2H20 due to cash earnings offset by subdued RWA growth. This was offset by a one-off 48 basis point impact relating to COVID-19 and statutory adjustments largely driven by BOQ's strategy refresh. The deferral of the interim dividend payment ensured a strong CET1 ratio and helped absorb the negative impact from an increased COVID-19 collective provision overlay.

Net capitalised investment (**CAPEX**) was due to increased software expenditure in line with the strategic roadmap, net of amortisation, and utilised nine basis points of capital.

Run-off in capital relief securitised housing loans increased risk-weighted assets and reduced CET1 by three basis points. This was offset by various other items.

2H20 CET1 Walk



(1) Statutory adjustments exclude the impairment on intangible arising from strategic changes

3.4 TAX EXPENSE

Tax expense arising on cash earnings for FY20 amounted to $102 million. This represented an effective tax rate of 31.2 per cent, which is above the corporate tax rate of 30 per cent primarily due to the non-deductibility of interest payable on Wholesale Capital Notes issued in FY15 and Capital Notes issued in FY18.

FINANCIAL PERFORMANCE

For the year ended 31 August 2020

4. DIVISIONAL PERFORMANCE

4.1 RETAIL INCOME STATEMENT, KEY METRICS AND FINANCIAL PERFORMANCE REVIEW

OVERVIEW

The Retail Bank meets the financial needs and services of personal customers. The division supports customers through owner-managed and corporate branch networks, third party intermediaries, Virgin Money Australia distribution channels, more than 1,500 ATM's, an Australian based customer call centre, digital services and mobile mortgage specialists.

	Year End Performance			Half Year Performance		
$ million	Aug-20	Aug-19	Aug-20 vs Aug-19	Aug-20	Feb-20	Aug-20 vs Feb-20
Net interest income	437	432	1%	223	214	4%
Non-interest income	56	63	(11%)	27	29	(7%)
Total income	493	495	-	250	243	3%
Operating expenses (1)	(317)	(289)	10%	(162)	(155)	5%
Underlying profit	176	206	(15%)	88	88	-
Loan impairment expense (1)	(56)	(12)	367%	(48)	(8)	500%
Profit before tax	120	194	(38%)	40	80	(50%)
Income tax expense	(37)	(61)	(39%)	(12)	(25)	(52%)
Cash earnings after tax	83	133	(38%)	28	55	(49%)

(1) Includes a prior period restatement of employee costs from loan impairment expense to operating expenses.

KEY METRICS

		Year End Performance			Half Year Performance		
		Aug-20	Aug-19	Aug-20 vs Aug-19	Aug-20	Feb-20	Aug-20 vs Feb-20
CASH EARNINGS BASIS							
CTI (1)	(%)	64.3	58.4	590bps	64.8	63.8	100bps
ASSET QUALITY							
90dpd arrears	($ million)	294	210	40%	294	185	59%
Impaired assets	($ million)	66	67	(1%)	66	69	(4%)
Loan impairment expense / GLA	(bps)	22	5	17bps	39	6	33bps
BALANCE SHEET							
GLA (2)	($ million)	25,030	24,973	-	25,030	25,042	-
Housing (2)	($ million)	24,972	24,907	-	24,972	24,980	-
Other retail	($ million)	58	66	(12%)	58	62	(6%)
AVERAGE CREDIT RWA	($ million)	8,720	8,664	1%	8,720	8,604	1%
CUSTOMER DEPOSITS (2) (3)	($ million)	17,156	15,792	9%	17,156	15,723	9%
Term deposits	($ million)	5,647	6,295	(10%)	5,647	5,713	(1%)
Mortgage offsets	($ million)	1,801	1,511	19%	1,801	1,642	10%
Savings & investment (2)	($ million)	7,758	6,443	20%	7,758	6,792	14%
Transaction accounts (2)	($ million)	1,950	1,543	26%	1,950	1,576	24%
DEPOSIT TO LOAN RATIO	(%)	69	63	600bps	69	63	600bps

(1) Includes a prior period restatement of employee costs from loan impairment expense to operating expenses.
(2) GLA and customer deposits include a reclassification transfer from BOQ Business Banking to Retail Banking reflecting customer segmentation changes. Prior period has been restated for comparative purposes.
(3) Treasury managed deposits are included in the Bank's Other operating segment.

FINANCIAL PERFORMANCE

For the year ended 31 August 2020

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

BUSINESS REVIEW

The Retail Bank remains committed to supporting customers experiencing difficulty in the current environment and executing the strategic initiatives announced to market earlier this year. Through this period, earnings have been impacted by higher loan impairment expenses and continued investment in regulatory activities and transformation initiatives. Material changes have already been made, which includes the home buying transformation program; a new retail leadership team with significant retail, banking and lending experience; increased lending capability through new mobile lending bankers; and a focus on expanding owner-managers who are experienced relationship bankers. In addition, improved customer experiences will be delivered by executing the VMA digital transformation.

Notwithstanding the softening to lending activity in 2H20 related to the initial shock from COVID-19, the Retail Bank has regained momentum across all channels. Housing recorded growth of 0.3 per cent on the prior year, the first year since FY2015 where the housing portfolio has grown. In a year characterised with excess liquidity and economic uncertainty, customer deposits increased $1.4 billion or nine per cent on the prior year. The majority of inflow has been through transaction accounts and the fast track product offering, partially offset by a managed rundown of high cost term deposits.

The BOQ branch network consists of 93 owner-managed and 63 corporate branches supported by two service and seven transaction centres. Expanding and leveraging the unique owner-manager model, anchored in the communities we serve, is a Retail Bank strategic focus which has yielded three conversions in FY20. A strong pipeline of potential conversions will continue to drive expansion of the owner-managed network. In addition, owner-managers have been supported by a new franchise agreement which ensures a stronger alignment to the Retail bank's strategic objectives. Whilst the branch network reported a decline of four per cent on the prior year, there was a significant shift in momentum with housing settlement volumes increasing 24 per cent. This uplift was supported through increased lending capability and simpler more efficient mortgage processes.

The broker channel recorded home lending growth of $0.2 billion, or five per cent, on the prior year and remains a channel with significant opportunity. This is being realised through quality aggregator relationships, improved customer retention and simplified end-to-end mortgage processes. Whilst further improvement is being targeted, processing times have already been significantly reduced providing a better experience for customers and brokers.

The Virgin Money Australia brand is a globally recognised brand which appeals to a different segment group to that of the proprietary channels. It tends to attract a more tech savvy customer base and continues to contribute to the Bank's geographical diversification by targeting metropolitan-based customers across Australia. VMA has a proven track record in executing on strong customer value led propositions. This is evidenced by a home loan portfolio which has grown to more than $3.2 billion since the mid-2016 launch and its success across other business lines, including credit cards and insurance. However, the business has been impacted by COVID-19 through the pausing of third party Velocity aligned offers and a reduction in travel insurance revenue. The reduction in non-interest income from the prior year was more than offset by a strong uplift in interest revenue generated from the Virgin Money Australia's home loan business. The business has now resumed velocity aligned offers across credit cards.

FINANCIAL PERFORMANCE REVIEW

Retail banking cash earnings after tax decreased $50 million or 38 per cent on the prior year driven by higher collective provisioning relating to COVID-19 and increased investment in strategic and regulatory projects.

Net interest income

Net interest income increased $5 million or one per cent on the prior year driven by margin improvement and relatively flat lending balance growth. Housing margins improved due to repricing and lower basis spreads. Continued front to back book contraction, driven by competition, remains a drag on the portfolio margin. Deposit margins decreased due to a lower interest rate environment, significantly impacting transaction and saving deposit account margins. Active margin management of high cost term deposits resulted in balances reducing $0.6 billion or 10 per cent on prior year. Third party costs increased on prior year as a result of an uplift to amortised upfront lending costs, brokerage and a higher share of margin payable to owner-managers due to improved performance in the channel.

Non-interest income

Non-interest income reduced $7 million or 11 per cent on the prior year as COVID-19 impacted several transaction fee categories and an ongoing shift in customer preference to low or no fee products. COVID-19 related impacts include lower dishonour fees as customers transaction account balances have increased, mainly as a result of elevated flows associated with COVID-19 government stimulus payments; reduced transaction volumes, driven by a slowing of the retail industry; and lower VMA revenue due to the pausing of third party Velocity aligned offers and the distribution of travel insurance. Commission income was impacted by the cessation of mortgage protection insurance sales through the St Andrew's business.

Operating expenses

Operating expenses increased $28 million or 10 per cent on the prior year. This was largely driven by investment in strategic and regulatory projects, which includes meeting anti-money laundering and regulatory reporting requirements, investing in the VMA digital transformation and the home buying transformation program. Underlying expense growth has been well contained due to disciplined cost management and a reduction in travel and entertainment spend as a result of COVID-19 related restrictions.

Loan impairment expense

Loan impairment expense of $56 million was an increase of $44 million on the prior year. The increase was driven by higher collective provisioning reflecting a deterioration in the economic outlook and emerging risks due to COVID-19. Specific provisioning levels were relatively benign through 2H20 following the uptake of customer repayment deferrals.

FINANCIAL PERFORMANCE

For the year ended 31 August 2020

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

OVERVIEW

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

	Year End Performance			Half Year Performance		
$ million	Aug-20	Aug-19	Aug-20 vs Aug-19	Aug-20	Feb-20	Aug-20 vs Feb-20
Net interest income	543	527	3%	272	271	-
Non-interest income	40	50	(20%)	19	21	(10%)
Total income	583	577	1%	291	292	-
Operating expenses (1)	(258)	(245)	5%	(129)	(129)	-
Underlying profit	325	332	(2%)	161	164	(2%)
Loan impairment expense (1)	(119)	(57)	109%	(99)	(20)	405%
Profit before tax	206	275	(25%)	62	144	(57%)
Income tax expense	(64)	(86)	(26%)	(19)	(45)	(58%)
Cash earnings after tax	142	189	(25%)	43	99	(57%)

(1) Includes a prior period restatement of employee costs from loan impairment expense to operating expenses.

KEY METRICS

		Year End Performance			Half Year Performance		
		Aug-20	Aug-19	Aug-20 vs Aug-19	Aug-20	Feb-20	Aug-20 vs Feb-20
CASH EARNINGS BASIS							
CTI (1)	(%)	44.3	42.5	180bps	44.3	44.2	10bps
ASSET QUALITY							
90dpd arrears	($ million)	139	102	36%	139	106	31%
Impaired assets	($ million)	129	130	(1%)	129	128	1%
Loan impairment expense / GLA	(bps)	54	27	27bps	91	18	73bps
BALANCE SHEET							
GLA (2)	($ million)	22,013	21,243	4%	22,012	21,956	-
Housing (2)	($ million)	6,183	5,740	8%	6,183	6,175	-
Commercial and other	($ million)	10,560	10,241	3%	10,560	10,486	1%
BOQ Finance	($ million)	5,270	5,262	-	5,269	5,295	-
AVERAGE CREDIT RWA	($ million)	17,736	17,291	3%	17,736	17,611	1%
CUSTOMER DEPOSITS (2) (3)	($ million)	9,780	8,243	19%	9,780	8,575	14%
Term deposits	($ million)	1,543	1,512	2%	1,543	1,467	5%
Mortgage offsets	($ million)	1,015	838	21%	1,015	933	9%
Savings & investment (2)	($ million)	5,576	4,738	18%	5,576	4,910	14%
Transaction accounts (2)	($ million)	1,646	1,155	43%	1,646	1,265	30%
DEPOSIT TO LOAN RATIO	(%)	44	39	500bps	44	39	500bps

(1) Includes a prior period restatement of employee costs from loan impairment expense to operating expenses.
(2) GLA and customer deposits include a reclassification transfer from BOQ Business Banking to Retail Banking reflecting customer segmentation changes. Prior period has been restated for comparative purposes.
(3) Treasury managed deposits are included in the Bank's Other operating segment.

FINANCIAL PERFORMANCE

For the year ended 31 August 2020

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

BUSINESS REVIEW

BOQ Business supported customers through the current difficult economic climate with COVID-19 relief arrangements, SME guarantee loans and detailed credit reviews of larger clients.

Asset growth and earnings in the second half were impacted by this, however BOQ Business continued to focus on its niche segment strategy providing a tailored relationship offering to customers with total asset growth of $0.8 billion or four per cent and strong deposit growth of $1.5 billion or 19 per cent

BOQ branded commercial loan growth of $0.2 billion over the year was underpinned by strong growth in the first half which slowed in the second half due to the impacts of COVID-19 and an ongoing focus on an appropriate return for risk. The small business portfolio remains a key strategic focus with run-off slowing in the period with increased training and support for the owner-managers in SME lending. The depth of client relationships in the niche segments and the core construction and real estate segment have continued to drive above system growth. The impacts of COVID-19 are seen with 16 per cent of small business customers currently on repayment holiday arrangements and the processing of over 100 SME Guarantee Loans. The current economic uncertainty and government COVID-19 payments led to deposit growth of $1 billion or 29 per cent, in the small business segment. Other banking solutions such as trade finance and foreign exchange contributed to the diversification of the portfolio.

BOQ Specialist continued to have above system growth in both housing and commercial lending with aggregate asset growth of $0.6 billion. Customer growth of two per cent and higher average deal size drove housing loan growth of 10 per cent. The mortgage offering provides a pipeline of customers with potential commercial lending needs in the future. BOQ Specialist focuses on very clearly defined niches and has developed deep client relationships offering tailored consumer and commercial products and services to assist professionals. These relationships allowed the business to support clients through the challenges of COVID-19.

BOQ Finance maintained the $5.3 billion assets finance book in a softening market as it remained focused on its existing market proposition and pricing appropriately for risk. The strongest growth industries were equipment finance in small business and agriculture, which was offset by a reduction in more specialised and wholesale product offerings. A number of customers were supported through COVID-19 with over 7,000 new contract repayment arrangements.

FINANCIAL PERFORMANCE REVIEW

BOQ Business cash earnings after tax decreased $47 million or 25 per cent on the prior year. After a strong 1H20 the result was heavily impacted in 2H20 by COVID-19 with cash earnings after tax down 57 per cent compared to 1H20.

Net interest income

Net interest income increased $16 million or three per cent. This was driven by growth of four per cent in total assets and 19 per cent in deposits. Asset Margins improved in FY20 due to the repricing of business loans and asset finance products in the first half. This was offset by lower deposit margins in 2H20 reflecting the low interest rate environment, which resulted in an overall margin decrease of four basis points.

Non-interest income

Non-interest income was down $10 million or 20 per cent on the prior year. This was due to the sale of the debtor finance book in 2H19 and the loss of merchant terminal income related to the outsourcing arrangement to provide superior technology to customers. COVID-19 further impacted the second half as fee relief was provided on some products and lower transaction volumes across financial markets products.

Operating expenses

Operating expenses increased five per cent on the prior year, driven by investment in risk and regulatory programs, including enhancements to anti-money laundering, and strategic technology projects. Productivity initiatives undertaken in 1H20 delivered flat underlying expenses and lower FTE in 2H20.

Loan impairment expense

Loan impairment expense increased $62 million or 109 per cent on the prior year. The increase was driven by a collective provision overlay for COVID-19 of $89 million. This has been partly offset by an underlying improvement in the corporate loan book including agribusiness and lower growth in the asset finance book Impaired assets remain flat to prior periods, however 90 days past due arrears has increased in the second half as the economic impacts of COVID-19 are realised in the medical specialist and hospitality industries.

FINANCIAL PERFORMANCE

For the year ended 31 August 2020

4.3 OTHER SEGMENT INCOME STATEMENT AND FINANCIAL PERFORMANCE REVIEW

OVERVIEW

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

	Year End Performance			Half Year Performance		
$ million	Aug-20	Aug-19	Aug-20 vs Aug-19	Aug-20	Feb-20	Aug-20 vs Aug-19
Net interest income / (expense)	6	2	200%	8	(2)	(500%)
Non-interest income	14	15	(7%)	6	8	(25%)
Total income	20	17	18%	14	6	133%
Operating expenses	(19)	(21)	(10%)	(8)	(11)	(27%)
Underlying profit	1	(4)	(125%)	6	(5)	(222%)
Loan impairment expense	-	-	-	-	-	-
Profit before tax	1	(4)	(125%)	6	(5)	(222%)
Income tax expense	(1)	2	(150%)	(3)	2	(250%)
Cash profit / (loss) after tax	-	(2)	(100%)	3	(3)	(200%)

FINANCIAL PERFORMANCE REVIEW

Cash profit after tax of $nil for FY20 improved from a loss of $2 million for FY19 primarily reflecting higher Treasury income and lower impairments, partly offset by higher expenses in the St Andrew's insurance business.

Net interest income / (expense)

Net interest income in FY20 of $6 million increased from $2 million in FY19. This primarily reflected higher income from break fees and Treasury's hedging of interest rate risk. This was partly offset by the recognition of interest expense on lease liabilities following the introduction of AASB 16

Non-interest income

Non-interest income largely comprises St Andrew's insurance revenue and trading income. Non-interest income of $14 million for FY20 decreased seven per cent from $15 million in FY19. This was mainly driven by reduced net earned premium and other insurance income, which was impacted by reduced yields on term deposits and reduced account management fees for services which ceased in 1H20.

Operating expenses

Operating expenses of $19 million for FY20 decreased 10 per cent from $21 million in FY19. This primarily reflected non-recurrence of impairment expenses which occurred in FY19. This was partly offset by an increase in St Andrew's acquisition related expenses, which were no longer recognised on a deferred basis following its closure to new business in 1H20.

4.4 OUTLOOK

To date Australia has managed the COVID-19 health crisis very well, but the future impacts of the virus are unknown. This uncertainty weighs on consumer, business and government actions which have economic consequences. While the duration and impact of the health crisis is unclear, Australia is relatively well positioned, starting from a position of fiscal and economic strength. Significant stimulus measures will continue to support the economy. Nonetheless, a higher unemployment rate, modest credit growth and record low interest rates will place pressure on earnings.

Despite the economic backdrop, house price declines have been modest to date reflecting very low interest rates and improved affordability. The house price outlook is dependent on how the health and economic crisis unfolds and the impact that has on consumer confidence and government and regulator reactions. BOQ is preparing for a range of economic scenarios, having provided for potential future losses and by tightly controlling investment spend and expense base.

GOVERNANCE AND RISK MANAGEMENT

For the year ended 31 August 2020

MANAGING OUR RISK LANDSCAPE

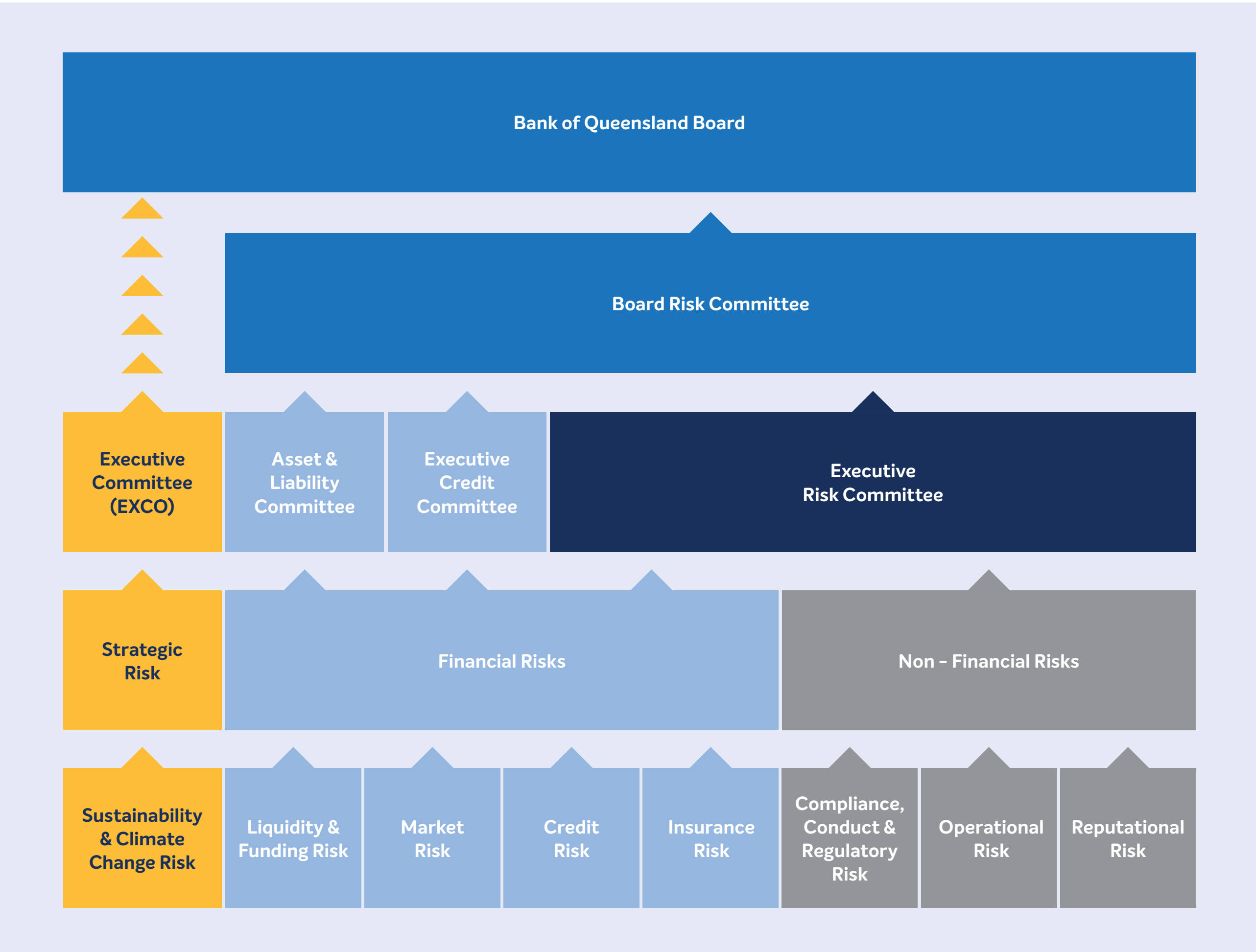
BOQ's approach to the effective and prudent management of key risks is at the forefront of our business strategy. Key risks are identified and managed as part of a Group Risk Management Framework that includes the Board approved Business Plans, Risk Management Strategy and Risk Appetite Statement, followed by the capital and funding plans.

A cornerstone of the enterprise-wide strategy is the annual Board Strategic Review, which provides a forward outlook taking into consideration various factors:

- Macroeconomic and financial services outlook
- Internal, environmental and competitive assessment
- Group strategic, risk and financial objectives
- Group strategy statement
- Financial forecast
- System growth assumptions and relative returns of business lines (Banking)
- Key strategic initiatives
- Strategic goals and targets
- Material strategy execution risks and proposed mitigating actions

Another cornerstone of the enterprise-wide strategy is the Group Risk Appetite Statement which covers the principal sources of risk and is cascaded to businesses, as part of the business unit planning process, qualitatively (through risk policies, standards and operating procedures) and quantitatively (through risk limits, settings and decision authorities).

The below diagram illustrates the governance framework for managing BOQ's key risks and how they are identified, measured, monitored and reported from Management up to the Board.



GOVERNANCE AND RISK MANAGEMENT

For the year ended 31 August 2020

BOQ's operations and performance are impacted by strategic risks, financial risks and non-financial risks. Key risks are identified and managed as part of BOQ's risk management framework. The below table outlines the key risks impacting the business and how BOQ manages these.

RISK	DESCRIPTION
COMPLIANCE, CONDUCT & REGULATORY ENGAGEMENT RISK	The risk of failure to comply with any regulatory obligations including data privacy breaches; the risk of inadequate response to regulatory change; not acting in accordance with customers' best interests; not designing and distributing products and services to customers in an adequate, accurate and proper manner; not acting in accordance with BOQ's values and Code of Conduct; not acting in accordance with Workplace Health and Safety laws; not complying with Environmental laws.
CREDIT RISK	The risk that a debtor or transactional counterparty will default and/or fail to meet their contractual obligations and includes the risk of loss of value of assets due to deterioration in credit quality and credit concentration risk. This risk primarily arises from BOQ's lending activities and the holding of various financial instruments for investment or liquidity purposes.
LIQUIDITY AND FUNDING RISK	The risk that BOQ cannot meet or generate sufficient cash resources to meet its payment obligations in full as they fall due, or can only do so at materially disadvantageous terms.
OPERATIONAL RISK	The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. As such, operational risk captures business continuity plans, environmental risk, crisis management, process systems and operations risk, people related risks, health and safety related risks, information technology and data risks.
INSURANCE RISK	Insurance risk arises from the ownership and operation of insurance companies. Insurance Risk can be broadly defined as an unexpected economic gain or loss relating to movements in claim costs. This includes the risk that inadequate or inappropriate product design (including pricing), underwriting, claims management and reinsurance management will expose the business to financial loss and the consequent inability to meet its liabilities.
CONTAGION RISK	The primary sources of market contagion risk relate to correlated concentrations, balance sheet contagion and severe market liquidity events. Internal contagion risk is the risk that problems arising in BOQ's subsidiaries may compromise the financial and operational position of the BOQ Group.
REPUTATION RISK	The risk to earnings and capital arising from negative public opinion resulting from the loss of reputation, public trust or standing and is considered to be a risk derived from business activities and is considered in conjunction with the underlying risks resulting from those activities.
STRATEGIC RISK	Strategic Business Risk is the risk that might arise from the pursuit of a business model or strategy that is not viable.
SUSTAINABILITY AND CLIMATE CHANGE RISK	More detail on climate change risk can be found on page 52 of the FY20 Annual Report.

GOVERNANCE AND RISK MANAGEMENT

For the year ended 31 August 2020

MANAGEMENT OF RISK	VALUE DRIVERS
BOQ has a Compliance Management Framework and underlying standards and procedures that outlines how compliance risks are identified and managed within risk appetite and tolerance to meet regulatory requirements. This is supported by a Privacy Management Framework to manage privacy risk. Regulatory obligations are mapped to controls and captured in the Governance Risk and Compliance (**GRC**) tool to allow early identification of potential obligation breaches via incident management. Incident management also includes ensuring timely and appropriate notifications to regulators. Regulatory change is managed through a Regulatory Change Roadmap.	CUSTOMER FINANCE
Risk management practices in place to support effective credit risk management include the establishment and ongoing maintenance of a limits monitoring and management framework. BOQ's Credit Risk Management Principles provide core standards for the provision of credit for all customers. The credit risk management principles express the expectations of the Board for both the analytical and behavioural aspects of granting of credit to customers. BOQ maintains a suite of credit policies to address the range of lending products provided to customers and to satisfy the Board level requirements expressed in the Credit Risk Management Principles and risk appetite statement.	CUSTOMER FINANCE ENVIRONMENT & CLIMATE CHANGE
BOQ maintains a diverse and stable pool of potential funding sources. The Bank maintains adequate liquidity buffers and short-term funding capacity to withstand periods of disruption in long-term wholesale funding markets. BOQ adopts a robust limit framework including stress testing and scenario analysis that enables risk based decisioning ensuring the business remains within risk appetite.	FINANCE
BOQ has an Operational Risk Management Framework and underlying standards and procedures that outlines how operational risks are identified and managed within risk appetite and tolerance to meet regulatory, customer, operational and strategic requirements. This includes mechanisms to undertake risk-reward business decisions taking into account operational risk exposures and the control environment. These risks are managed through our through our GRC tool.	CUSTOMER PEOPLE ENVIRONMENT & CLIMATE CHANGE FINANCE
St Andrew's manages insurance risk through the Reinsurance Management Strategy, Insurance Risk Underwriting Policy, Claims Management Policy and the Risk Appetite Statement.	FINANCE
BOQ's credit portfolio limit framework and risk appetite measures enable effective management of market contagion risk. BOQ applies common risk management practices across all Group subsidiaries. The performance of subsidiaries is subject to ongoing review and oversight, with senior management representation on subsidiary management committees and boards.	FINANCE
BOQ has a Conduct and Reputational Risk Framework that outlines the approach to establishing and maintaining a strong ethical culture via embedded principles and policies. The Group regularly monitors this risk with a Group Risk Appetite Measure in place for reputational risk.	CUSTOMER FINANCE
Business strategy development incorporates risk management practices to ensure any potential changes in the level of risk, including new risks, are continuously considered when making strategic decisions. Key strategic risks are subject to ongoing review and analysis with monthly reporting provided to management and the Board including performance against strategic growth targets.	FINANCE TECHNOLOGY & DATA CAPABILITIES
Refer page 52 for full details on how we are managing sustainability risk and climate change.	COMMUNITY ENVIRONMENT & CLIMATE CHANGE

GOVERNANCE AND RISK MANAGEMENT

For the year ended 31 August 2020

MANAGING THE EVOLVING RISK ENVIRONMENT

The financial services industry continues to face heavy scrutiny from the Federal Government, regulators, investors and consumers. In recent years, a significant number of regulatory consultations, inquiries and industry reviews led to a number of changes that could impact BOQ. A summary of the key areas of reform and areas of increased risk focus are outlined below.

REGULATORY DEVELOPMENTS

Policy and Priorities

In March 2020, APRA suspended the majority of its planned policy and supervision initiatives in response to the impacts of COVID-19. In September 2020 APRA recommenced consultation on the following policy reforms:

- Cross industry prudential standard for remuneration
- ADI capital reforms incorporating APRA's unquestionably strong framework, Basel III and measures to improve transparency, comparability and flexibility
- Insurance capital reforms to incorporate changes in the accounting framework (**AASB 17**)
- Restart consultations on a limited number of data collections

Additionally APRA deferred the implementation of the Basel III reforms by one year to align with international practices.

The Australian Securities And Investments Commission (**ASIC**) has also recalibrated its regulatory priorities for at least six months, prioritising matters where there is a risk of significant consumer harm, serious breaches of the law, risks to market integrity and time crucial matters. This includes consultations, regulatory reports and reviews and on-site supervisory work.

CAPITAL MANAGEMENT

APRA provided guidance to all ADIs and Insurers on capital management to ensure entities can fulfil their role in supporting the economy, which included:

- Advising entities to make use of buffers held to both absorb the impacts of stress and to continue to lend and underwrite insurance
- Postponing the implementation of the Basel III capital reforms/unquestionably strong benchmarks by 1 year to assist entities in rebuilding their capital in a gradual manner
- Ensuring entities take into account the results of regular stress test and the current environment of significant uncertainty and heightened economic risk whilst planning prudent reductions in dividends and retaining at least half of their earnings

CONDUCT

Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (Royal Commission)

On 31 January 2020, the Government released draft legislation for consultation in relation to 22 recommendations arising from Royal Commission. The draft legislation covers some of the key recommendations from the Royal Commission in the following areas:

- Prohibition on hawking of products
- Enforceability of Financial Services Industry Codes, attracting civil penalties
- Deferred sales model for "add-on" insurance
- Breach reporting and investigation of misconduct
- Reference checking and information sharing
- Establishment of the Financial Regulator Assessment Authority to independently review the effectiveness of APRA and ASIC

In May 2020, the government announce that it would delay the implementation of the Royal Commission recommendations by six months to allow the industry to focus its efforts on supporting bank customers and the economy more broadly during COVID-19.

BOQ is actively engaging through the various ABA working groups on the proposals.

A number of the recommendations made by the Royal Commission, and the subsequent response from the Government and regulators, have and will impact BOQ as reforms continue to be implemented in the years ahead. BOQ is committed to meeting its regulatory and compliance obligations and will implement changes as required to comply with regulatory changes emanating from the Royal Commission and the Government's response.

Risk Governance Self-Assessment

In June 2018, APRA wrote to the boards of 36 authorised deposit taking institutions, insurers and superannuation licensees, including BOQ, requesting a written self- assessment of the effectiveness of governance, accountability and culture in their institution. The request followed the release of the Final Report of the Prudential Inquiry into the Commonwealth Bank of Australia. Across the industries, four themes emerged:

- Non-financial risk management requires improvement
- Accountabilities are not always clear, cascaded and effectively enforced
- Acknowledged weaknesses are well-known and some have been long-standing
- Risk culture is not well understood and therefore may not be reinforcing the desired behaviours

BOQ is committed to continuous improvement in our risk governance practices. During the year, BOQ has further advanced our maturity and capabilities to manage non-financial risks in order to deliver sustainable improvement in risk management practices, including the successful implementation of risk systems and enhancements to our non-financial risk frameworks.

GOVERNANCE AND RISK MANAGEMENT

For the year ended 31 August 2020

MANAGING THE EVOLVING RISK ENVIRONMENT (CONTINUED)

Financial Accountability Regime (FAR)

On 4 February 2019 the Government announced it would implement recommendations 3.9, 4.12, 6.6 and 6.7 of the Financial Services Royal Commission to extend the Banking Executive Accountability Regime (**BEAR**) to all APRA regulated entities and provide joint administration to ASIC as the conduct regulator. Treasury's consultation on the proposal has closed with the timing for the consultation on the implementation timeframe, draft legislation and end to end product responsibility to be confirmed.

REGULATORY OVERSIGHT & CHANGE

Design and Distribution Obligations

The Treasury Laws Amendment (Design and Distribution Obligations and Product Intervention Powers) Act 2019 (**DDO**) is an end-to-end approach to manage design and distribution of products. DDO places responsibility on financial firms to ensure that products are designed and distributed to the appropriate class of customer. This will be achieved by defining who the target market is for each product and then taking measures to ensure that only customers who fall within that target market are issued with that product (Target Market Definitions). The obligations will apply to all products within BOQ, with the exception of business credit. The DDO are broken into two separate categories: 'design obligations' and 'distribution obligations'. The 'design obligations' will belong to the product issuer and the 'distribution obligations' will belong to the product 'distributor'. In many cases, BOQ will act as both product issuer and distributor. In other cases, broker and white label partners will be the distributors.

DDO must be implemented by 5 October 2021 and BOQ has a project in place to manage compliance by this date. BOQ already has processes in place for managing life cycle of its products which will be updated to include the new requirements introduced by DDO.

New Regulatory Guide 271 – Internal Dispute Resolution

On 30 July 2020, ASIC released the Regulatory Guide (**RG**) 271 on internal Dispute Resolution (**IDR**) following a consultation last year, which seeks to raise the IDR standards across the financial sector. The new RG, makes parts of the IDR standards and requirements enforceable, which will undoubtedly require an increased focus on complaints handling across the industry.

The changes that will likely have the greatest operational impact include:

- The 30-day resolution timeframe for standard complaints reduced from 45 days
- The heightened focus and new requirements for the early identification and investigation of systematic issues
- The need to ensure that all the social media platforms owned or controlled by a firm will be monitored for complaint identification

The new RG comes into effect on 5 October 2021, the same go-live date as the DDO regime. The effective and appropriate management of complaints continues to be a focus for BOQ and a regulatory change group will work towards effective implementation of this new RG.

Consumer Data Right Bill (CRD) and Open Banking

CDR is designed to give customers more control over their information, leading to more choice in where they take their business, or more convenience in managing their money. The Government has committed to applying the CDR in the banking, energy and telecommunications sector. For the banking sector, this is referred to as "Open Banking" and will be the first sector to apply the CDR.

As a result of COVD-19, the implementation timetable for Open Banking has been delayed, with the sharing of consumer reference data now due to take place by 1 July 2021. BOQ has a project team in place to ensure compliance with the Open Banking regime.

Introduction of the Modern Slavery Act

The Modern Slavery Act was passed by Parliament on 29 November 2018 and the reporting requirement entered into force on 1 January 2019. BOQ will submit its first Modern Slavery Statement to the Minister of Home Affairs within six months after the end of BOQ's FY20 reporting period (by the end of February 2021).

FINANCIAL CRIME

Anti-Money Laundering and Counter Terrorism Financing Compliance

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

BOQ continues to engage with Australian Transaction Reports and Analysis Centre (**AUSTRAC**) in relation to BOQ's AML/CTF program and in response to the findings from a scheduled AUSTRAC on-site review of BOQ's AML/CTF systems and controls in July 2018 and has continued to enhance and strengthen its AML/CTF systems and controls. The deployment of a new platform for AML/CTF controls will continue to uplift BOQ's capability to prevent, detect and mitigate financial crime risks across BOQ.

GOVERNANCE AND RISK MANAGEMENT

For the year ended 31 August 2020

BOQ AND CLIMATE CHANGE

BOQ has set the foundations for our journey in understanding and responding to climate change. We are focused on continuing to improve our alignment with the recommendations of the 'Taskforce on Climate-Related Financial Disclosures' (TCFD) and this year's TCFD disclosures represent an important step up in progress towards that goal.

We have a good understanding of the challenges ahead and the potential risks and opportunities associated with climate change. Through increased climate scenario analysis, our FY21 focus will be on identifying which of the identified potential risks and opportunities are most material which will inform any strategic and policy adjustments required to best mitigate the risks and seize the opportunities. Overall, we see significant opportunity in increasing funding for the transition to a resilient net zero carbon future and see this as consistent with our purpose to create prosperity for our customers, shareholders and people through empathy, integrity and by making a difference.

GOVERNANCE AND RISK MANAGEMENT

For the year ended 31 August 2020

BOQ AND CLIMATE CHANGE (CONTINUED)

CLIMATE RISK POSITION

Climate change has been identified as both a pervasive risk to BOQ and to the Australian economy, society and environment which are ultimately interconnected. Similarly, financial regulators including APRA and ASIC have highlighted climate-related risks as a potential source of financial risk to the future stability and resilience of the financial system[1]. Failure of climate change mitigation and adaptation was ranked as the # 1 global long term risk by impact and #2 by likelihood according to the World Economic Forum[2] in 2020.

BOQ supports the transition to a net zero carbon economy consistent with the Paris Agreement to keep global warming well-below 2 degrees Celsius, striving to limit it to 1.5 degrees Celsius above pre-industrial levels. We recognise our business can have both positive and negative impacts on the economy, society and environment. This is highlighted in our value creation story in our 2020 Annual Report and we will continue to build our understanding of trade-offs where we both create and inhibit value for our stakeholders. Looking forward to FY21, our focus is on developing our climate-related policies and procedures through undertaking more detailed and holistic climate scenario analysis. This will allow us to better identify, understand and prioritise our initiatives against the potential climate-related risks and opportunities that are most material to BOQ and our stakeholders in order to inform our long term strategy and pathway to net zero.

GOVERNANCE

The Board and Risk Committee directly oversee BOQ's climate-related risks, opportunities and strategies and are responsible for reviewing and approving climate-related objectives, goals, targets and performance against these. In FY21 the Risk Committee will look to ensure that the magnitude and likelihood of climate-related impacts are better understood and responded to. This will be partly achieved through the inclusion of climate change as a regular standing item on Board meeting agendas and through review of the BOQ strategy, risk management policies and annual budgets. We will review and enhance our policies as our understanding of climate risk progresses particularly through the outcomes of climate scenario modelling.

The Board delegates the day to day management of environmental and social risks and opportunities to executive management. As climate change continues to be embedded into the business so too will respective responsibilities. In FY20 BOQ has identified a number of potential climate-related risks and have delivered the following initiatives:

- Increased our understanding and reporting on climate, including undertaking work to understand the Scope 1, 2 and 3 carbon footprint of our operations and loan portfolio, as well as strategic climate change implications;
- Refreshed our materiality prioritisation and mapped out where we create and inhibit value. Further information is contained in our 2020 Sustainability Report - view here;
- Integrated two climate change scenarios into credit risk stress testing performed under supervision of our Executive Credit Committee with the results are located on page 54 of this document.

RISK MANAGEMENT

Through the process of refreshing our material issues and mapping out where we create and inhibit value, we have identified climate change as an emerging risk and a priority material issue.

BOQ utilises credit policies overseen by the Executive Credit Committee such as the Ecological Care and Sustainability Lending Policy to assess potential environmental implications to credit risk. Credit risk is assessed at a portfolio level as well as at an individual credit exposure level on a case-by-case basis. Property valuations take into account factors such as flooding and environmental risk in estimating the value of properties, which BOQ uses as a basis for determining an appropriate level of lending to be extended relative to that property value.

We are also continually monitoring trends, concerns, publications and actions that emerge from regulators through structured engagement and industry forums. This supports BOQ to keep abreast of changes to climate-related risks including compliance with any additional legislative or regulatory obligations. Additionally, we remain in close communication with the investor community to ensure that BOQ is alert and responsive to the expectations of these critical stakeholders.

As we progress our understanding of which potential risks are most material to BOQ we will continue to develop climate-related policies to best mitigate material risks.

STRATEGY

BOQ's approach to climate change has been informed by identified risks and opportunities. The risk management section above details how we identified these risks and opportunities. Our transition and physical risks table on page 54 outlines our identified potential climate-related financial impacts.

During FY20 we have further progressed our understanding and response to climate change which has led to the following strategic commitments:

- Retaining our commitment to cease funding directly related to the extraction of fossil fuels by 2024. This includes all coal mining and oil and gas extraction, as well as petroleum exploration;
- Further investing in our capability to identify and respond to climate-related risks and opportunities, particularly through increased climate scenario analysis in FY21. We anticipate this will lead to new and or amended policies;
- Certification under Climate Active Carbon Neutral Standard for Organisations by the end of calendar year 2020
- Source 100% of our electricity consumption from renewable sources by 2025 in line with RE100;
- Continuing BOQ's Energy Efficient Equipment Finance Program with the Clean Energy Finance Corporation (**CEFC**). This was established in 2019 and $8.5 million has been financed.

(1) APRA: https://www.apra.gov.au/news-and-publications/apra-outlines-plans-for-climate-risk-prudential-guidance-and-vulnerability
ASIC: https://asic.gov.au/about-asic/news-centre/speeches/anu-climate-update/

(2) WEF: https://www.weforum.org/reports/the-global-risks-report-2020

GOVERNANCE AND RISK MANAGEMENT

For the year ended 31 August 2020

BOQ AND CLIMATE CHANGE (CONTINUED)

FY20 CLIMATE SCENARIO ANALYSIS RESULTS

This year BOQ performed foundational climate scenario analysis to better understand our potential climate risks and opportunities. This included one acute (drought) and one chronic (sea level rise) scenario as detailed below. The results do not represent a final conclusion on BOQ's climate change exposures. During FY21 we are aiming to further enhance our climate scenario analysis via the assessment of individual and multiple physical and transition climate risks.

Severe drought on agricultural holdings

Determining the nature of a severe long term drought is challenging given droughts are inherently variable with the severity a function of extent, duration and timing. Due to difficulty in simulating a probability-based event, we chose to base the FY20 scenario on the Federation Drought as a previously severe event. At the time of our analysis, agriculture made up 6.5% of our commercial portfolio and the impacts to GDP were considered.

Drought Results

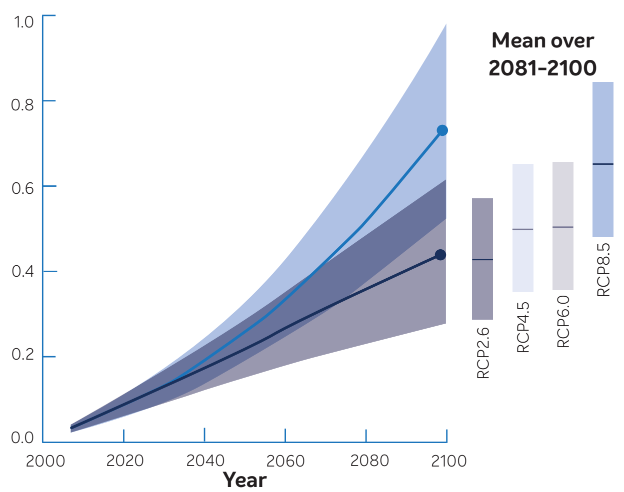
The scenario analysis results did not indicate any material impacts to our business, however we acknowledge more work needs to be done. This may include greater consideration of the changing potential frequency and impact of drought events over time.

Sea Level Rise

Scenarios were considered based on International Panel on Climate Change (**IPCC**) and other global research projections for 2065 and 2100 under Representative Concentration Pathway (**RCP**) 8.5, being an approximate 4OC average of global warming by 2100. The impact of a tidal event was also considered for each sea level rise scenario.

This IPCC graph demonstrates how much mean sea level is projected to increase by to 2100. The scenario with the highest amount of greenhouse gases in the atmosphere (RCP 8.5) which has been used in our sea level rise modelling.

GLOBAL MEAN SEA LEVEL RISE



Sea level rise assumptions

The sea level rise scenario assumes that collateral securities in at risk regions of rising sea levels would lose 100% of their value and any collateral securities that are in regions at risk of a tidal rise would lose 10% of their value

Sea Level Rise Results

The results of sea level rise (excluding tidal rise) at a point in time are as follows:

TIME PERIOD	SEA LEVEL RISE IN SCENARIO	PERCENTAGE OF COLLATERAL AFFECTED	TOTAL COLLATERAL AFFECTED ($M)	LOSS ($M)
2046-2065	0.30m – median of IPCC AR5[1]	0.10%	$47.7	$13.3
2100	0.74m – median of IPCC AR5[1]	0.35%	$213.3	$135.9
2100	0.98m - upper limit of IPCC AR5[1]	0.91%	$481.5	$349.9
2100	1.30m - upper limit of NCA4[2]	0.93%	$497.8	$363.8

(1) Likely range for RCP8.5. IPCC, 2013: Climate Change 2013: The Physical Science Basis. Contribution of Working Group I to the Fifth Assessment Report of the Intergovernmental Panel on Climate Change

(2) Range of plausible high emissions scenario's. The NCA4 also is based off the RCP8.5 scenario but is an updated estimate to include changing Antarctic ice sheets. U.S. Global Change Research Program (2017), Climate Science Special Report: Fourth National Climate Assessment (NCA4), Volume I

Less then 1% of total collateral is estimated as lost when considering the upper limit of the likely range for the highest emission scenario of the highest IPCC RCP8.5 scenario. This translates to an estimated loss of less than $400 million at 2100 but this assumes a sudden occurrence of a sea level rise event of 1.30m overnight. We expect sea level rise to occur at a gradual rate meaning mitigation actions over this time period would likely lower the potential collateral lost. In addition to the $400 million estimated loss, an additional $20-25 million loss is estimated to result from flooding from tidal events.

BOQ recognises the opportunity to further enhance our sea level scenario and analysis to include additional assumptions around cyclones and extreme rainfall as a multiplier of asset flood risk, as well as opportunities to improve our geo-locational collateral data for the scenario analysis.

The direct financial impact of a sea level rise is considered immaterial to our portfolio. However we acknowledge that a sea level rise may materially impact a number of our customers which may result in a potential material reputation (or other) risk for BOQ if our customers are disrupted by climate change and left without BOQ support. There is also a risk of potentially multiple physical risks like coastal erosion and cyclones adding to collateral flood risk. Similarly, updates to the science is unfolding and mitigation strategies will be adjusted over time resulting in a need to revisit sea level rise risk in future.

GOVERNANCE AND RISK MANAGEMENT

For the year ended 31 August 2020

BOQ AND CLIMATE CHANGE (CONTINUED)

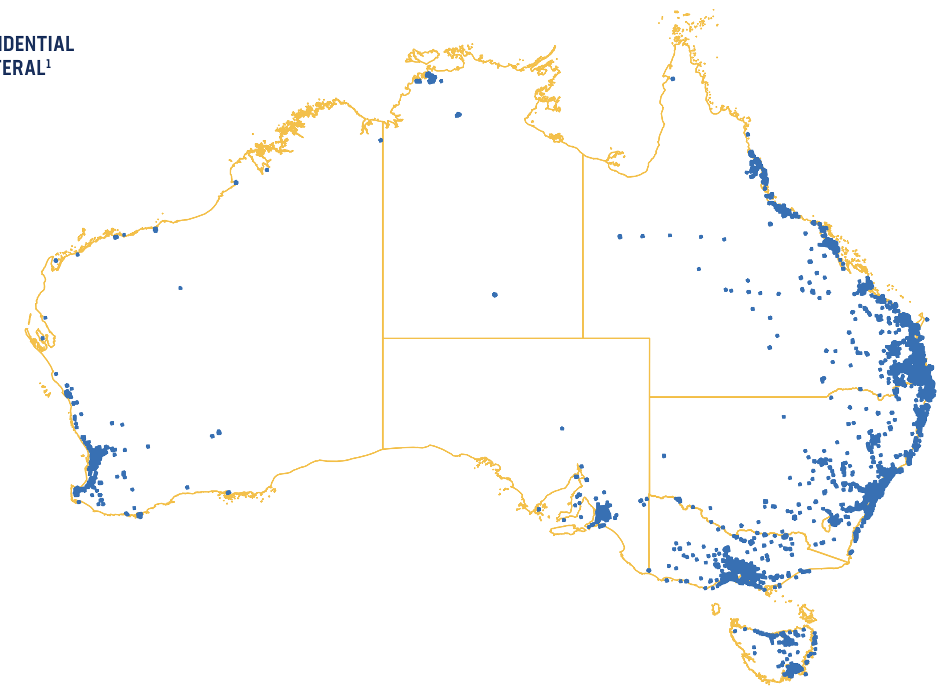
IDENTIFYING OUR FOCUS FOR FUTURE CLIMATE-RELATED FINANCIAL MODELLING

BOQ continues to review our lending portfolio against the potential financial consequences of climate change. The example below highlights how we will expand our current climate scenario analysis approach to include greater and more holistic detail to allow us to prioritise risks by likelihood and magnitude in assessing materiality of potential climate impacts. Our approach will include:

- **Location mapping:** the map below shows the locational data of BOQ's residential mortgage collateral[1] which was utilised in the FY20 sea level scenario modelling
- **Prioritising risks to model:** We will select potential climate impacts most material to the locations where our lending occurs. We recognise physical risks are not always stand-alone and can potentially have multiple impacts such as cyclones, extreme rainfall and erosion which can add to sea-level rise flood risk. Similarly transition risks can have significant macro-economic consequences.
- **Connection to financial drivers:** We will link material financial indicators to identified material climate impacts to model how sensitive they are to BOQ's portfolio and business. This may include a range of top down and bottom up indicators used for economic forecasting and credit risk analysis such as GDP, unemployment, inflation, property valuations and insurability

Given the complexity of the climate change science, going forward we will engage climate scientists and experts to work alongside our credit risk team and utilise any upcoming climate scenario analysis guidance from the TCFD and APRA.

LOCATIONS OF RESIDENTIAL MORTGAGE COLLATERAL[1]



POTENTIAL CLIMATE CHANGE IMPACTS[2]

Heatwaves and droughts will become more intense and frequent across all of Australia

Higher sea levels will increase flooding in coastal regions -greatest impact likely East Coast Australia

Increased risk of bushfires due to hotter and drier weather – greatest impact likely South East Australia

Cyclones likely to become more intense but less frequent – greatest impact likely North East & North West Australia

Extreme rainfall events are likely to become more intense – greatest impact likely North East Australia

Frequency of severe thunderstorms are expected to increase – greatest impact likely South East Australia

(1) These areas are based on locational data for our residential mortgages. This accounts for approximately 75% of our assets.
(2) The identified physical risks are based on our professional judgement informed by resources that include third party publications from IPCC & BOM.

GOVERNANCE AND RISK MANAGEMENT

For the year ended 31 August 2020

BOQ AND CLIMATE CHANGE (CONTINUED)

EXPOSURE TO IDENTIFIED POTENTIAL CLIMATE-RELATED FINANCIAL IMPACTS[1]

The tables below outline BOQ's assessment of sectors most at risk to climate change and our proportionate credit exposures. The climate risk drivers identified below may not necessarily be realised for all customers within the sector. Customer level impacts will likely be realised based on unique exposures from geography, asset type, diversity and operations of the business models therein.

BOQ's identified potential climate-related impacts have been developed through professional judgement applied after a review of scientific and industry research. The physical and transition impacts of climate change are already being felt across the community, such as the recent Black Summer bushfires and calls for green-led COVID-19 stimulus recovery. BOQ sees the physical risks as proportionately more likely to manifest over the medium to longer term (1-30+) years, whereas transition risks may proportionately arise sooner (1-10) years. The latter depends on the actions taken by governments, regulators, businesses and consumers in response to climate change.

CREDIT RISK			TRANSITION RISKS				PHYSICAL RISKS	
SECTORS	$M	% OF TOTAL EXPOSURE	TECHNOLOGY	POLICY & LEGAL	MARKETS	REPUTATION	CHRONIC	ACUTE
Residential Mortgages	31,155	66.9%						
Property & Construction	5,046	10.8%						
Healthcare	3,305	7.1%						
Professional Services	1,272	2.7%						
Agriculture	1,105	2.4%						
Transportation	750	1.6%						
Manufacturing & Mining	788	1.7%						
Hospitality & Accommodation	618	1.3%						
Other[2]	2,522	5.47%						
TOTAL	**46,560**	**100%**						
PER BALANCE SHEET [3]	**47,043**							

Legend Less risk | Moderate risk | Higher risk

(1) The sensitivity of climate risk drivers are based on our professional judgement over the next 30 years informed by resources that include third party publications from IPCC. Shading is also considered as comparative to other industries.
(2) Where climate risk drivers shaded white, more information/data is required to inform our professional judgement of the sensitivity of climate risk drivers.
(3) This also includes $92 million of Unearned Income reallocated in Credit Risk and the balance of credit cards, overdraft and personal loans.

TRANSITION RISKS

Potential impacts for BOQ and our customers

- Reduced income for businesses/individuals who are currently reliant on unsustainable sources
- Increased transition related expenses
- Changes in demand for products
- Reputational damage
- Enhanced reporting & compliance obligations
- Exposure to litigation
- Asset devaluation

Potential financial impacts for BOQ

- Increased loan impairment expense (reduced capacity for customers to repay)
- Decreased income (if BOQ product/service offerings do not meet customer needs/ expectations)
- Increased expenses
- Devaluation of collateral

PHYSICAL RISKS

Potential impacts for BOQ and our customers

- Reduced asset valuations leading to impaired assets and write-offs of existing assets
- Business disruption
- Reduced profits from increased capital and operating costs and lower sales
- Increased insurance premiums or inability to insure

Potential financial impacts for BOQ

- Decreased value of collateral
- Increased loan impairment
- Decreased income
- Increased expenses

GOVERNANCE AND RISK MANAGEMENT

For the year ended 31 August 2020

BOQ AND CLIMATE CHANGE (CONTINUED)

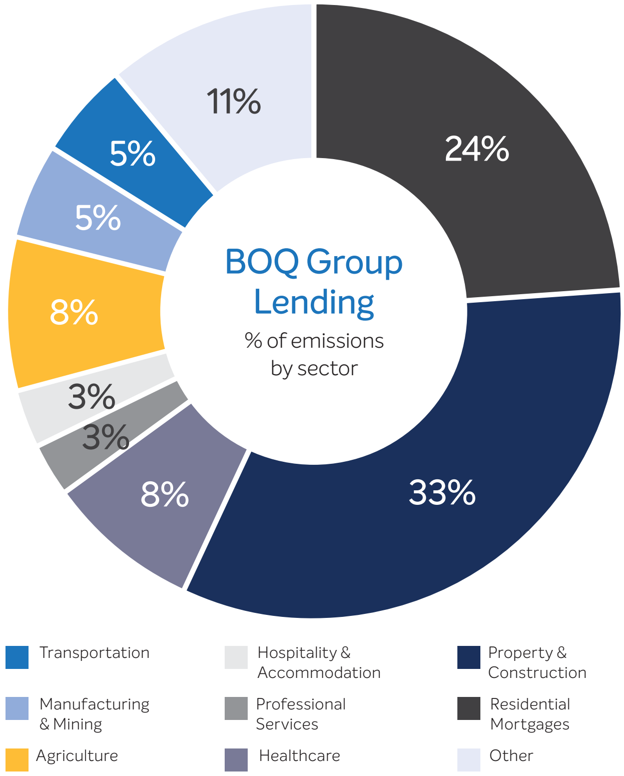
SUMMARY OF CREDIT RISK EXPOSURE'S

Preliminary analysis shows BOQ has limited direct lending exposure to the sectors likely at highest risk of climate change, including fossil fuels and agriculture. However we are continuing to enhance our data to help pinpoint risks and impacts such as improving our geo-locational data mapping to better understand potential physical impacts and increasing our understanding of which mortgage customers may be exposed to high risk industries.

TARGETS & METRICS

Assessed emissions in our lending portfolio

In FY20 we calculated the emission intensity of our lending portfolio which was 0.29kg CO2-e per $ loaned. Residential and commercial property make up 78% of our credit risk exposure and comprise 57% of the carbon emissions from our lending activity. In doing so they indicate where material climate risk and opportunity may lie for BOQ and will likely direct increased attention towards these segments in future. BOQ aims to progressively reduce the emissions intensity of our lending portfolio over time.



BOQ intends to track and report on the following targets and metrics which will be refined in future periods, particularly as a result of more detailed scenario analysis in FY21.

Metric	Targets	FY20 Results
Lending to businesses who are directly involved in the extraction of fossil fuels.	$0 by 2024[1]	• $16m
Carbon intensity of our lending portfolio[2]	Steady decreases in emissions intensity over time.	• 0.29kg CO2-e per $ loaned
Carbon emissions across BOQ's value chain	By 31 August 2021 disclose Scope 1, 2 and 3 emissions and obtain 'Climate Active Carbon Neutral Standard for Organisations' certification.	• Performed a data readiness assessment of Scope 1, 2 and 3 information for future reporting. • Disclosed carbon intensity of loan book
Sourcing 100% renewable energy for our operations	100% renewable energy for our operations by 2025 in line with the RE100 requirements	• Engaged third-party expertise to assist in delivering on this commitment

(1) The year was extended to 2024 (previously 2023) due to extension of credit and changes to loan period for serviceability purposes on an existing facility.

(2) This includes residential, commercial and asset finance. More work needs to be done to understand how we can influence the carbon intensity of our lending portfolio before a more specific target is developed.

OPPORTUNITIES TO PURSUE

As mentioned before, we see significant opportunity in increasing funding for the transition to a resilient net zero carbon future. This may include:

- Engaging more proactively with customers who operate in identified high risk sectors or who are exposed to material physical risks. BOQ recognises the role it plays in helping customers understanding potential risks and in building resilience and mitigation plans
- Increase financing to low and zero carbon projects and sectors that will help drive a resilient net-zero economy of the future. This could include exploring the provision of green and sustainability linked products to build resilience and adaptation for our customers and create new business opportunities for growth and jobs
- Training our people and building further capability on understanding and managing climate related risks and exposures
- Exploring green debt investments including whether a green tranche can be issued to support energy efficient housing loans

GOVERNANCE AND RISK MANAGEMENT

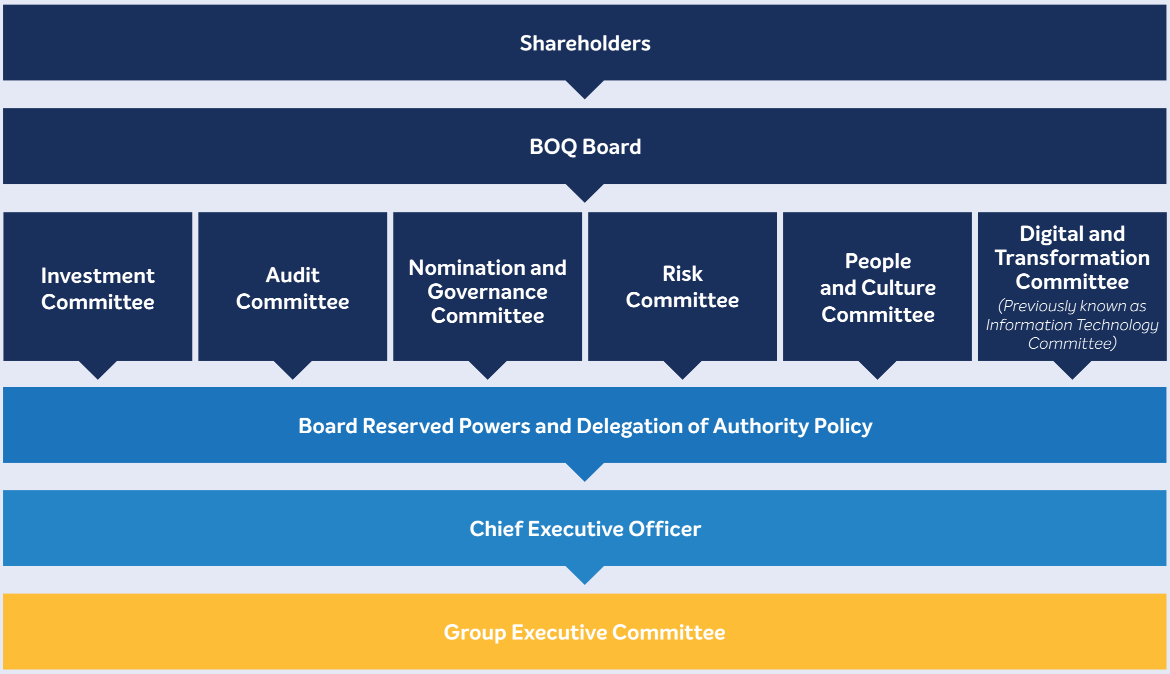
For the year ended 31 August 2020

OUR APPROACH TO CORPORATE GOVERNANCE

BOQ is continuing to focus on enhancing our governance and risk management practices to meet the expectations of our stakeholders. Further details on our Corporate Governance policies and practices are set out in our Corporate Governance Statement which has been prepared in accordance with the ASX Corporate Governance Council's Corporate Governance Principles & Recommendations (4th edition).
Corporate Governance Statement - view here.

CORPORATE GOVERNANCE FRAMEWORK

BOQ's Board is responsible for setting the strategy and risk appetite of the Bank and for leading the culture and values for our people. The Corporate Governance framework sets out how the Board delegates to Management and provides oversight and governance of key decisions.



BOARD AREAS OF FOCUS

During FY20 the Board and its Committees have focused on nine key strategic, governance and oversight activities.

1 Key leadership appointments

- George Frazis, Managing Director & CEO
- Ewen Stafford, Chief Financial Officer & Chief Operating Officer
- Fiamma Morton, General Manager BOQ Business
- Craig Ryman, Chief Information Officer

2 Strengthening of the balance sheet

- $340 million capital raise in November – December 2019

3 Customer experience

- NPS score uplift in FY20
- Focus on ensuring our customers' voices are considered in all decisions made by the Board

4 Culture

- Conducted culture review
- Embarked on culture transformation program to ensure our purpose and values – empathy, integrity and making a difference – are embedded throughout the organisation

5 Digital transformation

- Commitment to a three-year technology uplift program (supported by the November – December 2019 capital raise)
- Focus on: (1) the modernisation of infrastructure, (2) moving to a cloud based digital banking platform and (3) automating processes
- By FY23 we aim to have implemented c.$90 million of productivity benefits

6 Strategy

- Delivery of a clear strategy – announced at February 2020 Investor Day

7 Financial and non-financial risk oversight

- Increased focus on non-financial risk
- Anti-Money Laundering (**AML**) and other regulatory programs

8 Independent Board review

- Focus on improving Board effectiveness and performance
- Implemented a Code of Conduct
- Reduced the size of the Board from 10 non-executive directors to 7 non-executive directors
- Restructured the Information Technology Committee – now referred to as the Digital and Transformation Committee

9 Engagement

- Commitment to be more present in the business and increase interactions with stakeholders – e.g. branch visits, meetings with regulators, investors, etc.

DIRECTORS' DETAILS

For the year ended 31 August 2020

BOARD OF DIRECTORS

Patrick Allaway
BA, LLB
Independent non-executive director since May 2019. Chairman since October 2019. Chair, Investment Committee and Nomination & Governance Committee. Member Information Technology, People, Culture & Remuneration, Audit and Risk Committees.

George Frazis
B. Eng (Hons), MBA
Managing Director and Chief Executive Officer since September 2019.

Kathleen Bailey-Lord
BA (Hons), MAMP, FAICD
Independent non-executive director since May 2019. Member Information Technology, People, Culture & Remuneration, Audit, Risk and Nomination & Governance Committees.

Bruce Carter
B Econ, MBA, FAICD, FICA
Independent non-executive director since February 2014. Chairman Risk Committee, Member Audit, Information Technology, Investment, People, Culture & Remuneration and Nomination & Governance Committees.

Michelle Tredenick
B Sc, FAICD, F Fin
Independent non-executive director since February 2011. Chair Information Technology Committee, Member People, Culture & Remuneration, Risk, Audit and Nomination & Governance Committees.

John Lorimer
B Com
Independent non-executive director since January 2016. Member Information Technology, Risk, People, Culture & Remuneration, Audit and Nomination & Governance Committees.

Warwick Negus
B Bus, M Com, SF Fin
Independent non-executive director since September 2016. Chair People, Culture & Remuneration Committee, Member Audit, Risk, Information Technology, Investment and Nomination & Governance Committees.

Karen Penrose
B Com, CPA, FAICD
Independent non-executive director since November 2015. Chair Audit Committee, Member People, Culture & Remuneration, Risk, Information Technology, Investment and Nomination & Governance Committees.

DIRECTORS' DETAILS

For the year ended 31 August 2020

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 **the Group**), being the Bank and its controlled entities, for the year ended 31 August 2020 and the independent auditor's report thereon.

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
PATRICK ALLAWAY *BA/LLB* Chairman Non-Executive Independent Director	Mr Allaway was appointed as a Non-Executive Director of the Bank in May 2019 and was appointed Chairman on 18 October 2019. Mr Allaway has extensive senior executive, non-executive and corporate advisory experience across the financial services, property, media and retail sectors. Mr. Allaway's executive career was in financial services with Citibank and Swiss Bank Corporation (now UBS) working in Sydney, New York, Zurich and London. Mr. Allaway was Managing Director SBC Capital Markets & Treasury with direct responsibility for a global business. Mr Allaway brings over 30 years experience in financial services across financial markets, capital markets and corporate advisory. This included an advisory role in the media sector, responding to considerable digital disruption. Mr Allaway has over 15 years Non-Executive Director experience and was formerly a Non-Executive Director of Macquarie Goodman Industrial Trust, Metcash Limited, Fairfax Media, Woolworths South Africa, David Jones and Country Road Group. Mr Allaway Chaired the Audit & Risk Committees for Metcash, David Jones and Country Road Group. Mr Allaway is currently a non-executive Director of Allianz Australia, Nine Entertainment Co and Dexus Funds Management Limited. He is also the Chair of both BOQ's Investment Committee and Nomination & Governance Committee and is member of BOQ's Information Technology, Human Resources & Remuneration, Audit and Risk Committees.
GEORGE FRAZIS *B. Eng. (Hons)* *Master of Business Administration (1992)* *Managing Director & CEO* Executive Director	George joined BOQ as Managing Director and CEO in September 2019 and has over 26 years' corporate experience. George has a long history in Banking and Finance, having worked in the industry for the past 17 years. Most recently he was Chief Executive of Westpac Group's Consumer Bank. Prior to that George was CEO, St. George Banking Group and Chief Executive, Westpac New Zealand Limited. George has held senior executive roles at National Australia Bank, Commonwealth Bank of Australia, as well as Air New Zealand. He started his career as an Officer in the Royal Australian Air Force.

DIRECTORS' DETAILS

For the year ended 31 August 2020

Name, qualifications and independence status	Experience, special responsibilities and other Directorships
KATHLEEN BAILEY-LORD *BA (Hons), MAMP, FAICD* Non-Executive Independent Director	Ms Bailey-Lord was appointed as a Non-Executive Director of the Bank in May 2019. Ms Bailey-Lord is an experienced company director and corporate advisor. Ms Bailey-Lord is currently a Non-Executive Director of QBE Insurance (AUSPAC), Melbourne Water and Monash College. Ms Bailey-Lord has 20 years of senior executive experience across Australia, New Zealand and Asia. Ms Bailey-Lord has led businesses through complex and transformational change, often leveraging digital solutions to enable new business models. Ms Bailey-Lord's experience spans the technology industry at IBM, financial services at ANZ Bank, professional services and marketing/media. Ms Bailey-Lord sits on the AICD Victorian Council and the AICD Technology, Governance and Innovation Panel (pro bono roles). She is a member of Chief Executive Women. Ms Bailey-Lord is a member of the Information Technology, People, Culture & Remuneration, Audit, Risk and Nomination & Governance Committees.
BRUCE CARTER *B Econ, MBA, FAICD, FICA* Non-Executive Independent Director	Mr Carter was appointed a Director of BOQ 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, Deputy Chair of SkyCity Entertainment Group Limited and a Non-Executive Director of Eudunda Farmers Ltd, AIG Australia Ltd and Sage Group Holdings Ltd. Mr Carter is Chair of the Risk Committee and a member of the Audit, Information Technology, Investment, People, Culture & Remuneration and Nomination & Governance Committees.
WARWICK NEGUS *B Bus, M Com, SF Fin* Non-Executive Independent Director	Mr Negus was appointed a Director of BOQ on 22 September 2016. Mr Negus brings more than 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 a Director of the University of NSW (UNSW) Foundation and FINSIA. Mr Negus is Chair of Pengana Capital Group and a Non-Executive Director of Washington H Soul Pattinson & Co Ltd, Virgin Australia Holdings Limited and Terrace Tower Group. He is a member of the Council of UNSW and Chair of UNSW Global Limited. Mr Negus is Chair of the People, Culture & Remuneration Committee and a member of the Audit, Risk, Information Technology, Investment and Nomination & Governance Committees.

DIRECTORS' DETAILS

For the year ended 31 August 2020

Name, qualifications and independence status	Experience, special responsibilities and other Directorships
KAREN PENROSE *B Com, CPA, FAICD* Non-Executive Independent Director	Ms Penrose was appointed a Director of BOQ on 26 November 2015. Ms Penrose is an experienced non-executive director and banker. As a banker, Karen has 20 years' experience leading businesses within Commonwealth Bank of Australia and HSBC and over ten years in accounting and finance roles. Ms Penrose has particular expertise in the financial services, health, property, resources and energy sectors. Ms Penrose is a Non-Executive Director of Vicinity Centres Limited, Ramsay Health Care Limited and Estia Health Limited. Ms Penrose was formerly a Non-Executive Director of AWE Limited, Spark Infrastructure Group and Future Generation Global Investment Company Limited. She is a member of Chief Executive Women. Ms Penrose is Chair of the Audit Committee and is a member of each of the People, Culture & Remuneration, Risk, Information Technology, Investment and Nomination & Governance Committees.
MICHELLE TREDENICK *B Sc, FAICD, F Fin* Non-Executive Independent Director	Ms Tredenick was appointed a Non-Executive Director of BOQ in February 2011. Ms Tredenick is an experienced company director and corporate advisor with over 30 years' experience in leading Australian businesses. Ms Tredenick is currently a Non-Executive Director of Insurance Australia Group Limited (IAG), Cricket Australia, First Sentier Investors Holdings Pty Ltd and Urbis Pty Ltd. She is a member of the Senate of the University of Queensland (UQ) as well as sitting on the board of the Ethics Centre. Ms Tredenick has previously held senior executive roles at National Australia Bank, MLC and Suncorp. Ms Tredenick is Chair of the Information Technology Committee and is a member of each of the People, Culture & Remuneration, Risk, Audit and Nomination & Governance Committees. Ms Tredenick will be retiring from the BOQ Board at the conclusion of the 2020 AGM.
JOHN LORIMER *B Com* Non-Executive Independent Director	Mr Lorimer was appointed a Director of BOQ on 29 January 2016. Mr Lorimer has spent more than 30 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 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, Bupa Aged Care Holdings Pty Ltd and Chairman of Bupa (Asia) Ltd. Mr Lorimer is a member of the Information Technology, Risk, People, Culture & Remuneration, Audit and Nomination & Governance Committees.

DIRECTORS' DETAILS

For the year ended 31 August 2020

COMPANY SECRETARIES

FIONA DALY

LLB, LLM, AGIA, ACG, MAICD

Ms Daly joined BOQ in October 2018 and was appointed joint company secretary on 30 April 2019. Ms Daly commenced her career as a corporate lawyer at Phillips Fox (now DLA Piper) before joining Allens. Prior to working for BOQ, Ms Daly held senior legal and regulatory roles including as senior legal counsel, global regulatory affairs manager and joint company secretary at Energy Developments, an international energy company.

VICKI CLARKSON

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

On 4 September 2020, Ms Clarkson stepped down from her role as company secretary.

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	People, Culture & Remuneration Committee – BOQ & St Andrews	Information Technology Committee	Investment Committee	Tenure as at 31 August 2020
Roger Davis (1)	2/2		2/2	2/3	1/1				11 Years, 2 months
Patrick Allaway (2)	14/14		6/6	6/6	3/3	8/8	5/5	2/2	1 year, 4 months
George Frazis (3)	13/13								1 year
Kathleen Bailey-Lord	14/14				3/3	8/8	5/5		1 year, 4 months
Bruce Carter	13/14		8/8	9/9	4/4		5/5	2/2	6 years, 6 months
Richard Haire (4)	11/11		5/5		1/1	6/6	3/3		8 years
Warwick Negus	14/14			9/9	3/3	8/8		2/2	3 years, 11 months
Karen Penrose	14/14	7/7	8/8	9/9	3/3	8/8		2/2	4 years, 9 months
Michelle Tredenick	13/14		7/8		3/4	7/8	5/5		9 years, 6 months
John Lorimer	13/14		8/8		3/3		5/5		4 years, 7 months
David Willis (5)	4/4	12/12		4/4	1/1	4/4			10 years, 6 months

(1) Roger Davis ceased as Chair on 17 October 2019 and ceased as a Director on 31 October 2019
(2) Patrick Allaway was appointed as Chair from 18 October 2019
(3) George Frazis – Managing Director and Chief Executive Officer from 5 September 2019
(4) Richard Haire ceased as a Director on 8 April 2020
(5) David Willis ceased as a Director on 10 December 2019. David resigned from BOQ Board on 10 December 2019 but continues to serve on St Andrews Board

In addition to the meetings above, the Bank's Directors held six COVID-19 sub-committee meetings.

REMUNERATION REPORT

For the year ended 31 August 2020

CONTENTS

Dear Shareholder,

INTRODUCTION

On behalf of the Board I have pleasure in presenting the FY20 Remuneration Report, my first as Chair of the People, Culture and Remuneration Committee (**PCRC**).

In February we announced our new strategy and have made progress in implementing the five strategic pillars in our ambition to be a bold challenger bank, including a number of changes to our Senior Executive team. George Frazis, our Managing Director and Chief Executive Officer (**MD & CEO**) was appointed in September 2019, followed by the addition of Ewen Stafford as Chief Financial Officer and Chief Operating Officer, Fiamma Morton as Group Executive, BOQ Business and Craig Ryman as Chief Information Officer. We believe that we have a leadership team committed to deliver on BOQ's strategy and purpose in the coming years.

The calendar year 2020 has been an extremely challenging year with the effects of bushfires, the unprecedented global COVID-19 pandemic and resulting economic crisis. This has resulted in difficult conditions for our customers, shareholders and employees. Despite these challenging times, BOQ begins FY21 in a positive financial position with the benefits of the capital raised in late 2019 and strong underlying financials.

FY20 REMUNERATION OUTCOMES

Fixed Remuneration for the Senior Executives appointed during the year was set based on a combination of market competitiveness, the experience of the executive and internal relativities. Fixed remuneration increases were provided to two Senior Executives during FY20 to recognise changes in the scope of roles and contribution (set out in Section 3.5).

Remuneration outcomes for FY20 reflect a range of relevant factors:

- BOQ's performance and outcomes in relation to the five categories in the Board approved Group Scorecard of financial and non-financial measures, in particular, improved customer feedback;
- Explicit consideration of risk events, behaviours and outcomes based on input from our Chief Risk Officer and Board Risk Committee;
- The effect of COVID-19 on BOQ and the additional demands placed on our employees as a result; and
- The experience of our shareholders during the year both in terms of share price and dividends.

Our financial results have been delivered without the benefit of the Government's JobKeeper assistance during the pandemic (although a small number of our franchise operated branches may have received assistance). Importantly, during the year all of our branches remained open and our remuneration outcomes are based largely upon the performance of the business in an extremely difficult year and recognise our people for their sustained focus on our customers.

REMUNERATION REPORT

For the year ended 31 August 2020

The Short Term Incentive (**STI**) Plan was updated for FY20, removing the financial gateway at the beginning of the year, to better reflect the regulatory guidance of having a balance between financial and non-financial measures. After assessing performance across group and divisional/individual performance measures, in particular strong underlying financial and customer performance (as evidenced by growth in NPS), the Board awarded an FY20 STI amount of approximately 60% of target. For Senior Executives this in on average 45% of fixed remuneration and the whole STI amount will be awarded in restricted shares. This will ensure alignment between executives and shareholders over the long term and recognises the difficult year experienced by our shareholders.

In FY20 our Senior Executives took decisive action to resolve legacy issues and develop a clear transformation plan to improve performance. The Board also considered the balance between poor shareholder outcomes in FY20 (which was due to the difficult external operating environment and legacy issues in the business requiring resolution), but on balance determined that the Senior Executives made considerable progress executing the strategy and transformation agenda to grow long term shareholder value as well as supported our customers through a period of hardship.

It is also important to note that in October 2020, based on its annual risk assessment, the Board exercised its discretion to forfeit Tranche 2 and Tranche 3 of the FY18 Deferred STI (restricted shares due to be released in December 2020 and December 2021) for a number of former executives.

The FY16 Long Term Incentive (**LTI**) grant was tested in December 2019. Both the performance hurdles of relative Total Shareholder Return (**TSR**) and relative Earnings per Share (**EPS**) were below the minimum performance threshold. As a result the FY16 grant lapsed in full.

During FY20 the Board undertook an in depth review of the executive remuneration framework with the aim to simplify, support the five pillar strategy and transformation agenda and provide greater alignment with shareholders.

Based on this review a new Senior Executive Remuneration Framework was designed for FY21. The STI and LTI are being replaced by a total variable reward and delivered in Performance Shares and Premium Priced Options. This means the cash component of variable remuneration has been removed. The Premium Priced Options will replace the complex relative hurdles of the LTI plan. Options with a premium exercise price are designed to focus executives on delivering absolute returns for shareholders. We have lengthened vesting periods and the framework is designed to increase focus on long term sustainable performance and shareholder value with the appropriate balance on financial and non-financial measures. A summary on this new framework can be found in Section 1 of this report and full detail will be provided in the Notice of Annual General Meeting (**AGM**).

In March 2020, BOQ commenced a culture change program with the objective of ensuring we have the organisational conditions to support the delivery of our strategy. The first step was to conduct an in-depth diagnosis to build the fact base for change that included a series of interviews, focus groups and a group-wide survey. As a result of this diagnosis, we have designed a program of change to ensure we are best placed to deliver on BOQ aspirations. We value the strength of our culture and the Board remains focused on ensuring that it encapsulates the values we aspire to as a modern, Australian financial institution.

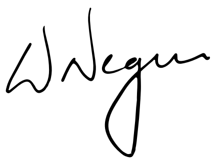
CONCLUSION

The BOQ Board remains committed to remuneration structures which balance stakeholders' interests in the short and long term. In doing so we will ensure continued compliance with the regulatory and legal obligations under which we operate.

When considering the remuneration outcomes for FY20, the Board has considered all stakeholders including customers, shareholders, regulators and our employees. It is the Board's view that the remuneration outcomes for FY20 are appropriate in light of the current environment and our progress in relation to our five strategic pillars announced in February.

I welcome any feedback on the remuneration report and I look forward to seeing you at the AGM in December.

Thank you.
Yours faithfully,



Warwick Negus
Chair BOQ PCRC

REMUNERATION REPORT

For the year ended 31 August 2020

This Remuneration Report has been prepared for consideration by the Bank's shareholders at the 2020 AGM. It outlines the overall remuneration strategy, framework and practices adopted by the Group for the period 1 September 2019 to 31 August 2020 (**FY20**). It has been prepared in accordance with section 300A of the Corporations Act 2001 and has been audited in accordance with section 308(3C).

This report covers the KMP of BOQ which includes the NEDs and Senior Executives.

SECTION 1. REMUNERATION SUMMARY

This section provides a summary of the Senior Executive Remuneration Framework at BOQ for the FY20 year covering both the structure in place and the associated outcomes. Changes made during FY20 are highlighted.

1.1 OUR REMUNERATION OBJECTIVES

The remuneration framework is intended to support BOQ's strategic priorities and be consistent with our purpose and values. Changes made during FY20 and planned for FY21 are highlighted. As we operate in a dynamic and evolving market we review our framework on a regular basis so that we are aligned to market expectations and our strategy.

- Reward sustainable, profitable growth as BOQ executes its strategy
- Reward our people for delivering exceptional customer experiences
- Align our people to long term value creation for our shareholders
- Provide exceptional employee experiences, including performance and reward to attract and retain a diversity of high-quality talent
- Ensure remuneration structures are consistent with our purpose-led culture, clear accountability frameworks and robust risk management framework
- Take into account prudent risk management in accordance with BOQ's risk appetite

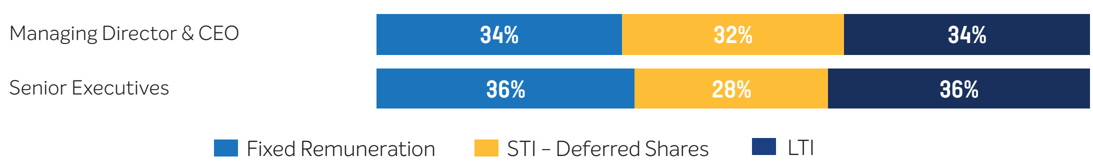
1.2 REMUNERATION STRUCTURE AND OUTCOMES FOR FY20

1.2.1 Structure

The Senior Executive Remuneration Framework at BOQ in FY20 comprised three components making up Total Remuneration: Fixed Remuneration, STI and LTI. The STI and LTI together constituted Variable Remuneration.

Figure 1 below illustrates the components of remuneration at the target/performing level and are expressed as a percentage of Total Remuneration.

Figure 1 – Remuneration Mix (at Performing / Target level)



For FY20, the total STI awarded to Senior Executives will be delivered in restricted shares. The previous policy was 50% in cash and 50% in restricted shares.

REMUNERATION REPORT

For the year ended 31 August 2020

1.2 REMUNERATION STRUCTURE AND OUTCOMES FOR FY20 (CONTINUED)

1.2.2 FY20 Awards

In FY20 the STI target was 90% of Fixed Remuneration for the MD & CEO and 75% for the other Senior Executives. BOQ's policy has been to pay 50% of the STI in cash and the remaining 50% in deferred restricted shares. In FY20, 100% of the STI award will be delivered in deferred restricted shares.

The LTI value was based on 100% of Fixed Remuneration and granted in December 2019. The FY20 LTI grant consists of Performance Award Rights (**PARs**), which vest at the end of four years subject to relative TSR (80%) and relative EPS (20%) and will be tested in December 2023. Additional details are outlined in Section 3.4 and 4.3.

Figure 2 below illustrates the delivery profile of the different components of FY20 Senior Executive remuneration. It shows the time period over which performance is measured, when each component is awarded and when the deferred elements' vesting will be assessed.

Figure 2 – Remuneration Components Delivery

FY20	Dec-20	Dec-21	Dec-22	Dec-23
Fixed Remuneration (Cash and Superannuation)				
STI Performance Year	100% deferred into equity	40% vests	30% vests	30% vests
LTI Granted December 2019		LTI Performance Period		LTI vests subject to relative TSR & EPS Performance

For FY20, the total STI awarded to Senior Executives will be delivered in restricted shares. The previous policy was 50% in cash and 50% in restricted shares.

1.2.3 FY20 STI Outcome

STI performance was assessed against the Group Scorecard which is based on five categories containing a balance of financial and non-financial measures. These were set at the beginning of the financial year with Senior Executives sharing the same group measures and with individual measures tailored to each Senior Executive's role.

For FY20 after making an assessment against the Group Scorecard, the Board, in considering the current environment and the strong underlying financial performance of BOQ awarded approximately 60% of target STI to the Senior Executives. However, the Board determined that 100% of the STI awarded to the Senior Executives will be delivered in restricted shares deferred over three years. Additional details are outlined in Sections 3.2 and 4.2.

1.2.4 FY16 LTI (tested in FY20)

The FY16 LTI grant was tested in December 2019. Both the performance hurdles of relative TSR and relative EPS were below the minimum performance threshold. As a result the FY16 grant lapsed in full.

REMUNERATION REPORT

For the year ended 31 August 2020

1.3 CHANGES MADE IN FY20 AND THOSE PLANNED FOR FY21

1.3.1 Changes made to BOQ's remuneration structure and policy during FY20

A number of changes were made to the Group STI plan for FY20 in order to simplify the plan and to better align the Senior Executives with performance:

- The EPS financial gateway was removed to provide greater balance between financial and non-financial results (for example customer and risk outcomes). Threshold levels of performance were established for financial and non-financial measures to ensure that STIs are not paid when performance does not reach acceptable levels. The conduct and risk behaviour gateways were retained.
- The two scorecards for the STI were replaced with a single scorecard based on Group KPIs and Divisional/Individual KPIs in order to simplify the approach, reduce the number of measures and to provide greater clarity over key focus areas. The new scorecard continued to use the four categories of Customer, Shareholder, Strategy and Culture with the addition of a new category measuring Strength and Risk. The weighting between financial and non-financial KPIs was set at approximately 50% each (except for the CRO).
- The Board increased the circumstances in which malus can be applied as outlined in Section 5.5.
- All the Senior Executives (excluding the MD & CEO) had the same target opportunity of 75% of fixed remuneration in order to simplify the plan and to bring the Senior Executives in line with internal and external relativities. The target opportunity for the MD & CEO was 90% of fixed remuneration. The maximum opportunity for Functional Executives increased to 110% of fixed remuneration and remained at 140% for Line Executives and 150% for the MD & CEO.

1.3.2 For FY21 the following changes are being implemented:

- Effective 1 September 2020, changes were made to Board committee memberships. As a result the NEDs now serve on all committees (excluding the Due Diligence and Investment Committees). The NED fee structure has changed to reflect the revised committee composition, market practice and to provide fairness and simplicity. In addition, all fees are now inclusive of superannuation. There is a small uplift to the total fees paid per NED as a result of greater committee participation and rounding to incorporate superannuation, however, as we reduced the size of the Board from 10 NEDs at the start of FY20 to 7 NEDs for FY21 the total annualised NED fees reduced. The total remains within the Shareholder approved fee pool. Further details on the fees can be found in Section 6.
- During FY20 a review was undertaken into the Senior Executive Remuneration Framework to further simplify the framework, ensure long term shareholder value creation, remain compliant with regulatory requirements and to meet the following objectives:
  - increase alignment with shareholders through increasing remuneration delivered through equity and longer vesting periods;
  - encourage long term performance with an appropriate focus on financial and non-financial metrics;
  - focus executives on improving absolute shareholder returns;
  - appropriately reflect our strategy and transformation agenda; and
  - attract and retain executive talent.

As a result of this review we have designed a new framework:

- The current STI and the LTI will be replaced by a Total Variable component that is similar in value to the current package. The Total Variable component will be delivered in Performance Shares and Premium Priced Options. There will be no cash incentives.
- Performance Shares are delivered in rights that convert to restricted shares at the end of the financial year based on an assessment of performance against the Group Scorecard. The FY21 Group Scorecard is weighted 50% to financial measures and 50% to non-financial measures. The targets developed articulate the measures that contribute to BOQ achieving its strategic priorities. The number of rights granted will be based on the share price following the Annual General Meeting (5 day Volume Weighted Average Price (**VWAP**)). The restricted shares vest in equal tranches at the end of years 1, 2 and 3 after the rights are converted. The restricted shares are subject to risk assessment and malus prior to vesting.
- Premium Priced Options vest at the end of years 4 and 5. The number of options granted will be based on the value of the options using the share price following the AGM (5 day VWAP). The exercise price will be set at 120% of the same share price. The options are subject to risk assessment and malus prior to vesting and unvested, vested and exercised options will be subject to dealing restrictions for an additional two years after the original vesting date.

Further information will be provided on the MD & CEO's equity grants in the 2020 Notice of Annual General Meeting and the FY21 Remuneration Report.

REMUNERATION REPORT

For the year ended 31 August 2020

SECTION 2. KMP

The table below identifies Directors and Senior Executives who are KMP and sets out the changes that have occurred in FY20 and up until the date of this Report.

TABLE 1 – DIRECTORS AND SENIOR EXECUTIVES

Directors (Executive and Non-Executive)		Senior Executives	
Current KMP			
Patrick Allaway	Chair (Non-executive) Chair from 18 October 2019	Debra Eckersley	Group Executive, People and Culture
Kathleen Bailey-Lord	Director (Non-executive)	Adam McAnalen	Chief Risk Officer Interim Chief Information Officer from 14 December 2019 to 13 July 2020
Bruce Carter	Director (Non-executive)	Lyn McGrath	Group Executive, BOQ Retail Banking
George Frazis	Managing Director and Chief Executive Officer From 5 September 2019	Fiamma Morton	Group Executive, BOQ Business From 3 June 2020
John Lorimer	Director (Non-executive)	Craig Ryman	Chief Information Officer From 14 July 2020
Warwick Negus	Director (Non-executive)	Ewen Stafford	Chief Financial Officer and Chief Operating Officer From 11 November 2019
Karen Penrose	Director (Non-executive)		
Michelle Tredenick	Director (Non-executive)		
Former KMP			
Roger Davis	Chair (Non-executive) Ceased as Chair 17 October 2019 Ceased as a Director on 31 October 2019	Matthew Baxby	Chief Financial Officer Ceased 31 October 2019
Richard Haire	Director (Non-executive) Ceased 8 April 2020	Peter Sarantzouklis	Group Executive, BOQ Business Ceased 20 January 2020
David Willis	Director (Non-executive) Ceased 10 December 2019	Donna-Maree Vinci	Chief Digital and Information Officer Ceased 13 December 2019

In addition to the above table the following are relevant to KMP changes:

1. Prior to George Frazis commencing with BOQ on 5 September 2019, Anthony Rose held the role of Interim CEO. Upon the commencement of Mr. Frazis, on 31 December 2019 Mr. Rose ceased with BOQ. Mr. Rose was KMP for the period from 1 September to 4 September 2019, however he has not been included in this report as the duration is immaterial.
2. David Willis retired as a director of BOQ and Chair of the PCRC on 10 December 2019 following the 2019 AGM. He retained his role as a director of St Andrew's Insurance.
3. Adam McAnalen acted as Interim Chief Information Officer from December 2019 until Craig Ryman commenced in July 2020. He was not paid any additional remuneration for taking on these additional responsibilities.
4. Michelle Tredenick's retirement as a director was announced on 24 September 2020 with effect from the 2020 AGM on 8 December 2020.
5. Lyn McGrath will retire from BOQ in early 2021.

REMUNERATION REPORT

For the year ended 31 August 2020

SECTION 3. FY20 REMUNERATION OUTCOMES

This section provides further information concerning remuneration outcomes for the FY20 year.

3.1 LINKING PERFORMANCE & REWARD OUTCOMES – VARIABLE REMUNERATION

The Group's financial performance is summarised in Table 2 below together with its relationship to the aggregate amount of STI paid to Senior Executives.

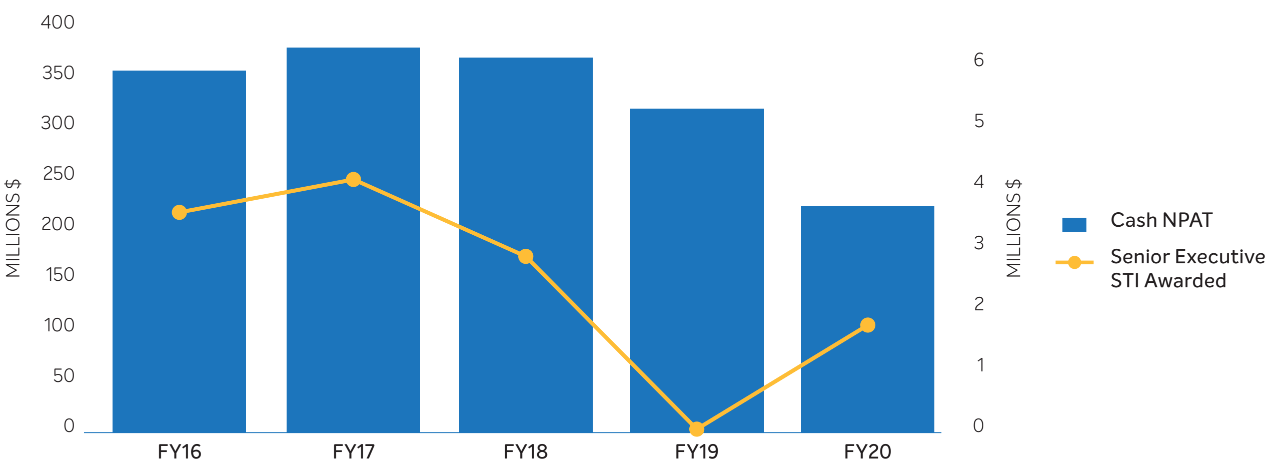
TABLE 2 – BOQ GROUP PERFORMANCE

5 Year Company Performance	2020	2019	2018	2017	2016
Statutory net profit/(loss) after tax ($m)	$115m	$298m	$336m	$352m	$338m
Cash net profit after tax (1)	$225m	$320m	$372m	$378m	$360m
Cash Basic earnings per share (1) (2)	51.1c	79.5c	94.7c	97.6c	95.6c
Cash cost to income ratio (1) (3)	54.2%	51.0%	47.5%	46.6%	46.8%
Share price at balance sheet date	$6.13	$9.17	$11.49	$12.59	$10.55
Total Shareholder Return (1)	-29.8%	-13.9%	-2.70%	26.5%	-10.7%
Value of Dividends paid	$126m	$288m	$341m	$308m	$300m
Senior Executive STI Awarded ($m)	$1.78	-	$2.73	$4.02	$3.55

(1) Non-statutory measures are not subject to audit
(2) Comparatives for basic earnings per share have been adjusted for the effects of the institutional share placement and share purchase plan that occurred during the current financial period.
(3) Cash cost to income ratio has been restated to reflect the change in ratio as a result of the $5 million prior period restatement of employee costs from loan impairment expense to operating expenses.

Figure 3 compares the total STI awarded to the Senior Executives with BOQ's Cash NPAT over the past 5 years.

Figure 3: Senior Executive STI Awarded vs 5 Year NPAT



REMUNERATION REPORT

For the year ended 31 August 2020

3.2 FY20 STI OUTCOMES

Table 3 details the 5 categories of the Group Scorecard and provides commentary of BOQ's performance in FY20 for each. Each measure is assessed individually and overall performance is determined by the averaged outcome.

TABLE 3: SUMMARY OF GROUP SCORECARD OUTCOMES

Pillar	Weighting	Measure	Comment
Customer	15%	Net Growth in Customer Numbers Net Promoter Score Improvement	BOQ's net growth in customer numbers fell below expectations, however NPS performance was very strong with BOQ now placed third, up from fifth.
Shareholder	40%	Group Cash Earnings EPS	Underlying business performance continued the first half's trend of strength, however this was offset by the impact of COVID-19. Underlying after tax cash profit, excluding the collective provision overlay for COVID-19 and the write down of technology assets, was $315 million, $12 million ahead of target.
Strategy / Transformation	15%	Productivity & Operating Model Review Helping more people into their homes Project De Novo	Considerable progress has been made in executing against our 5 strategic priorities including delivery of $30 million in productivity benefits, the transformation of our home lending process, delivery of key elements of our digital transformation such as the modernisation of our data centres to the cloud and the first phase of the VMA digital bank.
People	15%	Employee Engagement Women in Leadership Culture Leadership & Succession	The impact of COVID-19 on our workforce has been immense with our employees working tirelessly during this period. Although employee engagement improved, it is below expectations. A thorough culture survey diagnostic was run in FY20 and considerable work has been undertaken with respect to executive talent.
Strength & Risk	15%	Board assessment of management of risk Enhancing Strength (CET1)	BOQ continues to have a strong capital position with performance against this metric recorded at the exceptional level.

Acknowledging that FY20 was a difficult year for our shareholders and customers, the business is in a stronger position than it was at the end of FY19. After assessing performance across group and divisional/individual performance measures, with a specific risk overlay, the Board determined that an STI award of approximately 60% of target was appropriate for Senior Executives. The Senior Executive team executed strongly against our strategic agenda and demonstrated strong leadership, moving with agility to adapt to new ways of working whilst retaining productivity and providing dedicated support for our customers.

For eligible Senior Executives, STI outcomes ranged from 50% to 65% of target, which in part reflects differing performance levels across all measures between BOQ revenue generating businesses and support functions.

The Board has elected to award STI to the Senior Executives entirely in restricted shares. Table 4 shows the STI outcomes for FY20 relative to target opportunities.

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For the year ended 31 August 2020

3.2 FY20 STI OUTCOMES (CONTINUED)

TABLE 4: FY20 STI OUTCOMES

Name	Position Title	Actual STI awarded	Target STI	Actual STI % of Fixed Remuneration for the period	Actual STI % of Target	Maximum STI	Actual STI % of maximum	% of Maximum STI Forfeited	% of Award Deferred
George Frazis	Managing Director & Chief Executive Officer	585,000	1,170,000	45%	50%	1,950,000	30%	70%	100%
Debra Eckersley	Group Executive, People & Culture	252,000	420,000	45%	60%	616,000	41%	59%	100%
Adam McAnalen	Chief Risk Officer	303,750	506,250	45%	60%	742,500	41%	59%	100%
Lyn McGrath	Group Executive, Retail Banking	236,250	472,500	38%	50%	882,000	27%	73%	100%
Fiamma Morton	Group Executive, BOQ Business	78,750	131,250	45%	60%	245,000	32%	68%	100%
Craig Ryman	Chief Information Officer	40,950	68,250	45%	60%	100,100	41%	59%	100%
Ewen Stafford	Chief Financial Officer & Chief Operating Officer	283,240	435,750	49%	65%	639,100	44%	56%	100%

In the table above the STI awards for Fiamma Morton, Craig Ryman and Ewen Stafford have been pro-rated for the period they were employed. Former Senior Executives (Matt Baxby, Donna-Maree Vinci and Peter Sarantzouklis) were not eligible for an FY20 STI award. For FY20, all Senior Executive STI will be delivered in restricted shares.

3.3 LTI VESTING DURING FY20

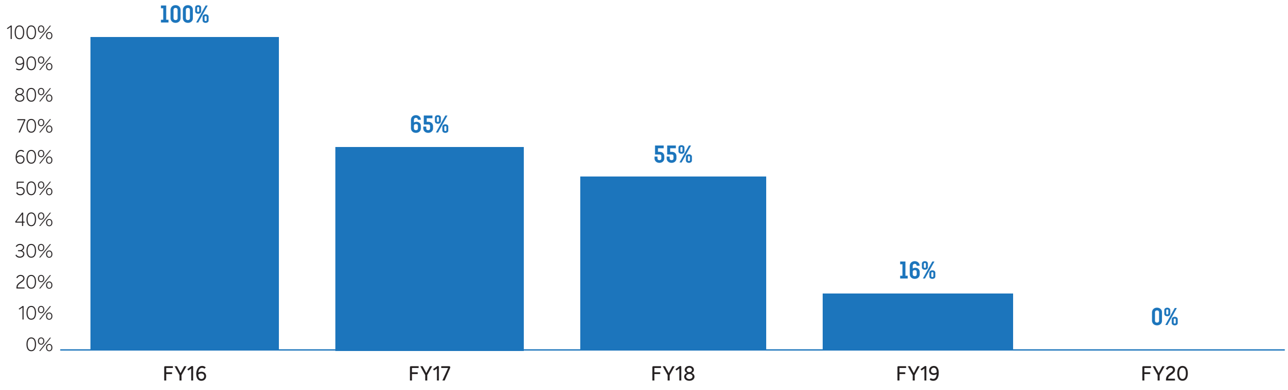
PARs granted in 2016 were tested in December 2019 consistent with plan terms. This grant was subject to two performance hurdles being relative TSR with an 80% weighting and relative EPS with a 20% weighting. None of the PARs granted in 2016 vested in 2019.

The statutory tables in Section 7 set out the detail of LTI awards forfeited by individual qualifying Senior Executives. The results of the testing is presented in Table 5 below.

TABLE 5 – LTI VESTING OUTCOMES LTI VESTING OUTCOMES – 2016 GRANT

Grant Date	Performance Period	Vesting Hurdle	Performance Outcome
23/12/2016	6 October 2016 to 17 October 2019	TSR ranking of at least 50th percentile	BOQ TSR achieved ranking of 39th percentile, which was below the threshold level of performance, resulting in none of the TSR tranche vesting.
		Relative EPS ranking of at least 60th Percentile	BOQ EPS achieved ranking of 23rd percentile resulting in 0% of the EPS tranche vesting

Figure 4 – Percentage of LTI vesting over the last five years



REMUNERATION REPORT

For the year ended 31 August 2020

3.4 FY20 LTI (GRANTED DECEMBER 2019)

The FY20 LTI was granted in December 2019 in the form of PARs. The allocation value was based on 100% of Fixed Remuneration and granted on 19 December 2019.

The award for the MD & CEO was approved by the shareholders at the 2019 AGM and the number of PARs was determined using a 5 day VWAP leading up to and including the day prior to his commencement on 5 September 2019. For the other Senior Executives the VWAP was based on the five trading days after the annual results were released in October.

The performance conditions include relative TSR and EPS and a four year vesting period. The TSR performance period commenced on 17 October 2019 and is tested after the date of the announcement of BOQ's full year results in October 2023.

Table 6 below summarises Senior Executive LTI grants (PARs):

TABLE 6 – LTI GRANTED IN FY20

	Position Title	Fixed Remuneration at time of LTI grant	LTI% of Fixed Remuneration	LTI Grant at Face Value $	FY20 PARs Granted
Current					
George Frazis	Managing Director and Chief Executive Officer	$1,300,000	100%	$1,300,000	143,215
Debra Eckersley	Group Executive, People & Culture	$525,000	100%	$525,000	57,397
Adam McAnalen	Chief Risk Officer	$600,000	100%	$600,000	65,597
Lyn McGrath	Group Executive, Retail Banking	$630,000	100%	$630,000	68,877
Ewen Stafford	Chief Financial Officer and Chief Operating Officer	$700,000	100%	$700,000	76,529
Former					
Peter Sarantzouklis (1)	Group Executive, BOQ Business	$690,000	100%	$690,000	75,436

(1) Mr Sarantzouklis' PARs lapsed on cessation of employment

3.5 SENIOR EXECUTIVE TOTAL REWARD OUTCOMES FOR FY20 (NON-STATUTORY DISCLOSURE)

This section provides a summary of the total benefit earned by Senior Executives with respect to performance over the FY20 period. As with previous years this non-statutory table is provided to show what Senior Executives actually received with respect for FY20 including the value of any other benefits plus deferred STI and LTI which has vested. It excludes unvested STI and LTI.

The tables below includes a breakdown of the following components of Senior Executive remuneration;

- FY20 fixed remuneration which includes base salary plus superannuation;
- The value of non-monetary and other short-term benefits provided in FY20; and
- Variable remuneration which comprises:
  - Zero values for the cash component of the STI as all of the FY20 STI award will be delivered in restricted shares.
  - The value of previously granted deferred STI and LTI which vested. In addition we have provided the value of deferred STI or LTI which lapsed or forfeited during the period.

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3.5 SENIOR EXECUTIVE TOTAL REWARD OUTCOMES FOR FY20 (NON-STATUTORY DISCLOSURE) (CONTINUED)

TABLE 7 – NON-STATUTORY DISCLOSURE

Current	Position Title	Year	Fixed Remuneration (1)	Value of Benefits (2)	STI Cash (3)	Value of Deferred Equity Vested in Period (4)	Termination Benefits	Value of LTI Vested in Period (5)	Total Reward Value (6)	Prior Years' Equity Forfeited / Lapsed (7)
George Frazis (8)	Managing Director & CEO	2020	1,280,789	59,289		–	–	–	1,340,078	–
Debra Eckersley (9)	Group Executive, People and Culture	2020	541,914	–	–	–	–	–	541,914	–
		2019	524,651	–	–	–	–	–	524,651	–
Adam McAnalen (10)	Chief Risk Officer	2020	640,639	6,040	–	27,662	–	–	674,341	(83,235)
		2019	150,206	1,453	–	–	–	–	151,659	–
Lyn McGrath	Group Executive, BOQ Retail Banking	2020	627,707	20,823	–	74,583	–	–	723,113	–
		2019	520,530	37,196	–	483,274	–	–	1,041,000	–
Fiamma Morton (11)	Group Executive, BOQ Business	2020	169,551	2,237	–	–	–	–	171,788	–
Craig Ryman (12)	Chief Information Officer	2020	91,187	2,083		–	–	–	93,270	–
Ewen Stafford (13)	Chief Financial Officer and Chief Operating Officer	2020	564,762	32,119	–	–	–	–	596,881	–
Former										
Matthew Baxby (14)	Chief Financial Officer	2020	164,599	–	–	121,424	104,452	–	390,475	(1,019,375)
		2019	652,596	–	–	193,064	–	67,993	913,653	(356,980)
Peter Sarantzouklis (15)	Group Executive, BOQ Business	2020	296,481	3,569	–	–	12,816	–	312,866	(564,261)
		2019	39,294	450	–	–	–	–	39,744	–
Donna-Maree Vinci (16)	Chief Digital & Information Officer	2020	204,638	13,792	–	91,726	568,756	–	878,912	(1,319,686)
		2019	575,740	56,800	–	140,274	–	148,729	921,543	(781,287)

(1) Base remuneration and superannuation make up a Senior Executive's fixed remuneration, including annual leave paid during the year. For departing KMP this includes any leave which is paid out upon termination of employment, which is not included in Table 10 in Section 7.1.
(2) Value of benefits includes both non-monetary and other short term benefits and relate to benefits (and associated FBT) such as car parking, accommodation or relocation and travel for Senior Executives disclosed above.
(3) The STI awarded for FY20 will be delivered in restricted shares only.
(4) The value of all deferred cash and/or equity awards (closing share price on vesting date) that vested during FY20. This excludes deferred equity awards granted in previous years which have not vested in FY20.
(5) This relates to PARs that vested during the financial year (closing share price on vesting date).
(6) This is the total $ value of fixed remuneration, Value of Benefits, STI cash, Value of Deferred Equity Vested in Period, Termination Benefits and Value of LTI Vested in Period.
(7) This relates to PARs which lapsed during the year as a result of hurdles not being met and/or as a result of ceasing employment (closing share price on lapsed date).
(8) George Frazis assumed the role of MD & CEO on 5 September 2019.
(9) Debra Eckersley assumed the role of Group Executive, People and Culture on 3 September 2018 and received an increase in fixed pay effective 11 December 2019 to $560,000 to reflect increase in accountabilities and internal relativities.
(10) Adam McAnalen was promoted into the role of Chief Risk Officer on 1 June 2019 and received an increase in fixed pay effective 1 February to $675,000 to reflect internal relativities.
(11) Fiamma Morton assumed the role of Group Executive, BOQ Business on 3 June 2020.
(12) Craig Ryman assumed the role of Chief Information Officer on 14 July 2020.
(13) Ewen Stafford assumed the role of Chief Financial Officer and Chief Operating Officer on 11 November 2019.
(14) Matthew Baxby ceased employment on 31 October 2019.
(15) Peter Sarantzouklis assumed the role of Group Executive, BOQ Business on 12 August 2019 and ceased on 20 January 2020.
(16) Donna-Maree Vinci ceased employment on 13 December 2019.

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For the year ended 31 August 2020

SECTION 4. REMUNERATION STRATEGY & STRUCTURE

For FY20 the reward for the Senior Executives was made up of three elements: Fixed Remuneration, STI and LTI. This section outlines the structure of each of these elements.

4.1 FIXED REMUNERATION

Fixed remuneration, which comprises salary, superannuation and other benefits is determined based upon market competitiveness relative to companies exhibiting similar characteristics and dynamics as BOQ, internal relativities, changing market trends and expectations and all regulatory considerations.

4.2 BOQ STI PLAN

Purpose	The STI Plan aims to reward the Senior Executives' contribution to specific annual BOQ Group and individual performance objectives.
Performance Period	BOQ's financial year, i.e. the 12 months from 1 September to 31 August.
Award Opportunity – expressed as a % of Fixed Remuneration (**FR**)	Target/Performing: MD & CEO – 90%; Divisional Executive – 75%; Functional Executive – 75% Maximum/Exceptional: MD & CEO – 150%; Divisional Executive – 140%; Functional Executive – 110%
Gateway	For each Senior Executive there is a gateway in the form of a qualitative assessment made against BOQ's values of Integrity, Empathy and Making a Difference and also taking into account conduct and risk behaviours which include any events in a Senior Executive's division of responsibility.
Pillars/Measures	The Group and Individual measures are based around five categories aligned to BOQ's strategy.

Category	Example of Measures	MD & CEO Divisional Executives Weighting	Functional Executives Weighting	CRO Weighting
Customer	Growth in customer numbers and customer satisfaction	15%	15%	15%
Strategy/ Transformation	Measures progress towards achievement of BOQ's strategy	15%	20%	25%
Shareholder	Financial measures including Group cash earnings and EPS	40%	35%	20%
People	Employee engagement, diversity and culture measures	15%	15%	15%
Strength & Risk	Board assessment of the management of risk	15%	15%	25%

The Board approves measures at the beginning of the financial year. The Customer, People and Strength and Risk measures are designed to provide a focus on non-financial performance and to achieve the BOQ's long term objectives in areas such as customer satisfaction and advocacy, employee engagement and risk management.
These measures are designed to balance the focus on customers and the community. Our Strategy and Transformation category contains a combination of financial (including productivity) and non-financial measures on progress on the delivery of our strategy. The Shareholder category measures are designed to provide a direct link with shareholders, to encourage prudent cost management and to encourage asset quality. Individual measures include financial and non-financial measures specific to the participant's division. For the revenue generating divisions (Retail and BOQ Business) a financial measure of divisional NPAT is used whereas operating budget is used for the functional divisions. Non-financial measures include divisional growth in customer numbers, customer satisfaction, delivery of divisional strategic and project plans, divisional employee engagement, diversity and divisional risk measures.

Award Determination	Performance outcomes are assessed relative to the five categories outlined above. STI is awarded across the performance range up to a capped maximum at the exceptional level of performance. PCRC and the Board review the outcomes of the Group Scorecard and Senior Executives' scorecard outcomes alongside the qualitative assessment of values, conduct and risk behaviours.
Board Discretion/Overlay	The Board reviews all Senior Executive STI awards and retains overarching discretion to pay or withhold any STI. When reviewing STI awards the Board is able to view performance retrospectively having regard for factors which may not have been foreseen when the measures were set at the beginning of the financial year.
Delivery	BOQ Policy states that STI Awards for Senior Executives are paid in cash where the value is $100,000 or less. Where the value of the STI award is above $100,000 a minimum of 50% of the award is deferred over three years in the form of restricted shares. The cash component of any STI award is generally paid in November following release of the full year results. The restricted shares are subject to forfeiture and vest 40% after 1 year, 30% after 2 years and 30% after 3 years subject to specified employment conditions. The Board retains the discretion to increase the deferred component award, including up to 100% of the STI. In relation to FY20, the Board has determined that 100% of the STI awarded to Senior Executives will be deferred over three years in the form of restricted shares with no cash component.

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4.3 BOQ LTI PLAN

Purpose	The LTI Plan's purpose is to align Senior Executives' interests with stakeholders over the medium to long term. LTI is granted to Senior Executives on the basis of retention and potential.
Instrument	LTI is provided to Senior Executives under the BOQ Group Award Rights Plan, which includes the ability to grant PARs, subject to both performance and service related vesting conditions. Each PAR confers the right upon vesting to one ordinary share in BOQ or the cash equivalent value. Shares delivered upon vesting are either issued or procured on market at the Board's discretion.
Opportunity	The value of the LTI grants to Senior Executives are typically made in the range of 80% to 120% of Fixed Remuneration. For FY20 the grant value was 100% of Fixed Remuneration as at grant date for all Senior Executives. The number of PARs granted is determined by dividing the participant's dollar denominated grant by a VWAP of the five trading days after the announcement of BOQ's full year results. Accordingly PAR grants are made at face value. The FY20 LTI allocation for Mr Frazis (MD & CEO) has the VWAP calculation on the five trading days immediately prior to his commencement date of 5 September 2019.
Measurement Period	PARs have a four year measurement/vesting period. The measurement period generally begins in October following the announcement of BOQ's full year results.
Vesting Conditions	A participant must remain employed during the measurement period or be considered a good leaver for PARs to vest. Vesting is also subject to the performance conditions: • 80% of the PARs are subject to a relative TSR condition; and • 20% of the PARs are subject to a relative cash EPS condition.
Total Shareholder Return	TSR is the measurement of the entire return (including dividends) a shareholder would obtain from holding an entity's securities over the period. The LTI plan uses relative TSR which compares the TSR of BOQ with the performance of a Peer Group comprising the companies in the S&P/ASX 200 excluding resources, real estate investment trusts, telecommunications (offshore headquartered), energy and utilities. Vesting of the TSR tranche is tested independently and is subject to the following scale:

BOQ's TSR vs ASX 200 Peer Group	% of TSR Tranche Vesting
At or above 75th Percentile	100%
Between 50th and 75th Percentile	Pro-rata on a straight-line basis between 50% and 100%
At 50th Percentile	50%
Below 50th Percentile	0%

Cash Earnings per share	Cash EPS is the measure of financial performance of cash flow generated by the company on a per share basis. It is calculated by dividing cash NPAT by the total number of ordinary shares on issue. BOQ's EPS is measured against a Peer Group comprising five Financial Services companies: Australia & New Zealand Banking Group, Commonwealth Bank of Australia, National Australia Bank, Westpac Banking Corporation and Bendigo & Adelaide Bank. Vesting of the EPS tranche is tested independently by an external provider and is subject to the following scale:

BOQ's EPS vs Financial Services Peer Group	% of EPS Tranche Vesting
At or above 90th Percentile	100%
Between 60th and 90th Percentile	Pro-rata on a straight-line basis between 50% and 100%
At 60th Percentile	50%
Below 60th Percentile	0%

Retesting	There is no retesting of any of the vesting conditions and any PARs which do not vest on the testing date will lapse.
Board Discretion	The Board has discretion to reduce the vesting of any LTI award to zero where the Board feels it would be inappropriate for the PARs to vest. The clawback and malus provisions set out in section 5.5 apply to the FY20 LTI award.
Exercise	The exercise price of each PAR is nil. Once the PARs vest, participants can exercise them at any time before the seventh anniversary of the grant.
Disposal Restrictions	Participants may not dispose of PARs prior to exercise. The Board has the discretion to specify any disposal restrictions to be applied to any shares received on exercise of PARs. Any restrictions will be included in the offer provided to Participants. Current unvested PARs on foot do not have any specific disposal restrictions as part of their offers apart from complying with BOQ's Securities Trading Policy.

REMUNERATION REPORT

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SECTION 5. REMUNERATION GOVERNANCE

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

The remuneration strategy and the principles adopted to support this were described in Section 1. In accordance with the PCRC Charter, the remuneration policy was updated during the period, which was approved by the Board in August 2020. The remuneration strategy and policy are reviewed regularly as developments and changes in the regulatory environment become known. This will include the outcomes of APRA's proposed prudential standard CPS 511.

The Chief Risk Officer presented a report to the PCRC as an input for the determination of individual STI awards.

5.1 PCRC CHARTER

During FY20 the Human Resources and Remuneration Committee (**HRRC**) changed its name to the PCRC and the charter was subsequently updated. Under the Group's PCRC charter, the Committee undertakes to conduct regular reviews and provide advice to the Board with regard to the following:

- Reviewing the Group's Remuneration Policy, at least on a biennial basis, to ensure compliance with the Group's objectives including the risk management framework and to reflect changes in the regulatory environment;
- Reviewing and making recommendations to the Board on the design and terms of all employee equity plans;
- Providing recommendations to the Board on remuneration, recruitment, succession, retention and termination policies for Senior Executives;
- An annual review of the individual remuneration arrangements for Senior Executives (MD & CEO and his direct reports), any other Accountable Persons under Banking Executive Accountability Regime **(BEAR)** and all other Responsible Persons (as defined by the APRA Prudential Standard CPS 520);
- Reviewing and making recommendations to the Board on diversity at all levels below the Board, receiving reports on BOQ's gender pay position and the steps taken to close any identified gaps and overseeing execution of the Group's People & Culture strategy;
- Overseeing the preparation of any reports required by law, including the Remuneration Report; and
- Recommending NED remuneration, including ensuring that the structure of NED remuneration is clearly distinguished from that of Senior Executives.

5.2 SECURITIES TRADING POLICY

The Securities Trading Policy regulates dealing by Directors, Employees and Contractors in BOQ securities. Under the policy, Prescribed Persons (those employees with the authority, responsibility or a participatory role in the planning, directing or controlling of the activities of the Group) are prohibited from trading in BOQ securities during certain blackout periods:

- The period commencing 1 March and ending at the close of trading on the ASX one trading day after the announcement of BOQ's half year results;
- The period commencing 1 September and ending at the close of trading on the ASX one trading day after the announcement of BOQ's full year results; or
- Any other period of time nominated from time-to-time by the Chair, the MD & CEO or Chief Financial Officer of BOQ.

If a Director, Employee or Contractor has inside information about the BOQ Group, they must not trade in BOQ securities at any time, including outside of a Blackout period.

5.3 USE OF REMUNERATION CONSULTANTS

Where necessary, the Board seeks advice from independent experts and advisors, including remuneration consultants. The remuneration consultants are engaged by the Chair of the PCRC which ensures, upon engagement, that the appropriate level of independence exists from the Bank's Management. Reports provided by independent consultants are submitted directly to the Chair of the PCRC. Where the consultant's engagement requires a recommendation, the recommendation is provided to and discussed directly with the PCRC Chair in accordance with the requirements of the Corporations Act.

During FY20 the PCRC engaged independent advisors from PricewaterhouseCoopers, Ernst & Young, Godfrey Remuneration Group and Egan Associates to assist with the decision making process. None of the advisors provided a remuneration recommendation as defined under the Corporations Act.

REMUNERATION REPORT

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5.4 BOARD DISCRETION

Senior Executives' remuneration is determined by the remuneration strategy, policy and programs 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 PCRC recognise that there are a number of factors which are specific to the current and forward years and these may be taken into account when considering the overall remuneration outcomes for each year. To account for these factors, the PCRC and Board may make discretionary adjustments to the outcomes for Senior Executives (as well as those employees classified as Responsible Persons) that may impact their remuneration negatively or positively. Through this process, remuneration outcomes have been adjusted both positively and negatively in previous years.

Criteria used by the PCRC to apply discretionary adjustments include:

- Factors either not known or relevant at the beginning of a financial year, which can impact 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;
- Whether the operating environment during the financial year was materially different than forecast;
- Comparison with the performance of the Group relative to its competitors;
- The emergence of any major positive or negative risk or reputational issues;
- The quality of the financial result as shown by its composition and consistency;
- Whether leadership behaviours consistent with the BOQ Code of Conduct and values have been regularly demonstrated throughout the year; and
- Any other matters that the Board and the PCRC deem to be relevant and which are not outlined above.

5.5 CLAWBACK AND MALUS

Clawback and malus provisions are set out in plan rules. In circumstances where it becomes evident there was a material misstatement of financial results, serious misconduct by an individual or financial mismanagement, the Board can exercise discretion to reduce or forfeit (malus) a pro-rated or full value of any unvested deferred STI and/or LTI awards or compel the participant to pay back any vested LTI (clawback).

During FY20 the Board determined that malus provisions for the FY20 LTI grant and the FY20 STI deferred into restricted shares may apply if a plan participant:

- acts fraudulently or dishonestly or have engaged in gross misconduct;
- acts in a manner which brings the Company or the Group into disrepute;
- there is a Financial Misstatement Circumstance;
- the Company or the Group is required or entitled to reclaim remuneration or reduce remuneration outcome under law, regulation, contract or Group policy; or
- vesting is not justified or supportable in the opinion of the Board having regard to an individual's performance and/or conduct.

5.6 GOOD LEAVER AND CHANGE OF CONTROL PROVISIONS

Senior Executives are not eligible to receive an STI or LTI if they resign or are terminated for misconduct or poor performance. However the Board has discretion to consider a pro-rated award based on circumstances where they meet the "good leaver" definition. Commonly good leaver status is granted in the case of redundancy, retirement, Total and Permanent Disablement, death in service or the divestment of a portion of BOQ. Under the STI Plan rules if a Participant is deemed a good leaver, their award for the year will be pro-rated and subject to the same performance testing as if their employment had not ended. Restricted shares granted as deferred STI will be forfeited if the employee ceases employment or if they are terminated for misconduct. PARs granted under the LTI Plan will be pro-rated based on the number of days elapsed in the vesting period with the remaining PARs being retained for testing at the end of the original performance period. The Board retains the discretion to classify an employee as a Good Leaver and to determine the treatment of their award including forfeiture in full in accordance with plan rules.

The Board retains discretion to determine the treatment of an STI award in the case of a Change of Control including the early payment for the whole or part of a performance period. This covers both the cash STI award and the removal of the restrictions on deferred STI. With respect to LTI the Board's policy is that a pro-rata number of PARs will vest depending on the proportion of the vesting period elapsed and the likelihood (at the Board's discretion) that the performance conditions would have been satisfied.

5.7 MINIMUM SHAREHOLDING REQUIREMENTS

NEDs are currently required to hold shares equal in value to one times their base fee within three years of their appointment to the Board or within 12 months of the adoption of the policy (whichever is the latter).

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5.8 EXECUTIVE CONTRACTS

The remuneration and terms of Senior Executive contracts are formalised in their Executive Service Agreement (**ESA**). Each of these agreements provides 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: SENIOR EXECUTIVE CONTRACT TERMS

Current Senior Executives	Position Title	Notice Period by Executive	Employer Notice Period	Termination Payments (includes Notice Periods)
George Frazis	Managing Director & Chief Executive Officer	6 months	9 months	9 months fixed remuneration in lieu of notice
Debra Eckersley	Group Executive People & Culture	6 months	6 months	6 months fixed remuneration in lieu of notice
Adam McAnalen	Chief Risk Officer	6 months	6 months	6 months fixed remuneration in lieu of notice
Lyn McGrath	Group Executive, Retail Banking	3 months	3 months	3 months fixed remuneration in lieu of notice
Fiamma Morton	Group Executive, BOQ Business	6 months	6 months	6 months fixed remuneration in lieu of notice
Craig Ryman	Chief Information Officer	6 months	6 months	6 months fixed remuneration in lieu of notice
Ewen Stafford	Chief Financial Officer & Chief Operating Officer	6 months	6 months	6 months fixed remuneration in lieu of notice
Former Senior Executives				
Matthew Baxby	Chief Financial Officer	3 months	3 months	No fault termination payment of 6 months fixed remuneration plus 3 months fixed remuneration in lieu of notice
Peter Sarantzouklis	Group Executive BOQ Business	6 months	6 months	6 months fixed remuneration in lieu of notice
Donna-Maree Vinci	Chief Digital & Information Officer	3 months	3 months	No fault termination payment of 6 months fixed remuneration plus 3 months fixed remuneration in lieu of notice

REMUNERATION REPORT

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SECTION 6. NON-EXECUTIVE DIRECTOR REMUNERATION

6.1 FEE POOL

NED 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. The Board will not be seeking an increase to the fee pool at the 2020 AGM.

6.2 REMUNERATION FRAMEWORK

Non-executive Director fees are set to attract and retain individuals of appropriate calibre to the BOQ Board and Committees. Fees are reviewed annually by the PCRC having regard to external benchmarking information provided by independent remuneration consultants, principally to ensure market comparability.

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

In order to maintain independence and impartiality, NEDs do not receive any performance-related remuneration including share options or rights subject to a performance condition in addition to their prescribed fees. NEDs are not provided with retirement benefits apart from statutory superannuation.

6.3 NED FEE SACRIFICE RIGHTS PLAN

At the beginning of FY20, offers were made under the NED Fee Sacrifice Rights Plan, the details of which are provided in the table below:

TABLE 9: TERMS OF THE NED FEE SACRIFICE RIGHTS PLAN

Purpose	The plan's purpose is to provide an opportunity for NEDs to increase their shareholding in a tax effective manner. The Plan meets regulatory and tax requirements.
Value	Directors can nominate at the beginning of the participation period, a percentage of their pre-tax fees (up to 100%) to receive in rights to shares in BOQ.
Vesting Period	Rights vest and convert to shares following the completion of the participation period. For FY20 the period was the twelve months from 1 September 2019 to 31 August 2020. The rights do not have any performance conditions in order to preserve the directors' independence.
Disposal Restrictions	Shares received on exercise will be subject to a disposal restriction of at least three years or longer as nominated by the director (up to a maximum of 15 years).
Cessation of Employment	If a participant ceases to be a NED prior to the rights vesting, they will retain a number of their rights based on the period they were a NED. If employment ceases during the restriction period, any disposal restrictions on the shares will be lifted subject to a minimum trading restriction of 12 months.

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6.4 NED FEE STRUCTURE

From 1 September 2020, the NEDs are now serving on all committees which has resulted in a move to a flat fee structure as outlined below. The NED fee structure has changed to reflect the revised committee composition, market practice and to provide fairness and simplicity. In addition, all fees are now inclusive of superannuation which is payable up to the superannuation guarantee cap. There is a small uplift to the total fees paid per NED as a result of greater Committee participation and rounding to incorporate superannuation, however as we reduced the size of the Board from 10 NEDs at the start of FY20 to 7 NEDs for FY21 the total annualised NED fees reduced. Fees will continue to be paid to NEDs for serving on the Investment and Due Diligence committees and also for the St Andrews' Board of Directors.

TABLE 10 – FY20 AND FY21 NED BOARD AND COMMITTEE FEES

	01/09/19 – 31/08/20 (1)		01/09/20 – 31/08/21	
Annual Directors' Fees	Chair/Committee Chair (2) $	Directors/ Committee Members $	Chair/ Committee Chair (2) $	Directors/ Committee Members $
Fixed Component of Remuneration	400,000	150,000		
Inclusive of superannuation	*421,694*	*164,250*	*420,000*	*165,000*
Additional remuneration is paid to Non-Executive Directors for Committee work:				
St Andrew's Board (3) (4)	–	45,000		
Inclusive of superannuation	–	*49,275*	–	*50,000*
Audit Committee	45,000	22,500		
Inclusive of superannuation	*49,275*	*24,638*		
Information Technology Committee	35,000	17,500		
Inclusive of superannuation	*38,325*	*19,163*		
Nomination and Governance Committee	15,000	10,000		
Inclusive of superannuation	*16,425*	*10,950*	*30,000*	*80,000*
People, Culture and Remuneration Committee	35,000	17,500	Inclusive of superannuation	
Inclusive of superannuation	*38,325*	*19,163*		
Risk Committee	45,000	22,500		
Inclusive of superannuation	*49,275*	*24,638*		
Investment Committee (per meeting)	2,250	1,500		
Inclusive of superannuation	*2,464*	*1,643*	*2,500*	*1,750*
Due Diligence Committee (per meeting)	2,250	1,500		
Inclusive of superannuation	*2,464*	*1,643*	*2,500*	*1,750*

(1) Fees remain unchanged since FY14.
(2) The Chair receives no additional remuneration for involvement with Committees.
(3) Karen Penrose is also a member of the St Andrew's Board of Directors.
(4) This fee is payable to St Andrews' directors who are also BOQ directors. Different fees are payable to other St Andrews' NEDs.

SECTION 7. STATUTORY TABLES

7.1 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.

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7.1 STATUTORY DISCLOSURES (CONTINUED)

TABLE 11 – DIRECTOR'S REMUNERATION

Details of the nature and amount of each major element of the remuneration of each Director of the Group 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[3] $	Total short term benefits $	Post employment[4] $	Other long term[5] $	Termination Benefits	Rights[6] $	Shares and units[7] $	Total $	Proportion of remuneration performance related %	Value of rights as proportion of remuneration %
Executive Director														
George Frazis	2020	1,247,823	–	15,840	43,449	1,307,112	26,426	3,755	–	98,277	219,375	1,654,945	19%	6%
Non-Executive Directors – Current[8]														
Patrick Allaway[9]	2020	293,201	–	–	–	293,201	21,990	–	–	–	78,756	393,947	–	–
	2019	55,833	–	–	–	55,833	5,304	–	–	–	–	61,137	–	–
Kathleen Bailey- Lord	2020	137,146	–	–	–	137,146	12,914	–	–	–	60,773	210,833	–	–
	2019	55,833	–	–	–	55,833	5,304	–	–	–	–	61,137	–	–
Bruce Carter	2020	115	–	–	–	115	–	–	–	–	266,003	266,118	–	–
	2019	124,000	–	–	–	124,000	4,234	–	–	–	133,046	261,280	–	–
John Lorimer	2020	197,540	–	–	–	197,540	18,766	–	–	–	–	216,306	–	–
	2019	190,000	–	–	–	190,000	18,050	–	–	–	–	208,050	–	–
Warwick Negus	2020	22,259	–	–	–	22,259	–	–	–	–	208,050	230,309	–	–
	2019	193,000	–	–	–	193,000	17,800	–	–	–	–	210,800	–	–
Karen Penrose	2020	263,566	–	–	–	263,566	21,272	–	–	–	25,600	310,438	–	–
	2019	225,250	–	–	–	225,250	20,359	–	–	–	–	245,609	–	–
Michelle Tredenick	2020	235,000	–	–	–	235,000	20,898	–	–	–	–	255,898	–	–
	2019	235,000	–	–	–	235,000	20,748	–	–	–	–	255,748	–	–
Non-Executive Directors – Former[8]														
Roger Davis[10][11]	2020	59,601	–	–	–	59,601	1,925	–	–	–	–	61,526	–	–
	2019	400,000	–	17,633	–	417,633	20,649	–	–	–	–	438,282	–	–
Richard Haire[12]	2020	129,358	–	–	–	129,358	12,289	–	–	–	–	141,647	–	–
	2019	218,750	–	–	–	218,750	19,443	–	–	–	–	238,193	–	–
David Willis[13]	2020	71,173	–	–	–	71,173	9,723	–	–	–	–	80,896	–	–
	2019	262,500	–	–	–	262,500	21,865	–	–	–	–	284,365	–	–

(1) STI at risk reflects 50 per cent of the amounts paid in cash in respect of FY20. The STI award for FY20 will be delivered in restricted shares only.
(2) Non-monetary benefits relate to company-funded benefits (and associated FBT) such as car parking, accommodation or relocation and travel provided for George Frazis and Roger Davis.
(3) Other short term benefits relates to accommodation allowance.
(4) Post-employment includes superannuation benefits.
(5) Comprises long service leave accrued or utilised during the financial year.
(6) 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.
(7) Represents the value of restricted shares awarded through deferred STI payments or Non-Executive Director Fee Sacrifice Rights Plan.
(8) The Bank has also paid insurance premiums in respect of Director's and Officers' Liability Insurance which is not reflected in the above table as there is no appropriate basis for allocation.
(9) Patrick Allaway was appointed as Chair from 18 October 2019.
(10) Non-monetary benefits include reportable fringe benefits amounts related to private travel adjacent to a company funded business trip in prior year.
(11) Roger Davis ceased as Chair on 17 October 2019 and ceased as a Director on 31 October 2019.
(12) Richard Haire ceased as a Director on 8 April 2020.
(13) David Willis ceased as a Director on 10 December 2019.

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For the year ended 31 August 2020

7.1 STATUTORY DISCLOSURES (CONTINUED)

TABLE 12 – SENIOR EXECUTIVE REMUNERATION

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

		Short-Term					Long-Term			Share Based Payments				
		Salary and fees[1] $	STI at risk[2] $	Non-monetary benefits[3] $	Other short term benefits $	Total short term benefits $	Post employment[4] $	Other long term[5] $	Termination Benefits	Rights[6] $	Shares and units[7] $	Total $	Proportion of remuneration performance related %	Value of rights as proportion of remuneration %
Executives – Current														
Debra Eckersley	2020	518,885	–	–	–	518,885	21,176	2,796	–	104,729	94,500	742,086	27%	14%
	2019	528,235	–	–	–	528,235	24,138	1,485	–	47,132	–	600,990	8%	8%
Adam McAnalen	2020	631,604	–	5,120	920	637,644	21,176	34,028	–	102,315	113,906	909,069	17%	11%
	2019	140,674	–	1,276	177	142,127	8,204	69,968	–	22,375	–	242,674	–	9%
Lyn McGrath	2020	612,922	–	20,823	–	633,745	21,176	3,688	–	118,081	114,844	891,534	26%	13%
	2019	537,821	–	37,196	–	575,017	20,902	2,062	–	57,007	724,202	1,379,190	57%	4%
Fiamma Morton	2020	173,850	–	2,237	–	176,087	8,389	491	–	–	29,531	214,498	14%	–
Craig Ryman	2020	92,606	–	2,083	–	94,689	5,424	265	–	–	15,356	115,734	13%	–
Ewen Stafford	2020	548,421	–	32,119	–	580,540	21,176	1,623	–	52,516	106,215	762,070	21%	7%
Executives – Former														
Matthew Baxby	2020	114,762	–	–	–	114,762	5,251	–	104,452	(182,723)	33,250	74,992	(199%)	(244%)
	2019	659,021	–	–	–	659,021	20,649	18,219	–	329,463	112,917	1,140,269	39%	29%
Peter Sarantzouklis	2020	281,128	–	3,569	–	284,697	12,343	–	12,816	–	–	309,856	–	–
	2019	38,925	–	450	–	39,375	3,409	103	–	–	–	42,887	–	–
Donna-Maree Vinci	2020	173,631	–	13,792	–	187,423	5,251	–	568,756	(234,127)	26,250	553,553	(38%)	(42%)
	2019	537,308	–	56,800	–	594,108	20,649	7,281	–	317,450	86,667	1,026,155	38%	31%

(1) Salary and fees include fixed remuneration, including annual leave accrued during the year.
(2) STI at risk reflects 50 per cent of the amounts paid in respect of FY20. The STI awarded for FY20 will be delivered in restricted shares only.
(3) Non-monetary benefits relate to company-funded benefits (and associated FBT) such as car parking, accommodation or relocation and travel provided for Executives.
(4) Post-employment includes superannuation benefits.
(5) Comprises long service leave accrued or utilised during the financial year.
(6) 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.
(7) Represents the value of restricted shares awarded through deferred STI payments or in lieu of forgone incentives.

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7.2 EQUITY HELD BY SENIOR EXECUTIVES

The movement during FY20 in the number of rights over ordinary shares held by each Senior Executive as part of their remuneration, are as follows:

TABLE 13 – MOVEMENT IN RIGHTS HELD BY SENIOR EXECUTIVES DURING THE FINANCIAL YEAR 2020

Senior [1] Executive	Type	Grant Date	Share Price at Grant Date $	Balance at 1 Sep 2019	Movements during the 2020 Financial Year: Granted [2]	Exercised	Lapsed	Balance at 31 Aug 2020 [2] [3]	Vested during the Year [4] (%)
Current									
Debra Eckersley	2018 PARs	11/12/2018	9.74	49,450	–	–	–	**49,450**	–
	2019 PARs	19/12/2019	7.36	–	57,397	–	–	**57,397**	–
George Frazis	2019 PARs	19/12/2019	7.36	–	143,215	–	–	**143,215**	–
Adam McAnalen	2016 PARs	23/12/2016	11.95	9,067	–	–	9,067	**–**	–
	2016 DARs	23/12/2016	11.95	1,814	–	1,814	–	**–**	50%
	2017 PARs	13/12/2017	12.71	7,634	–	–	–	**7,634**	–
	2017 DARs	13/12/2017	12.71	3,054	–	1,145	–	**1,909**	30%
	2018 PARs	11/12/2018	9.74	10,361	–	–	–	**10,361**	–
	2018 DARs	11/12/2018	9.74	3,768	–	754	–	**3,014**	20%
	2019 PARs	19/12/2019	7.36	–	65,597	–	–	**65,597**	–
Lyn McGrath	Restricted Shares	17/10/2018	10.56	4,608	–	4,608	–	**–**	8%
	2018 PARs	11/12/2018	9.74	59,811	–	–	–	**59,811**	–
	Restricted Shares	11/12/2018	9.74	14,129	–	5,651	–	**8,478**	40%
	2019 PARs	10/02/2020	7.36	–	68,877	–	–	**68,877**	–
Ewen Stafford	2019 PARs	19/12/2019	7.36	–	76,529	–	–	**76,529**	–
Former									
Matthew Baxby	2016 PARs	23/12/2016	11.95	54,399	–	–	54,399	**–**	–
	2017 PARs	13/12/2017	12.71	50,002	–	–	50,002	**–**	–
	Restricted Shares	13/12/2017	12.71	9,543	–	9,543	–	**–**	50%
	2018 PARs	11/12/2018	9.74	61,695	–	–	47,314	**14,381**	–
	Restricted Shares	11/12/2018	9.74	17,897	–	7,159	–	**10,738**	40%
Peter Sarantzouklis	2019 PARs	19/12/2019	7.36	–	75,436	–	75,436	**–**	–
Donna-Maree Vinci	2016 PARs	23/12/2016	11.95	51,679	–	–	51,679	**–**	–
	2017 PARs	13/12/2017	12.71	44,276	–	–	44,276	**–**	–
	Restricted Shares	13/12/2017	12.71	6,966	–	6,966	–	**–**	50%
	2018 PARs	11/12/2018	9.74	57,362	–	–	57,362	**–**	–
	Restricted Shares	11/12/2018	9.74	14,129	–	5,651	–	**8,478**	40%

(1) Senior Executives with nil shareholding movements while KMP have been excluded from the table above.
(2) This represents the maximum number of award rights that may vest to each Executive.
(3) Balance amounts as at 31 August 2020 are unvested and not yet exercisable.
(4) Percentage of initial rights granted.

REMUNERATION REPORT

For the year ended 31 August 2020

7.2 EQUITY HELD BY SENIOR EXECUTIVES (CONTINUED)

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

TABLE 14 – VALUE OF RIGHTS HELD BY SENIOR EXECUTIVES DURING THE FINANCIAL YEAR 2020

Senior 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								
George Frazis	2019 PARs	19/12/2019	3.61	517,006	–	–	–	19/12/2026
Debra Eckersley	2018 PARs	11/12/2018	4.91	242,800	–	–	–	11/12/2025
	2019 PARs	19/12/2019	3.61	207,203	–	–	–	19/12/2026
Adam McAnalen	2015 PARs	15/12/2015	7.67	53,997	16/01/2019	10.34	11,426	16/12/2020
	2015 DARs	15/12/2015	11.71	27,483	22/12/2016	12.00	5,640	16/12/2020
					19/12/2017	12.66	8,913	16/12/2020
					13/12/2018	9.56	11,214	16/12/2020
	2016 PARs	23/12/2016	6.80	61,656	–	–	–	16/12/2021
	2016 DARs	23/12/2016	11.45	41,529	19/12/2017	12.66	9,179	23/12/2021
					13/12/2018	9.56	10,401	23/12/2021
	2017 PARs	13/12/2017	7.14	54,507	–	–	–	13/12/2022
	2017 DARs	13/12/2017	11.05	42,178	13/12/2018	9.56	7,294	13/12/2022
					09/12/2019	7.45	8,530	13/12/2020
	2018 PARs	11/12/2018	4.91	50,873				11/12/2025
	2018 DARs	11/12/2018	8.21	30,935	09/12/2019	7.45	5,617	11/12/2025
	2019 PARs	19/12/2019	3.61	236,805	–	–	–	19/12/2026
Lyn McGrath	Restricted Shares	17/10/2018	10.91	611,702	30/04/2019	8.89	348,746	17/10/2028
					15/08/2019	8.85	108,244	17/10/2028
					11/12/2019	7.27	33,500	31/8/2027
	2018 PARs	11/12/2018	4.91	293,672	–	–	–	11/12/2025
	Restricted Shares	11/12/2018	10.62	150,050	11/12/2019	7.27	41,083	31/08/2026
	2019 PARs	10/02/2020	3.61	248,646	–	–	–	19/12/2026
Ewen Stafford	2019 PARs	19/12/2019	3.61	276,270	–	–	–	19/12/2026

(1) Represents rights held at 1 September 2019 or granted during FY20.
(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.

REMUNERATION REPORT

For the year ended 31 August 2020

7.2 EQUITY HELD BY SENIOR EXECUTIVES (CONTINUED)

TABLE 14 – VALUE OF RIGHTS HELD BY SENIOR EXECUTIVES DURING THE FINANCIAL YEAR 2020 (CONTINUED)

Senior 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
Former								
Matthew Baxby	2014 PARs	16/12/2014	6.13	267,041	29/10/2017	13.47	322,741	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	16/04/2019	8.99	62,310	16/12/2020
	Restricted Shares	15/12/2015	13.02	239,334	15/12/2016	11.50	105,697	16/12/2025
					15/12/2017	12.61	115,899	16/12/2025
	2016 PARs	23/12/2016	6.80	369,913	–	–	–	16/12/2021
	Restricted Shares	23/12/2016	11.95	254,607	15/12/2017	12.61	134,334	16/12/2026
					30/04/2019	8.89	94,705	16/12/2026
	2017 PARs	13/12/2017	7.14	357,014	–	–	–	13/12/2022
	Restricted Shares	13/12/2017	13.10	250,014	30/04/2019	8.89	84,828	16/12/2027
					11/12/2019	7.27	69,378	16/12/2027
	2018 PARs	11/12/2018	4.91	302,922	–	–	–	11/12/2025
	Restricted Shares	11/12/2018	10.62	190,066	11/12/2019	7.27	52,046	11/12/2028
Peter Sarantzouklis	2019 PARs	19/12/2019	3.61	272,324	–	–	–	19/12/2026
Donna-Maree Vinci	2015 PARs	15/12/2015	7.67	341,967	1/05/2019	8.88	62,098	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	1/05/2019	8.88	72,532	16/12/2020
	2016 PARs	23/12/2016	6.80	351,417	–	–	–	16/12/2021
	Restricted Shares	23/12/2016	11.95	184,185	15/12/2017	12.61	97,173	16/12/2026
					30/04/2019	8.89	68,515	16/12/2026
	2017 PARs	13/12/2017	7.14	316,131	–	–	–	13/12/2022
	Restricted Shares	13/12/2017	13.10	182,509	30/04/2019	8.89	61,928	16/12/2027
					11/12/19	7.27	50,643	16/12/2027
	2018 PARs	11/12/2018	4.91	281,647	–	–	–	11/12/2025
	Restricted Shares	11/12/2018	10.62	150,050	11/12/19	7.27	41,083	11/12/2028

(1) Represents rights held at 1 September 2019 or granted during FY20.
(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.

REMUNERATION REPORT

For the year ended 31 August 2020

7.3 EQUITY INSTRUMENTS - HOLDINGS AND MOVEMENTS

MOVEMENT IN SHARES

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

Ordinary shares (1)	Held at 1 September 2019	Purchases / (Sales)	Rights granted under NED Fee Sacrifice Rights Plan	Received on Exercise of Award Rights / Restricted Shares	**Held at 31 August 2020**
Directors – Current					
Patrick Allaway	30,000	104,127	8,610	–	142,737
Kathleen Bailey-Lord	3,132	4,127	6,644	–	13,903
Bruce Carter	32,412	14,127	29,081	–	75,620
George Frazis	–	50,000	–	–	50,000
John Lorimer	17,000	4,128	–	–	21,128
Warwick Negus	15,000	14,127	22,745	–	51,872
Karen Penrose	13,591	3,439	2,798	–	19,828
Michelle Tredenick	15,635	4,127	–	–	19,762
Director – Former					
Roger Davis	18,043	–	–	–	n/a
Richard Haire	16,603	–	–	–	n/a
David Willis	12,020	–	–	–	n/a
Executives – Current					
Adam McAnalen	39,901	–	–	3,713	**43,614**
Lyn McGrath	51,460	–	–	10,259	**61,719**
Executives – Former					
Matthew Baxby	59,854	–	–	–	n/a
Donna-Maree Vinci	50,133	–	–	12,617	n/a

(1) Directors and Senior executives with nil shareholding balances as at 31 August 2020 have been excluded from the table above.

REMUNERATION REPORT

For the year ended 31 August 2020

7.4 TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL (DIRECTORS AND SENIOR 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 Group. There have been no write downs or amounts recorded as provisions during FY20.

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 2019 $	Interest charged during the year $	**Balance at 31 August 2020 $**	Highest balance during the year $
Executives				
Debra Eckersley	350,000	12,813	**350,000**	351,185
Executive - Former				
Matthew Baxby	1,179,029	3,782	**n/a**	1,181,735
Other Related Parties				
George Frazis related parties	–	21,317	**760,430**	773,270
Other Related Parties - Former				
Richard Haire related parties	186,543	4,534	**n/a**	187,207

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

	Balance at 1 September 2019 $	Interest charged during the year $	**Balance at 31 August 2020 $**	Number in group at 31 August 2020 #
Executives	350,000	12,813	**350,000**	1
Executives - Former	1,216,789	4,437	**n/a**	n/a
Other Related Parties	–	21,317	**760,430**	1
Other Related Parties - Former	186,543	4,534	**n/a**	n/a

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 at a price of $10,000 per note. The Wholesale Capital Notes were redeemed by BOQ on 26 May 2020.

On 28 December 2017, the Bank issued 3,500,000 million Capital Notes (1) at a price of $100 per note.

Details of those notes issued to BOQ Directors are set out below:

		Balance at 31 August 2020 $	Interest earned for the year (2) $
Former Directors			
Roger Davis	Wholesale Capital Notes	–	1,354
David Willis	Wholesale Capital Notes	–	776
Roger Davis	Capital Notes	n/a	270
Roger Davis related parties	Capital Notes	n/a	270
Total		-	2,670

(1) Capital notes are classified as non-current.
(2) Interest is pro-rated for the period during which the Director held office.

INDEMNIFICATION OF OFFICERS

The Bank's Constitution supported by a Deed of Indemnity, Insurance and Access provides an indemnity in favour of all directors and officers of the Bank against liabilities incurred by them in the capacity as officer to the maximum extent permitted by law.

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 officer (as defined in the *Corporations Act 2001* (Cth)) 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:

	Ordinary shares
Patrick Allaway	142,737
George Frazis	50,000
Kathleen Bailey-Lord	13,903
Bruce Carter	75,620
John Lorimer	21,128
Warwick Negus	51,872
Karen Penrose	19,828
Michelle Tredenick	19,762

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 are compatible with, and did not compromise, the auditor's independence requirements of the *Corporations Act 2001* (Cth) 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 and in Note 6.7 Auditor Remuneration:

	Consolidated		Bank	
KPMG AUSTRALIA	**2020 $000**	2019 $000	**2020 $000**	2019 $000
Audit services				
- Statutory audits and reviews of the financial reports	**1,857**	1,773	**1,437**	1,324
- Regulatory audits and reviews as required by regulatory authorities	**762**	462	**667**	325
Total audit services	**2,619**	2,235	**2,104**	1,649
Audit related services				
- Other assurance services	**402**	534	**143**	397
- Regulatory assurance services	**-**	94	**-**	-
Total audit related services	**402**	628	**143**	397
Non-audit services				
- Taxation services	**122**	169	**77**	169
- Other	**192**	333	**174**	263
Total non-audit services	**314**	502	**251**	432

DIRECTORS' REPORT

For the year ended 31 August 2020

LEAD AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration is set out on page 91 and forms part of the Directors' report for the year ended 31 August 2020.

DIRECTOR AND MANAGEMENT CHANGES

Director changes during the year:

- On 5 September 2019, George Frazis commenced as Managing Director & CEO.
- On 17 October 2019, Roger Davis retired as Chairman and on 31 October 2019 retired from the Board.
- On 18 October 2019, Patrick Allaway was appointed Chairman.
- On 10 December 2019, David Willis retired as a Director and Chair of the Human Resources & Remuneration Committee.
- On 11 December 2019, Warwick Negus was appointed Chair of the People, Culture and Remuneration Committee.
- On 8 April 2020, Richard Haire retired as a Director of the Board.
- On 24 September 2020, Michelle Tredenick announced her upcoming retirement as a Director of the Board at the conclusion of the 2020 Annual General Meeting.

Management changes during the year:

- Matthew Baxby ceased employment as Chief Financial Officer on 31 October 2019.
- On 11 November 2019, Ewen Stafford commenced as Chief Financial Officer & Chief Operating Officer.
- On 13 December 2019, Donna-Maree Vinci ceased employment as Chief Digital and Information Officer.
- Peter Sarantzouklis ceased employment as Group Executive, BOQ Business on 20 January 2020.
- Fiamma Morton commenced as Group Executive, BOQ Business on 3 June 2020.
- On 14 July 2020, Craig Ryman commenced as Chief Information Officer.
- On 25 September 2020, Lyn McGrath announced her retirement from the role Group Executive, Retail Banking. She will remain at BOQ until early 2021.

MANAGEMENT ATTESTATION

The Board has been provided with a joint written statement from the Group's Managing Director & CEO and Chief Financial Officer & Chief Operating Officer confirming that, in their opinion, financial records of the Group have been properly maintained and the accompanying financial statements and notes are in accordance with the *Corporations Act 2001* (Cth) and comply with accounting standards and 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 2020.

The Directors' Declaration can be found on page 175 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 2020. The financial effect of the dividends has not been brought to account in the financial statements for the year ended 31 August 2020. Further details with respect to the dividend amounts per share, payment date and dividend reinvestment plan can be obtained from Note 2.4 Dividends of the consolidated financial statements.

Other than as disclosed below, no matters or circumstances have arisen since the end of the financial year and up until the date of this report which significantly affect the operations of the Bank, the results of those operations, or the state of affairs of the Bank in subsequent years.

The evolution of the COVID-19 pandemic remains uncertain, including the duration of the pandemic, the severity of the downturn and the speed of the economic recovery. BOQ has considered whether events subsequent to the reporting date have confirmed conditions existing as at reporting date and has not identified any COVID-19 related developments which would require adjustments to the amounts or disclosures contained in the consolidated financial statements. Future economic conditions may differ to the assumptions and scenarios used in the consolidated financial statements, the impact of which will be reflected in future reporting periods.

On 13 October 2020, the Bank entered into an agreement to sell the Bank's controlled entities - St Andrew's Australia Services Pty Ltd and its subsidiaries, St Andrew's Insurance (Australia) Pty Ltd and St Andrew's Life Insurance Pty Ltd for proceeds of approximately $23 million. The transaction is expected to be completed before the end of FY2021 and is subject to certain conditions including regulatory approvals. At 31 August 2020, the Consolidated Entity did not meet the relevant criteria for reporting St Andrew's Services Pty Ltd and its subsidiaries as held for sale under AASB 5 Non-current assets held for sale and discontinued operations. As such, the indicative loss on sale after tax of $27 to $30 million will be reflected in the FY2021 financial results. The final loss on sale will be determined at completion and will be impacted by completion adjustments and transaction costs and final taxation impacts. Under the transaction, BOQ will provide a capped indemnity to Farmcove Investment Holdings (Farmcove) for certain pre-completion matters. In addition, a vendor loan has been agreed between BOQ and Farmcove which will become effective on the completion date. The sale of St Andrew's Australia Services Pty Ltd and its subsidiaries would impact the operating segment, Other.

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.

OPERATING AND FINANCIAL REVIEW

Our Operating and Financial review is contained in pages 12 – 63 of this report

Signed in accordance with a resolution of the Directors:

Patrick Allaway	George Frazis
Chairman	Managing Director & CEO
13 October 2020	13 October 2020

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

To the Directors of Bank of Queensland Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Bank of Queensland Limited for the financial year ended 31 August 2020 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
13 October 2020

2020 FINANCIAL STATEMENTS

INCOME STATEMENTS

For the year ended 31 August 2020

	Note	Consolidated 2020 (1) $m	Consolidated 2019 $m	Bank 2020 (1) $m	Bank 2019 $m
Interest income:					
Effective interest income	2.1	1,676	1,913	1,597	1,884
Other	2.1	120	145	134	165
Interest expense	2.1	(810)	(1,097)	(1,008)	(1,319)
Net interest income	2.1	986	961	723	730
Other operating income	2.1	103	126	220	227
Net banking operating income		1,089	1,087	943	957
Net insurance operating income	2.1	11	9	–	–
Total operating income before impairment and operating expenses	2.1	1,100	1,096	943	957
Expenses (2)	2.2	(752)	(592)	(705)	(571)
Impairment on loans and advances (2)	3.3	(175)	(69)	(116)	(32)
Profit before income tax		173	435	122	354
Income tax expense	2.3	(58)	(137)	(41)	(109)
Profit for the year		115	298	81	245
Profit attributable to:					
Equity holders of the parent		115	298	81	245
Earnings per share (**EPS**) (3)					
Basic EPS – Ordinary shares (cents)	2.6	26.2	74.0		
Diluted EPS – Ordinary shares (cents)	2.6	25.1	69.1		

(1) The August 2020 financial results reflect the adoption of AASB 16 *Leases* (AASB 16) on 1 September 2019. The Group has applied the modified retrospective approach and, as permitted by AASB 16, comparative information has not been restated. The cumulative effect of applying AASB 16 is recognised in retained profits at 1 September 2019. Refer to Note 1.6 for the impact on the Group's initial adoption of AASB 16.

(2) Includes a $5 million prior period restatement of employee costs from Impairment on loans and advances to Expenses.

(3) Comparatives for basic and diluted earnings per share have been adjusted for the effects of the institutional share placement and share purchase plan that occurred during the current financial period. Refer to Note 2.6 for further information.

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

STATEMENTS OF COMPREHENSIVE INCOME

For the year ended 31 August 2020

	Consolidated		Bank	
	2020 [(1)] $m	2019 $m	2020 [(1)] $m	2019 $m
Profit for the year	115	298	81	245
Other comprehensive income, net of income tax				
Items that may be reclassified subsequently to profit or loss				
Cash flow hedges:				
Net movement taken to equity	3	(79)	4	(74)
Net movement transferred to profit or loss	20	20	20	20
Debt instruments at fair value through other comprehensive income (**FVOCI**):				
Net change in fair value	–	(3)	–	(3)
Net movement transferred to profit or loss	(12)	(13)	(12)	(13)
Items that will not be reclassified subsequently to profit or loss				
Equity instruments at FVOCI:				
Net change in fair value	–	(1)	–	(1)
Other comprehensive income, net of income tax	11	(76)	12	(71)
Total comprehensive income for the year	126	222	93	174
Total comprehensive income attributable to:				
Equity holders of the parent	126	222	93	174

(1) The August 2020 financial results reflect the adoption of AASB 16 on 1 September 2019. The Group has applied the modified retrospective approach and, as permitted by AASB 16, comparative information has not been restated. The cumulative effect of applying AASB 16 is recognised in retained profits at 1 September 2019. Refer to Note 1.6 for the impact on the Group's initial adoption of AASB 16.

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

BALANCE SHEETS

As at 31 August 2020

	Note	Consolidated 2020[(1)] $m	Consolidated 2019 $m	Bank 2020[(1)] $m	Bank 2019 $m
ASSETS					
Cash and cash equivalents	3.1	1,353	1,274	835	685
Due from other financial institutions		860	708	826	668
Derivative financial assets	3.8	154	229	101	145
Financial assets at fair value through profit or loss (**FVTPL**)	3.2	1,854	2,586	1,854	2,586
Debt instruments at FVOCI	3.2	4,530	3,569	4,530	3,569
Equity instruments at FVOCI	3.2	6	6	6	6
Debt instruments at amortised cost	3.2	–	–	7,662	5,468
Loans and advances	3.3	46,674	45,983	41,520	40,836
Other assets		148	158	1,031	1,541
Current tax assets		2	7	2	8
Property, plant and equipment		148	52	142	46
Shares in controlled entities	6.5	–	–	552	522
Deferred tax assets	2.3	122	85	113	79
Intangible assets	4.1	908	924	838	848
Investments in joint arrangements and associates	6.6	13	16	–	3
Total assets		56,772	55,597	60,012	57,010
LIABILITIES					
Due to other financial institutions – accounts payable at call		296	285	296	285
Deposits	3.4	39,593	38,337	39,810	38,528
Derivative financial liabilities	3.8	803	687	799	687
Accounts payable and other liabilities		458	394	385	302
Provisions	4.2	47	40	38	26
Amounts due to controlled entities		–	–	6,707	6,086
Insurance policy liabilities	5.1	5	9	–	–
Borrowings	3.5	11,339	11,986	7,914	7,372
Total liabilities		52,541	51,738	55,949	53,286
Net assets		4,231	3,859	4,063	3,724
EQUITY					
Issued capital		3,869	3,497	3,875	3,503
Reserves		184	213	194	222
Retained profits		178	149	(6)	(1)
Total equity		4,231	3,859	4,063	3,724

(1) The August 2020 financial results reflect the adoption of AASB 16 on 1 September 2019. The Group has applied the modified retrospective approach and, as permitted by AASB 16, comparative information has not been restated. The cumulative effect of applying AASB 16 is recognised in retained profits at 1 September 2019. Refer to Note 1.6 for the impact on the Group's initial adoption of AASB 16.

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

STATEMENTS OF CHANGES IN EQUITY

For the year ended 31 August 2020

Consolidated	Issued capital $m	Employee benefits reserve $m	Equity reserve for credit losses $m	Cash flow hedge reserve $m	FVOCI reserve $m	Profit reserve $m	Retained profits $m	Total equity $m
YEAR ENDED 31 AUGUST 2020								
Balance at beginning of the year	3,497	26	62	(165)	45	245	149	3,859
Change on adoption of new accounting standards (1)	–	–	–	–	–	–	(4)	(4)
Restated balance at beginning of the year	3,497	26	62	(165)	45	245	145	3,855
Total comprehensive income for the year								
Profit for the year	–	–	–	–	–	–	115	115
Transfers to profit reserve	–	–	–	–	–	81	(81)	–
Other comprehensive income, net of income tax:								
Cash flow hedges:								
Net movement to equity	–	–	–	3	–	–	–	3
Net movement transferred to profit or loss	–	–	–	20	–	–	–	20
Debt instruments at FVOCI:								
Net change in fair value	–	–	–	–	–	–	–	–
Net movement transferred to profit or loss	–	–	–	–	(12)	–	–	(12)
Equity instruments at FVOCI								
Net change in fair value	–	–	–	–	–	–	–	–
Transfer to equity reserve for credit losses	–	–	1	–	–	–	(1)	–
Total other comprehensive income / (expense)	–	–	1	23	(12)	–	(1)	11
Total comprehensive income / (expense) for the year	–	–	1	23	(12)	81	33	126
Transactions with owners, recorded directly in equity / contributions by and distributions to owners								
Institutional share placement (2)	250	–	–	–	–	–	–	250
Dividend reinvestment plan	31	–	–	–	–	–	–	31
Dividends to shareholders	–	–	–	–	–	(126)	–	(126)
Issues of ordinary shares (3)	4	–	–	–	–	–	–	4
Cost of capital issue	(3)	–	–	–	–	–	–	(3)
Share purchase plan (4)	90	–	–	–	–	–	–	90
Equity settled transactions	–	4	–	–	–	–	–	4
Total contributions by and distributions to owners	372	4	–	–	–	(126)	–	250
Balance at the end of the year	3,869	30	63	(142)	33	200	178	4,231

(1) The August 2020 financial results reflect the adoption of AASB 16 on 1 September 2019. The Group has applied the modified retrospective approach and, as permitted by AASB 16, comparative information has not been restated. The cumulative effect of applying AASB 16 is recognised in retained profits at 1 September 2019.

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

(3) On 29 November 2019, 440,000 ordinary shares were issued at $8.33 to the trustee of the Bank of Queensland Limited Employee Share Plans Trust to satisfy the exercise of award rights and issue of shares under the Award Rights Plans and the issue of shares under the BOQ Salary Sacrifice Plans. Refer to Note 6.1 for further information.

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

The 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 2020

Consolidated	Issued capital $m	Employee benefits reserve $m	Equity reserve for credit losses $m	Cash flow hedge reserve $m	FVOCI reserve $m	Profit reserve $m	Retained profits $m	Total equity $m
YEAR ENDED 31 AUGUST 2019								
Balance at beginning of the year	3,418	26	59	(106)	59	–	400	3,856
Change on adoption of new accounting standards [(1)]	–	–	–	–	3	–	(13)	(10)
Restated balance at beginning of the year	3,418	26	59	(106)	62	–	387	3,846
Total comprehensive income for the year								
Profit for the year	–	–	–	–	–	–	298	298
Transfers to profit reserve	–	–	–	–	–	245	(245)	–
Other comprehensive income, net of income tax:								
Cash flow hedges:								
Net movement to equity	–	–	–	(79)	–	–	–	(79)
Net movement transferred to profit or loss	–	–	–	20	–	–	–	20
Debt instruments at FVOCI:								
Net change in fair value	–	–	–	–	(3)	–	–	(3)
Net movement transferred to profit or loss	–	–	–	–	(13)	–	–	(13)
Equity instruments at FVOCI								
Net change in fair value	–	–	–	–	(1)	–	–	(1)
Transfer to equity reserve for credit losses	–	–	3	–	–	–	(3)	–
Total other comprehensive income / (expense)	–	–	3	(59)	(17)	–	(3)	(76)
Total comprehensive income / (expense) for the year	–	–	3	(59)	(17)	245	50	222
Transactions with owners, recorded directly in equity / contributions by and distributions to owners						–		
Treasury shares [(2)]	1	–	–	–	–	–	–	1
Dividend reinvestment plan	78	–	–	–	–	–	–	78
Dividends to shareholders	–	–	–	–	–	–	(288)	(288)
Total contributions by and distributions to owners	79	–	–	–	–	–	(288)	(209)
Balance at the end of the year	3,497	26	62	(165)	45	245	149	3,859

(1) The August 2019 financial results reflect the adoption of AASB 9 and AASB 15 on 1 September 2018. The carrying amounts of assets and liabilities impacted by the adoption were adjusted through opening retained profits and reserves on 1 September 2018 as if the Group and the Bank had always applied the new requirements.

(2) Treasury shares represent the value of shares held by a subsidiary that the Bank is required to include in the Group'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 2020

Bank	Issued capital $m	Employee benefits reserve $m	Equity reserve for credit losses $m	Cash flow hedge reserve $m	FVOCI reserve $m	Profit reserve $m	Retained profits $m	Total equity $m
YEAR ENDED 31 AUGUST 2020								
Balance at beginning of the year	3,503	26	63	(157)	45	245	(1)	3,724
Change on adoption of new accounting standards (1)	–	–	–	–	–	–	(4)	(4)
Restated balance at beginning of the year	3,503	26	63	(157)	45	245	(5)	3,720
Total comprehensive income for the year								
Profit for the year	–	–	–	–	–	–	81	81
Transfers to profit reserve	–	–	–	–	–	81	(81)	–
Other comprehensive income net of income tax:								
Cash flow hedges:								
Net movement to equity	–	–	–	4	–	–	–	4
Net movement transferred to profit or loss	–	–	–	20	–	–	–	20
Debt instruments at FVOCI:								
Net change in fair value	–	–	–	–	–	–	–	–
Net movement transferred to profit or loss	–	–	–	–	(12)	–	–	(12)
Equity instruments at FVOCI								
Net change in fair value	–	–	–	–	–	–	–	–
Transfer to equity reserve for credit losses	–	–	1	–	–	–	(1)	–
Total other comprehensive income / (expense)	–	–	1	24	(12)	–	(1)	12
Total comprehensive income / (expense) for the year	–	–	1	24	(12)	81	(1)	93
Transactions with owners, recorded directly in equity / contributions by and distributions to owners								
Institutional share placement (2)	250	–	–	–	–	–	–	250
Dividend reinvestment plan	31	–	–	–	–	–	–	31
Dividends to shareholders	–	–	–	–	–	(126)	–	(126)
Issues of ordinary shares (3)	4	–	–	–	–	–	–	4
Cost of capital issue	(3)	–	–	–	–	–	–	(3)
Share purchase plan (4)	90	–	–	–	–	–	–	90
Equity settled transactions	–	4	–	–	–	–	–	4
Total contributions by and distributions to owners	372	4	–	–	–	(126)	–	250
Balance at the end of the year	3,875	30	64	(133)	33	200	(6)	4,063

(1) The August 2020 financial results reflect the adoption of AASB 16 on 1 September 2019. The Group has applied the modified retrospective approach and, as permitted by AASB 16, comparative information has not been restated. The cumulative effect of applying AASB 16 is recognised in retained profits at 1 September 2019.

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

(3) On 29 November 2019, 440,000 ordinary shares were issued at $8.33 to the trustee of the Bank of Queensland Limited Employee Share Plans Trust to satisfy the exercise of award rights and issue of shares under the Award Rights Plans and the issue of shares under the BOQ Salary Sacrific Plans. Refer to Note 6.1 for further information.

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

The 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 2020

Bank	Issued capital $m	Employee benefits reserve $m	Equity reserve for credit losses $m	Cash flow hedge reserve $m	FVOCI reserve $m	Profit reserve $m	Retained profits $m	Total equity $m
YEAR ENDED 31 AUGUST 2019								
Balance at beginning of the year	3,425	26	60	(103)	59	-	303	3,770
Change on adoption of new accounting standards [(1)]	-	-	-	-	3	-	(13)	(10)
Restated balance at beginning of the year	3,425	26	60	(103)	62	-	290	3,760
Total comprehensive income for the year								
Profit for the year	-	-	-	-	-	-	245	245
Transfers to profit reserve	-	-	-	-	-	245	(245)	-
Other comprehensive income net of income tax:								
Cash flow hedges:								
Net movement to equity	-	-	-	(74)	-	-	-	(74)
Net movement transferred to profit or loss	-	-	-	20	-	-	-	20
Debt instruments at FVOCI:								
Net change in fair value	-	-	-	-	(3)	-	-	(3)
Net movement transferred to profit or loss	-	-	-	-	(13)	-	-	(13)
Equity instruments at FVOCI								
Net change in fair value	-	-	-	-	(1)	-	-	(1)
Transfer to equity reserve for credit losses	-	-	3	-	-	-	(3)	-
Total other comprehensive income / (expense)	-	-	3	(54)	(17)	-	(3)	(71)
Total comprehensive income / (expense) for the year	-	-	3	(54)	(17)	245	(3)	174
Transactions with owners, recorded directly in equity / contributions by and distributions to owners								
Dividend reinvestment plan	78	-	-	-	-	-	-	78
Dividends to shareholders	-	-	-	-	-	-	(288)	(288)
Total contributions by and distributions to owners	78	-	-	-	-	-	(288)	(210)
Balance at the end of the year	3,503	26	63	(157)	45	245	(1)	3,724

(1) The August 2019 financial results reflect the adoption of AASB 9 and AASB 15 on 1 September 2018. The carrying amounts of assets and liabilities impacted by the adoption were adjusted through opening retained profits and reserves on 1 September 2018 as if the Group and the Bank had always applied the new requirements.

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 2020

		Consolidated		Bank	
	Note	2020 $m	2019 $m	2020 $m	2019 $m
CASH FLOWS FROM OPERATING ACTIVITIES					
Interest received		1,694	2,064	1,537	1,948
Fees and other income received		125	131	206	193
Interest paid		(733)	(1,083)	(925)	(1,309)
Cash paid to suppliers and employees		(577)	(473)	(508)	(469)
Income tax paid		(89)	(153)	(87)	(150)
		420	486	223	213
(decrease) in operating assets:					
Loans and advances at amortised cost		(874)	(996)	(809)	(261)
Other financial assets		(272)	(1,263)	(309)	(1,274)
Increase in operating liabilities:					
Deposits		1,318	294	1,330	236
Net cash inflow / (outflow) from operating activities	3.1	592	(1,479)	435	(1,086)
CASH FLOWS FROM INVESTING ACTIVITIES					
Payments for property, plant and equipment		(9)	(13)	(9)	(6)
Proceeds from sale of property, plant and equipment		6	4	1	–
Payments for intangible assets		(102)	(98)	(101)	(96)
Proceeds / (payments) for investments in joint arrangements and associates		–	(3)	–	(4)
Dividends received from controlled entities		–	–	4	12
Net cash inflow / (outflow) from investing activities		(105)	(110)	(105)	(94)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from borrowings	3.5	2,583	4,021	2,205	1,757
Repayments of borrowings	3.5	(3,193)	(2,159)	(1,625)	(937)
Proceeds for issue of ordinary shares		336	–	336	–
Net movement in other financing activities		–	–	(962)	422
Payment of lease liabilities [(1)]		(38)	–	(38)	–
Payments for treasury shares		(1)	(7)	(1)	(7)
Dividends paid		(95)	(210)	(95)	(210)
Net cash inflow / (outflow) from financing activities		(408)	1,645	(180)	1,025
Net increase / (decrease) in cash and cash equivalents		79	56	150	(155)
Cash and cash equivalents at beginning of year		1,274	1,218	685	840
Cash and cash equivalents at end of year	3.1	1,353	1,274	835	685

(1) The August 2020 financial results reflect the adoption of AASB 16 on 1 September 2019. The Group has applied the modified retrospective approach and, as permitted by AASB 16, comparative information has not been restated. The cumulative effect of applying AASB 16 is recognised in retained profits at 1 September 2019.

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 2020

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2020

NOTE 1. BASIS OF PREPARATION

1.1 REPORTING ENTITY

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

The consolidated financial statements of the Bank for the financial year ended 31 August 2020 comprise the Consolidated Entity (or **the Group**), being the Bank and its controlled entities, and the Consolidated Entity's interest in equity accounting investments. The principal activity of the Group is the provision of financial services to the community.

1.2 BASIS OF PREPARATION

(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* (Cth). 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 13 October 2020.

(B) BASIS OF MEASUREMENT

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

- Derivative financial instruments;
- Financial assets at fair value through other comprehensive income; and
- Financial assets at fair value through profit or loss.

(C) FUNCTIONAL AND PRESENTATION CURRENCY

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

(D) ROUNDING

The Group is of a kind referred to in ASIC Corporations Instrument 2016/191 dated 24 March 2016 and in accordance with that instrument, amounts in the consolidated financial statements have been rounded 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 accounting 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 Group.

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:

- Loans and advances - Expected credit losses (**ECL**) - Note 3.3;
- Financial instruments – Notes 3.2 and 3.7;
- Carrying value of goodwill and other intangible assets – Note 4.1.

1.4 COVID-19 FINANCIAL REPORTING CONSIDERATIONS

BACKGROUND

The COVID-19 pandemic and the measures taken to contain it have significantly changed the economic landscape, causing large-scale disruption leading to expectations of increased levels of unemployment, reduced economic growth and elevated levels of credit losses. To mitigate the economic impact of the COVID-19 pandemic BOQ, the RBA, regulators and the Federal Government have offered monetary, regulatory and fiscal support to enhance the economic resilience of businesses and consumers.

The Group has carefully considered the impact of COVID-19 in preparing its financial statements for the year ended 31 August 2020, including the increased estimation uncertainty associated with:

- The extent and duration of disruption to business as a result of actions from efforts to contain the spread of the virus;
- The extent and duration of the expected economic downturn including forecasts for growth, unemployment and property prices; and
- The effect of government incentives and banking relief packages to support businesses and consumers through this economic downturn.

The key impacts on the consolidated financial statements, including the use of critical estimates and judgements, are as follows:

PROVISIONS FOR IMPAIRMENT

In assessing forecast conditions, the Group has incorporated the effects of COVID-19 and government support measures based on reasonable and supportable information at the reporting date. In addition to the modelled expected credit loss provision, a COVID-19 overlay has been applied, reflecting uncertainty in the modelled outcome together with unprecedented impacts of COVID-19. Forward looking adjustments have been determined based on a probability weighted range of plausible economic and industry stress scenarios, taking into account the mitigating impacts of government and industry assistance packages, including loan repayment deferrals. These deferrals were not borrower specific and, in line with guidance from APRA, the Group has not treated the period of deferral as a period of arrears nor an automatic significant increase in credit risk. Refer to Note 3.3.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2020

1.4 COVID-19 FINANCIAL REPORTING CONSIDERATIONS (CONTINUED)

GOODWILL

The Group tested goodwill for impairment, updating the assumptions and cash flow forecasts, where necessary, to reflect the potential impact of COVID-19. No impairments were required to be recognised for goodwill held across the Group as at 31 August 2020. Management judgement is required to determine the assumptions underpinning value-in-use calculations and changes in these key assumptions could have an adverse impact on the carrying value of goodwill. Refer to Note 4.1.

HEDGE ACCOUNTING

The Group has considered the impact of COVID-19 on its existing hedges and whether they continue to meet the criteria for Hedge Accounting. Hedged future cash flows, including forecast rollovers of variable rate assets and liabilities, remain highly probable. Refer to Note 3.8.

BORROWINGS

On 19 March 2020, the RBA announced it was establishing the Term Funding Facility (**TFF**) for authorised deposit-taking institutions (**ADIs**) as part of a package of measures to support the Australian economy. The facility aims to reinforce the benefits to the economy of a lower cash rate and encourages ADIs to support business. The facility provides three-year funding to ADIs through repurchase transactions at a fixed pricing rate of 25 basis points per annum and is available to be drawn through to the end of March 2021. As at 31 August 2020 $820 million of the facility has been drawn, representing 44% of BOQ's current TFF allowance of $1.9 billion.

The TFF is accounted for as borrowings with the securities pledged as collateral. There are no substantive conditions attached to the ongoing use of the TFF and it is not linked to the provision of specific loans to customers. However, as the funding is, in effect, a below market interest loan from a Government entity the loan classifies as a Government Grant under AASB 120 *Accounting for Government grants and Disclosure of Government Assistance*. Grants related to income can be deducted in reporting the related expense and, as such, the net interest expense will reflect the TFF cost of borrowing of 25bps. Refer to Note 3.5.

EVENTS SUBSEQUENT TO REPORTING DATE

On 1 September 2020, the RBA announced it is now providing further support to lending and low interest rates by increasing and extending the TFF through two changes:

- providing a new supplementary funding allowance available to all ADIs from 1 October 2020 through to 30 June 2021. The supplementary allowance will be fixed at two per cent of an ADIs overall credit; and
- extending the deadline for drawdowns of the additional funding allowance based on an ADIs lending to businesses from 31 March 2021 to 30 June 2021.

The evolution of the COVID-19 pandemic remains uncertain, including the duration of the pandemic, the severity of the downturn and the speed of the economic recovery. BOQ has considered whether events subsequent to the reporting date have confirmed conditions existing as at reporting date and has not identified any COVID-19 related developments which would require adjustments to the amounts or disclosures contained in the consolidated financial statements. Future economic conditions may differ to the assumptions and scenarios used in the consolidated financial statements, the impact of which will be reflected in future reporting periods.

1.5 NEW AUSTRALIAN ACCOUNTING STANDARDS

NEW ACCOUNTING STANDARDS APPLICABLE THIS FINANCIAL YEAR

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 September 2019.

- AASB 16 *Leases* - the impact of implementing this new standard is disclosed in Note 1.6;

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

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

The Group has not yet adopted any other standard, interpretation or amendment that has been issued but is not yet effective. There are no new accounting standards applicable in future financial years which are expected to materially impact the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2020

1.6 IMPLEMENTATION OF NEW AUSTRALIAN ACCOUNTING STANDARDS

The Group applied AASB 16 from 1 September 2019 for the first time. The impact of this standard is described below.

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

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

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

Identification of a lease

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

The Group has identified 3 types of leases: property leases, vehicle leases and equipment leases. Where practical the Group separates consideration in a contract between lease and non-lease components, only accounting for the lease component under AASB 16 and the non-lease component under other relevant accounting standards. For property leases it has been possible to separate lease and non-lease components but for some equipment leases the Group has elected not to separate the consideration.

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

Transition

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

At transition the Group recognised a lease liability in 'Accounts payable and other liabilities' of $178 million and ROU assets of $118 million as part of 'property, plant and equipment'. After adjusting lease provisions previously recorded on the balance sheet, this resulted in a reduction to retained profits of $4 million (post tax). As permitted by the standard, practical expedients were applied at transition and adjustments were not made for leases of low value assets and for short-term leases (less than 12 months).

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

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

Consolidated	$m
Operating lease commitments as at 31 August 2019	199
Add: assets not recognised as a lease under previous Accounting Standard (AASB 117)	10
(Less): Impact of discounting the future lease cash flows at the incremental borrowing rate (weighted average rate of 1.925%)	(12)
(Less): Removal of GST	(19)
Lease liability recognised as at 1 September 2019	178

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2020

1.6 IMPLEMENTATION OF NEW AUSTRALIAN ACCOUNTING STANDARDS (CONTINUED)

As a lessee

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

The ROU asset is initially measured at cost and subsequently at cost less any accumulated depreciation and impairment losses. Lease incentives received at commencement reduce the ROU asset value. Depreciation is calculated on a straight-line basis. Refer to Note 6.9 (e)(iv) for estimated useful life.

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

As a lessor

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

The Group provides both finance and operating leases as part of its Asset Leasing subsidiaries. The Group is not required to make any adjustments on transition to AASB16 for leases in which it acts as a lessor.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2020

NOTE 2. FINANCIAL PERFORMANCE

2.1 OPERATING INCOME

	Consolidated		Bank	
	2020 $m	2019 $m	2020 $m	2019 $m
INTEREST INCOME				
Effective interest income	1,676	1,913	1,597	1,884
Other: Securities at fair value	120	145	134	165
Total interest income	1,796	2,058	1,731	2,049
INTEREST EXPENSE				
Retail deposits	(388)	(576)	(388)	(575)
Wholesale deposits and borrowings	(419)	(521)	(617)	(744)
Lease liabilities (1)	(3)	–	(3)	–
Total interest expense	(810)	(1,097)	(1,008)	(1,319)
Net interest income	986	961	723	730
INCOME FROM OPERATING ACTIVITIES				
Customer fees and charges (2)	61	72	63	73
Share of fee revenue paid to Owner-managed branches	(6)	(7)	(6)	(7)
Commissions	34	36	12	13
Foreign exchange income – customer based	11	12	12	12
Net profit / (loss) on sale of property, plant and equipment	4	5	–	(1)
Net (loss) / income from financial instruments and derivatives at fair value	(10)	2	(9)	1
Securitisation income	–	–	119	95
Dividend income	–	–	4	12
Management fee – controlled entities	–	–	21	26
Other income	9	6	4	3
Total income from operating activities	103	126	220	227
INCOME FROM INSURANCE ACTIVITIES				
Premiums from insurance contracts	50	55	–	–
Investment revenue	1	2	–	–
Claims and policyholder liability expense from insurance contracts	(40)	(48)	–	–
Net insurance operating income	11	9	–	–
Total operating income	1,100	1,096	943	957

(1) The August 2020 financial results reflects the impact of the implementation of AASB16, prior period has not been restated. Prior period reflects lease expenses.
(2) Customer charges on lending, banking and leasing products.

INTEREST INCOME AND EXPENSE

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

Interest income on finance lease receivables is recognised progressively over the life of the lease, reflecting a constant periodic rate of return on the net investment.

OTHER OPERATING INCOME

Other operating income and expenses that are considered an integral part of the effective interest rate on a financial instrument are included in the measurement of the effective interest rate.

Non-yield related application and activation lending fee revenue is recognised over the contract period in line with the performance obligation delivered to the customers. Customer service fees that represent the recoupment of the costs of providing the service are recognised when the service is provided. Commissions are recognised as income when performance obligations in respect of those commissions have been satisfied.

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

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 August 2020

2.2 EXPENSES

		Consolidated		Bank	
	Note	2020 $m	2019 $m	2020 $m	2019 $m
OPERATING EXPENSES					
Advertising		28	26	16	15
Commissions to Owner-managed Branches		5	5	4	5
Communications and postage		17	19	17	18
Printing and stationery		3	3	3	3
Processing costs		13	15	13	15
Impairment (1)		41	4	41	26
Other		43	32	48	34
		150	104	142	116
ADMINISTRATIVE EXPENSES					
Professional fees		24	23	21	20
Directors' fees		2	2	2	2
Other		9	7	15	12
		35	32	38	34
IT EXPENSES					
Data processing		126	85	120	80
Amortisation – computer software	4.1	77	41	71	38
Depreciation – IT equipment		1	1	1	1
		204	127	192	119
OCCUPANCY EXPENSES					
Depreciation - ROU assets and lease expenses (2)		28	30	26	27
Depreciation – property, plant and equipment		10	10	10	10
Other		2	4	2	3
		40	44	38	40
EMPLOYEE EXPENSES					
Salaries, wages and superannuation contributions (3)		289	249	265	229
Payroll tax		14	13	12	12
Equity settled transactions		9	8	8	7
Other		6	10	6	9
		318	280	291	257
OTHER					
Amortisation – acquired intangibles	4.1	5	5	4	5
Total expenses		752	592	705	571

(1) The August 2020 financial results includes intangible impairments of $39 million. Refer to Note 4.1 for further details. The August 2019 financial results of the Bank includes impairment of the intercompany loan from the Bank to St Andrew's Australia Services Pty Ltd of $24 million.

(2) The August 2020 financial results reflects the impact of the implementation of AASB16, prior period has not been restated. Prior period reflects lease expenses.

(3) Includes a $5 million prior period restatement of employee costs from Impairment on loans and advances to Expenses.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2020

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	
	2020 $m	2019 $m	2020 $m	2019 $m
CURRENT TAX EXPENSE				
Current year	103	139	83	106
Adjustments for prior years	(8)	1	(6)	1
	95	140	77	107
DEFERRED TAX EXPENSE				
Origination and reversal of temporary differences	(37)	(3)	(36)	2
Total income tax expense	58	137	41	109
DEFERRED TAX RECOGNISED IN EQUITY				
Cash flow hedge reserve	6	(25)	7	(23)
Retained profits (1)	(2)	(6)	(2)	(6)
Other	(4)	(6)	(4)	(6)
	–	(37)	1	(35)
NUMERICAL RECONCILIATIONS BETWEEN TAX EXPENSE AND PRE-TAX PROFIT				
Profit before tax	173	435	122	354
Income tax using the domestic corporate tax rate of 30% (2019: 30%)	52	131	37	106
Increase in income tax expense due to:				
Non-deductible expenses	7	7	6	7
Decrease in income tax expense due to:				
Other (2)	(1)	(1)	(2)	(4)
Income tax expense on pre-tax net profit	58	137	41	109

(1) The August 2020 financial results reflect the adoption of AASB 16 on 1 September 2019. The Group has applied the modified retrospective approach and, as permitted by AASB 16, comparative information has not been restated. The cumulative effect of applying AASB 16 is recognised in retained profits at 1 September 2019.

(2) In the Bank, this includes the impact of dividends received from subsidiary members in the tax consolidated group which are eliminated at a group level and the dilutionary impact to prima-facie tax expense relating to franking credits on external dividends received on investments.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2020

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	2020 $m	2019 $m	2020 $m	2019 $m	2020 $m	2019 $m
Accruals	3	3	–	–	3	3
Capitalised expenditure	–	–	(6)	(6)	(6)	(6)
Provisions for impairment	111	70	–	–	111	70
Other provisions	16	15	–	–	16	15
Equity reserves	36	37	–	–	36	37
ROU Asset and Lease Liability	47	–	(38)	–	9	–
Lease financing relating to lessor activities	–	–	(45)	(36)	(45)	(36)
Other [(1)]	2	7	(4)	(5)	(2)	2
Total tax assets / (liabilities)	215	132	(93)	(47)	122	85
BANK						
Accruals	2	2	–	–	2	2
Capitalised expenditure	–	–	(2)	(2)	(2)	(2)
Provisions for impairment	76	49	–	–	76	49
Other provisions	14	13	–	–	14	13
Equity reserves	31	33	–	–	31	33
ROU Asset and Lease Liability	47	–	(38)	–	9	–
Lease financing relating to lessor activities	–	–	(18)	(19)	(18)	(19)
Other [(1)]	2	7	(1)	(4)	1	3
Total tax assets / (liabilities)	172	104	(59)	(25)	113	79

(1) A deferred tax liability of $2 million is included in the closing balance of "Other" in relation to intangible assets acquired as part of historic acquisitions, discussed further in the below Accounting for Income Tax section. Comparative information has not been restated.

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:

	2020 $m	2019 $m
Gross income tax losses [(1)]	24	25
Gross capital gains tax losses	50	51

(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 2020

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 Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

During the year ended 31 August 2020, BOQ has altered its treatment of certain intangible assets acquired as a part of historical acquisitions, in line with a recent decision published by the IFRS Interpretations Committee. This required BOQ to book an opening adjustment to the deferred tax liability (**DTL**) and goodwill balances as at 1 September 2019 to recognise a DTL on the balance of the intangible assets acquired as part of historic acquisitions. This DTL will unwind in line with the remaining accounting amortisation of the assets. The adjustment to goodwill is included in Note 4.1.

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 are 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 Agreement (**TFA**) 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 TFA which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. The TFA 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 TFA 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 2020

2.4 DIVIDENDS

	Bank			
	2020		2019	
	Cents per share	$m	Cents per share	$m
ORDINARY SHARES				
Final 2019 dividend paid 27 November 2019 (2018: 14 November 2018)	31	126	38	151
Interim 2019 dividend paid 22 May 2019	–	–	34	137
		126		288

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

	Cents per share	$m
Full year ordinary share dividend	12	55

The full year dividend will be fully franked and represents 6 cents per share from 1H20 profits and 6 cents per share from 2H20 profits. The full year dividend will be paid on 25 November 2020 to owners of ordinary shares at the close of business on 5 November 2020 (record date). Shares will be quoted ex-dividend on 4 November 2020.

	Bank	
	2020 $m	2019 $m
30% franking credits available to shareholders of the Bank for subsequent financial years	208	177

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends. The profits accumulated in the profit reserve are available for dividend payments in future years. All franked dividends paid or declared by the Bank since the end of the previous financial year were franked at the tax rate of 30 per cent.

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 proposed dividends relating to the year ended 31 August 2020, is $183 million calculated at the 30 per cent tax rate (2019: $120 million). 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 dividend reinvestment plan (DRP) provides ordinary shareholders with the opportunity to reinvest all or part of their entitlement to a dividend into new ordinary shares.

The Directors approved changes to the DRP rules on 8 April 2020.

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

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

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

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

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

The last date for election to participate in the DRP for the 2020 full year dividend is 6 November 2020.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2020

2.5 OPERATING SEGMENTS

SEGMENT INFORMATION

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

An operating segment is a component of the Group 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 Group's other components. All operating segments' operating results are regularly reviewed by the Group'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 Group's operating segments comprise the following:

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

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

Other – Treasury, St Andrew's Insurance and Group Head Office.

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, reflecting the Bank's external cost of funds, in a manner similar to transactions with third parties.

Major customers

No revenue from transactions with a single external customer or counter party amounted to 10 per cent or more of the Group's total revenue in 2020 or 2019.

Geographic information

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

Goodwill

For goodwill allocation between segments, refer to Note 4.1.

Presentation

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

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

All inter-segment profits are eliminated on consolidation.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2020

2.5 OPERATING SEGMENTS (CONTINUED)

	Retail Banking		BOQ Business		Other		Segment Total	
	2020 (1) $m	2019 $m	2020 (1) $m	2019 $m	2020 (1) $m	2019 $m	2020 (1) $m	2019 $m
INCOME								
Net interest income (2)	437	432	543	527	6	2	986	961
Non interest income	56	63	40	50	14	15	110	128
Total income	493	495	583	577	20	17	1,096	1,089
Operating expenses (3)	(317)	(289)	(258)	(245)	(19)	(21)	(594)	(555)
Underlying profit / (loss)	176	206	325	332	1	(4)	502	534
Loan impairment expense (3)	(56)	(12)	(119)	(57)	–	–	(175)	(69)
Cash profit / (loss) before tax	120	194	206	275	1	(4)	327	465
Income tax expense	(37)	(61)	(64)	(86)	(1)	2	(102)	(145)
Segment cash profit / (loss) after tax (4)	83	133	142	189	–	(2)	225	320
Statutory basis adjustments:								
Amortisation of acquisition of fair value adjustments	–	–	–	–	(4)	(6)	(4)	(6)
Hedge ineffectiveness	–	–	–	–	(10)	(8)	(10)	(8)
Integration / transaction costs	–	–	–	–	–	(1)	–	(1)
Capital acceleration / software changes (5)	–	–	–	–	(57)	–	(57)	–
Restructure Provision (6)	–	–	–	–	(23)	–	(23)	–
Legacy and regulatory / compliance (7)	–	–	–	–	(16)	(7)	(16)	(7)
Statutory net profit / (loss) after tax	83	133	142	189	(110)	(24)	115	298
INCLUDED IN THE RESULTS:								
Depreciation and amortisation	(67)	(34)	(45)	(17)	(3)	(1)	(115)	(52)
Segment assets (8)	26,058	25,767	22,920	22,345	7,794	7,485	56,772	55,597
Segment liabilities (8)	17,156	15,742	9,780	8,293	25,605	27,703	52,541	51,738

(1) The August 2020 financial results reflects the impact of the implementation of AASB16, prior period has not been restated. Prior period reflects lease expenses.
(2) Interest income and interest expenses are disclosed in this note on a net interest income basis. This is in line with the information provided internally to the Managing Director & CEO.
(3) Includes a $5 million prior period restatement of employee costs from Loan impairment expense to Operating expenses. This has been split across Retail Banking $2 million and BOQ Business $3 million.
(4) This excludes a number of items that introduce volatility and / or one-off distortions of the Group's performance.
(5) Capital acceleration/software changes include a non-recurring adjustment due to a change in the minimum threshold for the capitalisation of intangible assets and the amortisation acceleration and impairment of assets impacted by the Group's revised strategy.
(6) Restructure provision relates to the structural productivity and operating model review. The expense largely relates to redundancy costs associated with business restructures.
(7) Legacy and regulatory/compliance includes adjustments for the Group's pay and leave entitlements review and prior year Goods and Services Tax (**GST**) and costs associated with remediation programs and regulatory matters of an extraordinary nature consistent with prior period. These were partly offset by the recovery of expenses in relation to historical litigation.
(8) Includes a prior period restatement due to realignment of data sources following an internal review.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2020

2.6 EARNINGS PER SHARE

Basic earnings per share (**EPS**) is calculated by dividing the relevant earnings attributable to ordinary shareholders 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	
	2020 $m	2019 $m
EARNINGS RECONCILIATION		
Profit for the year	115	298
Basic earnings	115	298
Effect of wholesale capital notes	4	7
Effect of capital notes	11	14
Diluted earnings	130	319

Weighted average number of shares used as the denominator	2020 Number	2019 Number [1]
Number for basic earnings per share		
Ordinary shares	440,934,700	402,344,576
Number for diluted earnings per share		
Ordinary shares	440,934,700	402,344,576
Effect of award rights	1,909,302	1,454,170
Effect of wholesale capital notes [2]	18,456,165	17,020,105
Effect of capital notes	58,658,037	39,350,886
	519,958,204	460,169,737
EARNINGS PER SHARE		
Basic earnings per share – Ordinary shares (cents)	26.2	74.0
Diluted earnings per share – Ordinary shares (cents)	25.1	69.1

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

(2) Whole Capital Notes (**WCN**) were redeemed by the Group on 26 May 2020. The effect reflects the period until the WCN were redeemed.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 August 2020

NOTE 3. CAPITAL AND BALANCE SHEET MANAGEMENT

3.1 CASH AND CASH EQUIVALENTS

COMPONENTS OF CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash at branches, cash on deposit and balances with the RBA. 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 and withdrawals from deposit accounts; and
- Loan drawdowns and repayments.

	Consolidated		Bank	
	2020 $m	2019 $m	2020 $m	2019 $m
Notes, coins and cash at bank	983	1,051	465	463
Remittances in transit	270	223	270	222
Reverse repurchase agreements maturing in less than three months	100	–	100	–
Total	1,353	1,274	835	685

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	115	298	81	245
Add / (less) non-cash items or items classified as investing / financing:				
Depreciation	35	11	35	11
Amortisation	5	5	4	5
Software amortisation and impairment	118	45	108	42
(Profit) / loss on sale of property, plant and equipment	(4)	1	–	1
Impairment of intercompany loan (1)	–	–	–	24
Equity settled transactions	9	8	8	7
Dividends received from controlled entities	–	–	(4)	(12)
Add / (less) changes in operating assets and liabilities:				
(Increase) in due from other financial institutions	(152)	(656)	(158)	(662)
(Increase) in financial assets	(120)	(608)	(120)	(608)
(Increase) in loans and advances	(825)	(943)	(772)	(223)
Increase in provision for impairment	136	22	89	–
Decrease in derivatives	14	19	13	18
(Increase) / decrease in deferred tax asset	(40)	–	(31)	6
(Increase) / decrease in amounts due to / from controlled entities	–	–	(670)	455
(Increase) / decrease in other assets	45	16	548	(601)
(Increase) / decrease in current tax assets	5	(7)	6	(8)
Increase / (decrease) in due to other financial institutions	11	(30)	11	(30)
Increase in deposits	1,278	314	1,302	252
Increase / (decrease) in accounts payable and other liabilities	(43)	39	(24)	5
(Decrease) in current tax liabilities	–	(5)	–	(5)
Increase / (decrease) in provisions	7	(5)	13	(4)
Increase / (decrease) in deferred tax liabilities	2	(2)	(4)	(4)
(Decrease) in insurance policy liabilities	(4)	(1)	–	–
Net cash (inflow) / outflow from operating activities	592	(1,479)	435	(1,086)

(1) This includes the impairment of the intercompany loan from the Bank to St Andrew's Australia Services Pty Ltd of $24 million.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2020

3.2 FINANCIAL ASSETS AND LIABILITIES

FINANCIAL INSTRUMENTS MEASURED AT AMORTISED COST

Financial assets that are held to collect the contractual cash flows and that contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest, are measured at amortised cost. In addition, most financial liabilities are measured at amortised cost. Financial assets or financial liabilities are initially recognised at fair value, inclusive of any directly attributable costs. They are subsequently measured at each reporting date at amortised cost using the effective interest method.

The Bank invests in debt securities at amortised cost that are issued by 100 per cent owned securitisation vehicles within the Consolidated Group. The programs' underlying pool of financial instruments are recorded within the Bank's Loans and advances.

Also included in this category are loans and advances at amortised cost (refer to Note 3.3 Loans and advances) and receivables due from other financial institutions recognised and measured at amortised cost.

For financial liabilities at amortised cost: refer to Note 3.4 for further information on Deposits and Note 3.5 for further information on Borrowings.

FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (FVOCI)

Financial assets held in a business model that is achieved by both collecting and selling contractual cash flows that contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest are measured at FVOCI. Gains or losses arising from changes in the fair value of these financial instruments are recognised in other comprehensive income. Interest income and foreign exchange gains and losses are recognised in profit or loss in the Income Statement, as are cumulative gains or losses previously recognised in other comprehensive income upon derecognition of the financial instruments.

Equity instruments that are not held for trading are measured at FVOCI, where an irrevocable election has been made by management. Amounts presented in other comprehensive income are not subsequently transferred to profit or loss, but can be reclassified to retained profits. Dividends on such investments are recognised in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment.

FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS (FVTPL)

Financial assets that do not meet the criteria to be measured at amortised cost or FVOCI are measured at FVTPL, with all changes in fair value recognised in the Income Statement. Financial assets in this category are those that are held for trading and have been designated by management upon initial recognition or are mandatorily required to be measured at fair value under AASB 9.

Where a financial liability is designated at fair value through profit or loss, the movement in fair value is recognised in profit or loss in the Income Statement.

Modification of financial instruments

A financial instrument is modified when its original contractual cash flows are modified. A financial instrument that is modified is derecognised if the existing agreement is cancelled and a new agreement is made on substantially different terms or if the existing terms of the financial instrument are substantially modified. Where the modification results in derecognition of the original financial instrument, a new financial instrument is recorded initially at fair value and the difference is recorded in profit or loss in the Income Statement.

When the modification does not result in derecognition, the difference between the financial instrument's original contractual cash flows and the modified cash flows, discounted at the original effective interest rate, is recognised as a gain or loss in the Income Statement.

Reclassification of financial instruments

The Group reclassifies financial assets when, and only when, it changes its business model for managing those assets. Reclassified financial assets are subsequently measured based on the new measurement category.

The Group does not reclassify financial liabilities.

Derecognition of financial instruments

Financial assets are derecognised when, and only when, the contractual rights to receive cash flows from the assets have expired, or where the Group has transferred its contractual rights to receive the cash flows of the financial assets or 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2020

3.2 FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

Financial assets recognised and measured at fair value are listed below. For other financial assets and liabilities refer to Note 3.1 for Cash and cash equivalents, Note 3.3 for Loans and advances, Note 3.4 for Deposits, Note 3.5 for Borrowings and Note 3.8 for Derivative financial instruments and hedge accounting.

	Consolidated		Bank	
	2020 $m	2019 $m	2020 $m	2019 $m
Derivative financial assets				
Current	19	47	19	47
Non-current	135	182	82	98
Total derivative financial assets	154	229	101	145
Financial assets at FVTPL				
Floating rate notes and bonds	1,829	954	1,829	954
Negotiable certificates of deposit	25	619	25	619
Reverse repurchase agreements	–	1,013	–	1,013
Total financial assets at FVTPL	1,854	2,586	1,854	2,586
Current	1,854	2,586	1,854	2,586
Financial assets at FVOCI				
Debt instruments	4,530	3,569	4,530	3,569
Equity instruments	6	6	6	6
Total financial assets at FVOCI	4,536	3,575	4,536	3,575
Current	80	192	80	192
Non-current	4,456	3,383	4,456	3,383
Debt instruments at amortised cost				
Current	–	–	200	216
Non-current	–	–	7,462	5,252
	–	–	7,662	5,468

3.3 LOANS AND ADVANCES

Loans and advances at amortised cost

Loans and advances are originated by the Group 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. The method used to determine the appropriate period to amortise any upfront payments or receipts on origination of loan contracts is the weighted average life (**WAL**) of the loan category.

Finance lease receivables

Loans and advances include finance lease receivables. Finance lease receivables, accounted for under AASB 16, are also originated by the Group and are recognised upon cash being advanced to the borrower. Finance leases are those products where substantially all the risks and rewards of the leased asset have been transferred to the lessee.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2020

3.3 LOANS AND ADVANCES (CONTINUED)

Finance lease receivables are initially recognised at amounts equal to the lower of fair value of the leased asset or the present value of the minimum lease repayments. Subsequently, lease repayments are apportioned between the finance charge and the reduction of the finance lease liability.

	Consolidated		Bank	
	2020 $m	2019 $m	**2020 $m**	2019 $m
Residential property loans – secured by mortgages	**31,155**	30,647	**31,155**	30,647
Personal loans	**215**	223	**215**	223
Overdrafts	**209**	228	**209**	228
Commercial loans	**10,135**	9,816	**9,957**	9,626
Credit cards	**59**	76	**59**	76
Asset finance and leasing	**5,362**	5,332	**199**	222
Gross loans and advances	47,135	46,322	41,794	41,022
Less:				
Unearned finance lease income	**(92)**	(106)	**(20)**	(22)
Specific provision for impairment	**(94)**	(85)	**(68)**	(65)
Collective provision for impairment	**(275)**	(148)	**(186)**	(99)
Total loans and advances	46,674	45,983	41,520	40,836

At reporting date, the gross carrying value of loans and advances that are subject to a COVID-19 relief package total $6.2 billion, comprised of Residential property loans ($3.7 billion) and Commercial loans ($2.5 billion).

(A) LOANS AND ADVANCES - EXPECTED CREDIT LOSSES (ECL)

ECL is a forward-looking impairment methodology. The ECL allowance is based on the credit losses expected to arise over the next 12 months of the financial asset, unless there has been a significant increase in credit risk (**SICR**) since origination. In this case, the allowance is based on the ECL for the life of the financial asset. The 12 months ECL is the portion of lifetime ECLs that represent the ECLs that result from default events on a financial asset that are possible within the 12 months after the reporting date.

At the end of each reporting period, the Group performs an assessment of whether a financial asset's credit risk has increased significantly since initial recognition. This is done by considering the change in the risk of default occurring over the remaining life of the financial asset.

The Group applies a three stage approach to measuring the ECL, as described below:

- Stage 1 – For financial assets where there has not been a SICR since initial recognition and that are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default (**PD**) occurring within the next 12 months is recognised as the 12 month ECL, adjusted for forward-looking information. Stage 1 includes facilities where the credit risk has improved and the loan has been reclassified from Stage 2 or Stage 3.
- Stage 2 – When there has been a SICR, the lifetime ECL is determined with reference to the financial asset's lifetime PD and the lifetime losses associated with that PD, adjusted for forward-looking information. The Group assesses whether there has been a SICR since initial recognition based on qualitative, quantitative and reasonable and supportable forward-looking information that includes significant management judgement. Use of alternative criteria could result in significant changes to the timing and amount of ECL to be recognised. Lifetime ECL is generally determined based on the behavioural maturity of the financial asset, which is generally less than or equal to the contractual maturity. Stage 2 also includes facilities where the credit risk has improved and the loan has been reclassified from Stage 3.
- Stage 3 - This includes financial assets that are deemed to be credit impaired, which generally correspond to the APRA definition of default, and include exposures that are at least 90 days past due. The provision is also equivalent to the lifetime ECL. Financial assets in Stage 3 will have a collective provision determined by the ECL model, although some loans are individually covered by a specific provision. A specific provision is calculated based on estimated future cash flows discounted to their present value, net of any collateral held against that financial asset.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2020

3.3 LOANS AND ADVANCES (CONTINUED)

(A) LOANS AND ADVANCES - EXPECTED CREDIT LOSSES (ECL) (CONTINUED)

Write-offs

Financial assets are written off, either partially or in full, against the related provision when the Group concludes that there is no reasonable expectation of recovery and all possible collateral has been realised. Recoveries of financial assets previously written off are recognised in profit or loss based on the cash received.

Definition of default

A default is considered to have occurred when the borrower is unlikely to pay its credit obligations in full without recourse by the Group to the realisation of available security and/or the borrower is at least 90 days past due on their credit obligations. This definition is in line with the regulatory definition of default and also aligned to the definition used for internal credit risk management purposes across all portfolios.

Significant increase in credit risk

SICR for financial assets is assessed by comparing the risk of a default occurring over the expected life of a financial asset at the reporting date compared to the corresponding risk of default at origination. In determining what constitutes a significant increase in credit risk, the Group considers qualitative and quantitative information. For the majority of the Group's Retail portfolio, a statistical model has been developed to identify where a facility's recent behaviour has deteriorated significantly from its origination behaviour. For most of the Group's Commercial portfolio the primary indicator of a significant increase in credit risk is a change in the internal customer risk rating between origination and reporting date. For all loan portfolios, the primary indicator is in addition to the secondary SICR indicator, which is based on 30 days past due arrears information.

Calculation of ECL

Both 12 months ECLs and lifetime ECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial assets. When calculating the ECL, portfolios of financial assets are grouped as follows:

- Retail lending: Home loans model, Personal loans model and BOQ Specialist model,
- Commercial lending: Commercial risk rated model and Equipment Finance model.

Where ECL is modelled collectively for portfolios of exposures, it is modelled primarily as the product of the PD, the loss given default (**LGD**) and the exposure at default (**EAD**).

These parameters are generally derived from internally developed statistical models combined with historical, current and forward-looking information, including macro-economic data:

- The 12-months and lifetime PD, for accounting purposes, represent the estimation of the point-in-time probability of a default over the next 12 months and remaining lifetime of the financial instrument, respectively, based on conditions existing at the balance sheet date and future economic conditions that affect credit risk;
- The EAD represents the expected exposure at default, taking into account the repayment of principal and interest from the balance sheet date to the default event together with any expected drawdown of a facility; and
- The LGD represents the expected loss conditional on default, taking into account the mitigating effect of collateral, its expected value when realised and the time value of money.

Impact of COVID-19 on ECL

From March 2020, in response to the COVID-19 pandemic, the Group has implemented a number of initiatives aimed at supporting the economic resilience of our retail and business customers including repayment deferrals of up to six months. In July 2020 the Bank announced that customers may be able to extend their existing repayment deferrals by up to four months depending on their individual circumstances. In line with guidance from APRA, the Bank has not treated the period of the deferral as a period of arrears, where the customer was otherwise performing.

As the pandemic has evolved, the Group has taken the opportunity to consider the appropriateness and adequacy of its provisioning. A number of external and internal factors were considered in arriving at a revised COVID-19 overlay of $133 million, determined on three probability weighted possible economic scenarios, considering the facts, circumstances and forecasts of future economic conditions and supportable information available at the reporting date.

External factors involved latest RBA forecasting, a peer comparison of COVID-19 overlays across the market, benchmarking the scenario designs against various ADIs and insights from the APRA stress testing exercise. Internal factors included analysis of:

- Insights gathered via a significant exposure review, which involved a deep dive into a number of priority exposures related to sectors highly impacted by COVID-19;
- Analysis of customers impacted by COVID-19, particularly those on Banking Relief Packages, insights gained from the three month check-ins and the likelihood of recovery of these customers; and
- Credit risk rating downgrades since the half year to garner insights into those sectors most impacted.

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For the year ended 31 August 2020

3.3 LOANS AND ADVANCES (CONTINUED)

The three scenarios that were considered were Base case, Downside and Severe. The general shape of the economic recovery varies within each scenario. The table below provides the probability weighting applied to the possible economic scenarios and a summary of macro-economic assumptions used in the scenarios as at 31 August 2020.

	Base			Downside			Severe		
Weighting	75%			20%			5%		
Macro-economic assumption	**2020 (%)**	2021 (%)	2022 (%)	**2020 (%)**	2021 (%)	2022 (%)	**2020 (%)**	2021 (%)	2022 (%)
GDP (annual change)	**(6.0)**	5.0	4.0	**(7.5)**	4.0	3.0	**(9.0)**	5.0	3.5
Unemployment rate	**10.0**	8.5	7.0	**10.5**	9.0	7.5	**12.0**	10.0	8.0
Residential Property prices (annual change)	**(6.0)**	(5.0)	5.0	**(10.0)**	(7.5)	5.0	**(12.5)**	(10.0)	–
Commercial Property prices (annual change)	**(10.0)**	(5.0)	5.0	**(15.0)**	(7.5)	5.0	**(20.0)**	(10.0)	–

Sensitivity of provisions for impairment

As described above, the Group applies three macro-economic scenarios (Base, Downside and Severe) to reflect an unbiased probability weighted COVID-19 overlay. The following table provides approximate levels of ECL overlay under the Base, Downside and Severe scenarios assuming a 100% weighting was applied to each scenario with all other assumptions held constant.

	Consolidated $m	Bank $m
100% base case overlay	109	74
100% downside overlay	185	125
100% severe overlay	285	206

In addition to calculating the overlay, judgement was also applied in determining when a SICR has occurred. The extension of payment holidays to borrowers as part of a COVID-19 support package will not, in all cases, mean a SICR has occurred. The Group has also considered credit risk implications for commercial lending at an industry portfolio level where there may be a higher likelihood of a SICR. The following table shows the impact of the overlay by industry.

Industry sector	Exposure ($m)	Scenario impact ($m)
Retail: Housing (excluding BOQS)	25,602	48
High Impact: Accommodation & Food, Education & Training, Arts & Recreation	878	11
Medium Impact: Rental, Hiring and Real Estate, Manufacturing, Wholesale Trade, Retail Trade, Transport, Postal & Warehousing, Dentists	7,350	40
Low Impact: Construction, Mining, Financial Services, Vets, Healthcare	3,724	17
Other Sectors	9,581	17
	47,135	133

The majority of the COVID-19 overlay is split into lifetime ECL stages with the high impact industries in the commercial portfolio more likely to demonstrate a SICR than the low impact industries and retail lending expected to see a SICR due to rising unemployment. Approximately $109 million of the overlay is attributed to lifetime ECL, with the remainder attributed to Stage 1 provisions.

Governance

The Executive Credit Committee has the delegation for reviewing and approving the methodology, including any judgements and assumptions. Where applicable, management adjustments or overlays may be made to account for situations where known or expected risks and information have not been considered in the modelling process. The Group's provision for impairment on loans and advances and key areas of judgement are reported to the Group's Audit Committee and Board at each reporting period.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2020

3.3 LOANS AND ADVANCES (CONTINUED)

The following table discloses the reconciliation of the ECL model of the Group for the year ended 31 August 2020.

	Collective Provision				
Consolidated	Stage 1 – 12 month ECL $m	Stage 2 – Lifetime ECL $m	Stage 3 – Lifetime ECL $m	Stage 3 – Specific provision $m	Total $m
Balance as at 1 September 2019	81	44	23	85	233
Transfers during the year to:					
Stage 1	8	(7)	(1)	–	–
Stage 2	(3)	4	(1)	–	–
Stage 3	(1)	(5)	2	4	–
New/increased provisions	47	94	50	39	230
Write-back of provisions no longer required	(37)	(15)	(8)	3	(57)
Amounts written off, previously provided for	–	–	–	(32)	(32)
Unwind discount	–	–	–	(5)	(5)
Balance as at 31 August 2020	**95**	**115**	**65**	**94**	**369**

The table below discloses the effect of movements in the gross carrying value of loans and advances in the different stages of the ECL model of the Group during the year ended 31 August 2020.

Consolidated	Stage 1 – 12 month ECL $m	Stage 2 – Lifetime ECL $m	Stage 3 – Lifetime ECL $m	Stage 3 – Specific provision $m	Total[(1)] $m
Gross carrying amount as at 1 September 2019	43,233	2,425	351	207	46,216
Transfers during the year to:					
Stage 1	682	(666)	(15)	(1)	–
Stage 2	(2,278)	2,304	(25)	(1)	–
Stage 3	(156)	(89)	195	50	–
New loans and advances originated or purchased	11,641	319	34	1	11,995
Loans and advances derecognised during the year including write-offs	(10,291)	(688)	(132)	(57)	(11,168)
Balance as at 31 August 2020	42,831	3,605	408	199	47,043
Provision for impairment	(95)	(115)	(65)	(94)	(369)
Net carrying amount as at 31 August 2020	**42,736**	**3,490**	**343**	**105**	**46,674**

(1) The amounts presented above are inclusive of unearned finance lease income.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2020

3.3 LOANS AND ADVANCES (CONTINUED)

The following table discloses the reconciliation of the ECL model of the Group for the year ended 31 August 2019.

	Collective Provision						
Consolidated	Stage 1 – 12 month ECL $m	Stage 2 – Lifetime ECL $m	Stage 3 – Lifetime ECL $m	Stage 3 – Specific provision $m	Specific provision $m	Collective provision $m	Total $m
Balance as at 31 August 2018	–	–	–	–	86	115	201
Change on adoption of AASB 9	69	38	18	86	(86)	(115)	10
Balance as at 1 September 2018	69	38	18	86	–	–	211
Transfers during the year to:							
Stage 1	8	(7)	(1)	–	–	–	–
Stage 2	(4)	4	–	–	–	–	–
Stage 3	(1)	(5)	3	3	–	–	–
New/increased provisions	41	29	13	44	–	–	127
Write-back of provisions no longer required	(32)	(15)	(10)	(1)	–	–	(58)
Amounts written off, previously provided for	–	–	–	(44)	–	–	(44)
Unwind discount	–	–	–	(3)	–	–	(3)
Balance as at 31 August 2019	81	44	23	85	–	–	233

The table below discloses the effect of movements in the gross carrying value of loans and advances in the different stages of the ECL model of the Group during the year ended 31 August 2019.

Consolidated	Stage 1 – 12 month ECL $m	Stage 2 – Lifetime ECL $m	Stage 3 – Lifetime ECL $m	Stage 3 – Specific provision $m	Total[(1)] $m
Gross carrying amount as at 1 September 2018	42,337	2,500	274	168	45,279
Transfers during the year to:					
Stage 1	636	(625)	(6)	(5)	–
Stage 2	(1,220)	1,236	(14)	(2)	–
Stage 3	(169)	(128)	193	104	–
New loans and advances originated or purchased	11,055	72	6	6	11,139
Loans and advances derecognised during the year including write-offs	(9,406)	(630)	(102)	(64)	(10,202)
Balance as at 31 August 2019	43,233	2,425	351	207	46,216
Provision for impairment	(81)	(44)	(23)	(85)	(233)
Net carrying amount as at 31 August 2019	43,152	2,381	328	122	45,983

(1) The amounts presented above are inclusive of unearned finance lease income.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2020

3.3 LOANS AND ADVANCES (CONTINUED)

The following table discloses the reconciliation of the ECL model of the Group for the year ended 31 August 2020.

Bank	Collective Provision				
	Stage 1 – 12 month ECL $m	Stage 2 – Lifetime ECL $m	Stage 3 – Lifetime ECL $m	Stage 3 – Specific provision $m	Total $m
Balance as at 1 September 2019	47	33	19	65	164
Transfers during the year to:					
Stage 1	4	(4)	–	–	–
Stage 2	(1)	2	(1)	–	–
Stage 3	–	(4)	2	2	–
New/increased provisions	26	63	37	26	152
Write-back of provisions no longer required	(19)	(12)	(6)	(2)	(39)
Amounts written off, previously provided for	–	–	–	(19)	(19)
Unwind discount	–	–	–	(4)	(4)
Balance as at 31 August 2020	57	78	51	68	254

The table below discloses the effect of movements in the gross carrying value of loans and advances in the different stages of the ECL model of the Group during the year ended 31 August 2020.

Bank	Stage 1 – 12 month ECL $m	Stage 2 – Lifetime ECL $m	Stage 3 – Lifetime ECL $m	Stage 3 – Specific provision $m	Total (1) $m
Gross carrying amount as at 1 September 2019	38,266	2,212	341	181	41,000
Transfers during the year to:					
Stage 1	640	(625)	(14)	(1)	–
Stage 2	(1,677)	1,703	(25)	(1)	–
Stage 3	(140)	(82)	190	32	–
New loans and advances originated or purchased	9,450	305	32	–	9,787
Loans and advances derecognised during the year including write-offs	(8,269)	(579)	(125)	(40)	(9,013)
Balance as at 31 August 2020	38,270	2,934	399	171	41,774
Provision for impairment	(57)	(78)	(51)	(68)	(254)
Net carrying amount as at 31 August 2020	38,213	2,856	348	103	41,520

(1) The amounts presented above are inclusive of unearned finance lease income.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2020

3.3 LOANS AND ADVANCES (CONTINUED)

The following table discloses the reconciliation of the new ECL model of the Bank for the year ended 31 August 2019.

	Collective Provision						
Bank	Stage 1 – 12 month ECL $m	Stage 2 – Lifetime ECL $m	Stage 3 – Lifetime ECL $m	Stage 3 – Specific provision $m	Specific provision $m	Collective provision $m	Total $m
Balance as at 31 August 2018	–	–	–	–	74	82	156
Change on adoption of AASB 9	44	31	17	74	(74)	(82)	10
Balance as at 1 September 2018	44	31	17	74	–	–	166
Transfers during the year to:							
Stage 1	6	(5)	–	(1)	–	–	–
Stage 2	(1)	2	(1)	–	–	–	–
Stage 3	–	(5)	3	2	–	–	–
New/increased provisions	14	21	9	28	–	–	72
Write-back of provisions no longer required	(16)	(11)	(9)	(7)	–	–	(43)
Amounts written off, previously provided for	–	–	–	(28)	–	–	(28)
Unwind discount	–	–	–	(3)	–	–	(3)
Balance as at 31 August 2019	47	33	19	65	–	–	164

The table below discloses the effect of movements in the gross carrying value of loans and advances in the different stages of the ECL model of the Bank during the year ended 31 August 2019.

Bank	Stage 1 – 12 month ECL $m	Stage 2 – Lifetime ECL $m	Stage 3 – Lifetime ECL $m	Stage 3 – Specific provision $m	Total[(1)] $m
Gross carrying amount as at 1 September 2018	37,983	2,313	271	160	40,727
Transfers during the year to:					
Stage 1	593	(582)	(6)	(5)	–
Stage 2	(1,052)	1,068	(14)	(2)	–
Stage 3	(147)	(123)	186	84	–
New loans and advances originated or purchased	8,509	63	4	1	8,577
Loans and advances derecognised during the year including write-offs	(7,620)	(527)	(100)	(57)	(8,304)
Balance as at 31 August 2019	38,266	2,212	341	181	41,000
Provision for impairment	(47)	(33)	(19)	(65)	(164)
Net carrying amount as at 31 August 2019	38,219	2,179	322	116	40,836

(1) The amounts presented above are inclusive of unearned finance lease income.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2020

3.3 LOANS AND ADVANCES (CONTINUED)

The table below discloses the breakdown of impairment expense on loans and advances.

	Consolidated		Bank	
	2020 $m	2019 $m	**2020 $m**	2019 $m
Increase in collective provision for impairment	**127**	23	**87**	7
Increase in specific provision for impairment	**14**	3	**7**	(4)
Bad debts written off net of recoveries	**34**	43	**22**	29
Impairment on loans and advances	**175**	69	**116**	32

(B) LEASE RECEIVABLES

Asset finance and leasing include the following finance lease receivables for leases where the Group is the lessor.

	Consolidated		Bank	
	2020 $m	2019 $m	**2020 $m**	2019 $m
Gross investment in finance lease receivables:				
Less than one year	**335**	373	**20**	24
Between one and five years	**696**	725	**142**	161
More than five years	**58**	61	**37**	37
	1,089	1,159	**199**	222
Unearned finance lease income	**(92)**	(106)	**(20)**	(22)
Net investment in finance leases	**997**	1,053	**179**	200
The net investment in finance leases:				
Less than one year	**300**	333	**20**	24
Between one and five years	**645**	667	**128**	145
More than five years	**52**	53	**31**	31
Net investment in finance leases	**997**	1,053	**179**	200

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2020

3.3 LOANS AND ADVANCES (CONTINUED)

(C) TRANSFER OF FINANCIAL ASSETS

Securitisation program

Through its REDS Securitisation (**RMBS Trusts**), REDS EHP Securitisation (**REDS EHP Trusts**) and Impala Securitisation programs, the Group packages loans and advances through a series of securitisation vehicles from which debt securities are issued to investors. The Group is entitled to any residual income from the vehicles after all payments to investors and costs of the programs have been met. The securitised loans and advances are included in Loans and advances and the securitisation liabilities are included in Borrowings on the Bank's Balance Sheet. The note holders have recourse only to the loan pool of assets. Refer to Note 6.9 (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 9 and typically result in the transferred assets continuing to be recognised in full:

	Consolidated		Bank	
	2020 $m	2019 $m	2020 $m	2019 $m
TRANSFERRED FINANCIAL ASSETS				
Securitisation – Loans and advances	3,430	4,532	10,169	8,906
Covered Bonds – Loans and advances	2,961	2,776	2,961	2,776
	6,391	7,308	13,130	11,682
ASSOCIATED FINANCIAL LIABILITIES				
Securitisation Liabilities – External investors	3,432	4,623	–	–
Covered Bonds – External investors	2,371	1,652	2,371	1,652
Amounts due to controlled entities	–	–	10,189	8,900
	5,803	6,275	12,560	10,552
FOR THOSE LIABILITIES THAT HAVE RECOURSE ONLY TO TRANSFERRED ASSETS [1]				
Fair value of transferred assets	6,408	7,341	13,166	11,716
Fair value of associated liabilities	(5,803)	(6,275)	(12,560)	(10,552)
Net position	605	1,066	606	1,164

(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 cash flow model.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2020

3.4 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	
	2020 $m	2019 $m	2020 $m	2019 $m
Deposits at call	19,773	16,343	19,971	16,488
Term deposits	16,810	18,061	16,829	18,107
Certificates of deposit	3,010	3,933	3,010	3,933
Total deposits	39,593	38,337	39,810	38,528
CONCENTRATION OF DEPOSITS				
Customer deposits	34,762	32,428	34,960	32,573
Wholesale deposits	4,831	5,909	4,850	5,955
	39,593	38,337	39,810	38,528

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2020

3.5 BORROWINGS

Borrowings 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.

The Group recorded the following movements on borrowings:

Consolidated	Securitisation liabilities (1) $m	Covered bonds liabilities (2) $m	EMTN program $m	Term funding facility (3) $m	Subordinated notes $m	Senior unsecured notes $m	Capital Notes (4) $m	Total $m
YEAR ENDED 31 AUGUST 2020								
Balance at beginning of year	4,617	1,649	263	–	349	4,613	495	11,986
Proceeds from issues	378	750	–	820	–	635	–	2,583
Repayments	(1,568)	–	(60)	–	–	(1,415)	(150)	(3,193)
Deferred establishment costs	(1)	(2)	–	–	–	(1)	–	(4)
Amortisation of deferred costs (5)	3	1	–	–	1	1	1	7
Foreign exchange translation (5)	–	(31)	(9)	–	–	–	–	(40)
Balance at end of year	3,429	2,367	194	820	350	3,833	346	11,339

Consolidated	Securitisation liabilities (1) $m	Covered bonds liabilities (2) $m	EMTN program $m	ECP program $m	Subordinated notes $m	Senior unsecured notes $m	Capital Notes (3) $m	Total $m
YEAR ENDED 31 AUGUST 2019								
Balance at beginning of year	3,576	804	276	93	349	4,486	493	10,077
Proceeds from issues	2,264	811	20	–	–	926	–	4,021
Repayments	(1,222)	–	(46)	(90)	–	(801)	–	(2,159)
Deferred establishment costs	(3)	(2)	–	–	–	–	–	(5)
Amortisation of deferred costs (5)	2	1	–	–	–	2	2	7
Foreign exchange translation (5)	–	35	13	(3)	–	–	–	45
Balance at end of year	4,617	1,649	263	–	349	4,613	495	11,986

(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) The TFF provides funding at a fixed interest rate of 25 basis points, for a maximum of 3 years and is accounted for as borrowings. The funding is a below market interest loan from a Government entity and, accordingly, classified as a Government Grant. The Bank reflects a net interest expense of 25 basis points in the Income Statement. There are no terms and conditions associated with the TFF other than pledging eligible collateral that meet the RBAs eligibility criteria. At 31 August 2020, the Group has pledged $1.02 billion of self-securitised residential mortgage-backed securities as collateral.

(4) *Wholesale Capital Notes*

On the 26th of May 2020, BOQ redeemed the total 15,000 Wholesale Capital Notes (**WCN**) in full, which were issued by the Bank on 26 May 2015, after receiving written approval by APRA. They were redeemed at a price of $10,000 per note, which was the same as when they were issued.

Capital Notes

On 28 December 2017, the Bank issued 3,500,000 Capital Notes at a price of $100 per note. Capital Notes are perpetual and convertible notes issued by BOQ, with preferred, discretionary, non-cumulative distributions. They are not guaranteed or secured. As at 31 August 2020, 3,500,000 Capital Notes were outstanding. Capital Notes must convert into ordinary shares on 15 August 2026 if certain mandatory conversion conditions are satisfied, unless they are converted or redeemed earlier. Where the mandatory conversion conditions are satisfied, a holder will receive a number of ordinary shares per Capital Note based on the value weighted average price of ordinary shares during a specified period. The Capital Notes must also convert to ordinary shares of the Bank with the occurrence of a loss absorption event or an acquisition event. BOQ may elect to convert, redeem or resell Capital Notes on 15 August 2024 or following a regulatory or tax event. BOQ may also elect to convert all Capital Notes following a potential acquisition event. These options are subject to APRA's prior written approval and certain conditions being satisfied. In a winding up of the Bank, Capital Notes will rank for payment of capital ahead of ordinary shares, equally with CPS, WCN and other equal ranking instruments, but behind the claims of all senior ranking creditors, including depositors and unsubordinated and subordinated creditors.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2020

3.5 BORROWINGS (CONTINUED)

The Bank recorded the following movements on borrowings:

Bank	Covered bonds liabilities[1] $m	EMTN program $m	Term funding facility[2] $m	Subordinated notes $m	Senior unsecured notes $m	Capital Notes[3] $m	Total $m
YEAR ENDED 31 AUGUST 2020							
Balance at beginning of year	1,652	263	–	349	4,613	495	7,372
Proceeds from issues	750	–	820	–	635	–	2,205
Repayments	–	(60)	–	–	(1,415)	(150)	(1,625)
Deferred establishment costs	–	–	–	–	(1)	–	(1)
Amortisation of deferred costs[4]	–	–	–	1	1	1	3
Foreign exchange translation[4]	(31)	(9)	–	–	–	–	(40)
Balance at end of year	2,371	194	820	350	3,833	346	7,914

Bank	Covered bonds liabilities[1] $m	EMTN program $m	ECP program $m	Subordinated notes $m	Senior unsecured notes $m	Capital Notes[3] $m	Total $m
YEAR ENDED 31 AUGUST 2019							
Balance at beginning of year	806	276	93	349	4,486	493	6,503
Proceeds from issues	811	20	–	–	926	–	1,757
Repayments	–	(46)	(90)	–	(801)	–	(937)
Deferred establishment costs	–	–	–	–	–	–	–
Amortisation of deferred costs[4]	–	–	–	–	2	2	4
Foreign exchange translation[4]	35	13	(3)	–	–	–	45
Balance at end of year	1,652	263	–	349	4,613	495	7,372

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

(2) The TFF provides funding at a fixed interest rate of 25 basis points, for a maximum of 3 years and is accounted for as borrowings. The funding is a below market interest loan from a Government entity and, accordingly, classified as a Government Grant. The Bank reflects a net interest expense of 25 basis points in the Income Statement. There are no terms and conditions associated with the TFF other than pledging eligible collateral that meet the RBAs eligibility criteria. At 31 August 2020, the Group has pledged $1.02 billion of self-securitised residential mortgage-backed securities as collateral.

(3) *Wholesale Capital Notes*

On the 26th of May 2020, BOQ redeemed the total 15,000 WCN in full, which were issued by the Bank on 26 May 2015, after receiving written approval by APRA. They were redeemed at a price of $10,000 per note, which was the same as when they were issued.

Capital Notes

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2020

3.6 RISK MANAGEMENT

The Group adopts a "managed risk" approach to its banking and insurance activities in which the articulation of a risk aware culture is prevalent throughout the Group's credit, market, liquidity, insurance, operational 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 Group's corporate objectives through the operationalisation and progressive development of the Group's risk management function. The continued improvement of the Group's risk management function focuses on a number of key areas, with particular emphasis on:

1. the efficiency and effectiveness of the Group'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. providing management and the Board with risk reporting that contributes to the further development of sound corporate governance standards;
3. maintaining regulatory compliance in line with regulators' expectations;
4. providing a sound basis from which the Bank can progress to the required compliance level under the Basel II accord; and
5. contributing to the Group 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 Group'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; and
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 Group. The objective of market risk management is to manage and control market risk and to minimise its impact on the Group.

(i) Interest rate risk management

The operations of the Group 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 Group'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 one per cent parallel shock increase to the yield curve.

Consolidated	2020 $m	2019 $m
Exposure at the end of the year	2	(12)
Average monthly exposure during the year	(2)	(1)
High month exposure during the year	7	5
Low month exposure during the year	(13)	(12)

(ii) Foreign exchange risk

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

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 2020

3.6 RISK MANAGEMENT (CONTINUED)

(A) MARKET RISK (CONTINUED)

(iii) Traded market risk

Market risks attributable to trading activities are primarily measured using a historical simulation 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 per cent 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 analysis 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	2020 $m	2019 $m
Average	**0.64**	0.19
Maximum	**1.25**	0.31
Minimum	**0.19**	0.12

(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 Group as they fall due.

The Board has 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 Senior Executives and senior risk managers, chaired by the Chief Risk Officer;
- risk grading the Bank's commercial exposures 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 which may include reassessment of the assigned risk grade;
- an automated scorecard approval model for the Bank's retail portfolio inclusive of home loans, home equity lines of credit and personal loans. 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 Group 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 Group 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 2020

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:

	2020				2019
Consolidated	Stage 1 $m	Stage 2 $m	Stage 3 $m	Total $m	Total $m
Cash and cash equivalents	1,353	–	–	1,353	1,274
Due from other financial institutions	860	–	–	860	708
Other financial assets (including accrued interest)	6,444	–	–	6,444	6,220
Derivative financial instruments	154	–	–	154	229
Financial assets other than loans and advances	8,811	–	–	8,811	8,431
Gross loans and advances	42,923	3,605	607	47,135	46,322
Total financial assets	51,734	3,605	607	55,946	54,753
Customer commitments [(1)]	1,926	–	–	1,926	1,799
Total potential exposure to credit risk	53,660	3,605	607	57,872	56,552

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

	2020				2019
Bank	Stage 1 $m	Stage 2 $m	Stage 3 $m	Total $m	Total $m
Cash and cash equivalents	835	–	–	835	685
Due from other financial institutions	826	–	–	826	668
Other financial assets (including accrued interest)	14,101	–	–	14,101	11,683
Derivative financial instruments	101	–	–	101	145
Financial assets other than loans and advances	15,863	–	–	15,863	13,181
Gross loans and advances	38,290	2,934	570	41,794	41,022
Total financial assets	54,153	2,934	570	57,657	54,203
Customer commitments [(1)]	1,128	–	–	1,128	952
Total potential exposure to credit risk	55,281	2,934	570	58,785	55,155

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2020

3.6 RISK MANAGEMENT (CONTINUED)

(B) CREDIT RISK (CONTINUED)

(i) Maximum exposure to credit risk (continued)

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

		Consolidated		Bank	
		2020 $m	2019 (1) $m	2020 $m	2019 (1) $m
Neither past due or impaired					
Gross loans and advances		45,479	44,346	40,269	39,218
	Stage 1	42,288	42,427	37,716	37,459
	Stage 2	3,065	1,828	2,423	1,670
	Stage 3	126	91	130	89
Financial assets other than loans and advances		8,803	8,431	15,853	13,181
	Stage 1	8,803	8,431	15,853	13,181
	Stage 2	–	–	–	–
	Stage 3	–	–	–	–
Past due but not impaired					
Gross loans and advances		1,461	1,779	1,364	1,632
	Stage 1	635	912	574	828
	Stage 2	540	597	511	542
	Stage 3	286	270	279	262
Impaired					
Gross loans and advances		195	197	161	171
	Stage 1	–	–	–	–
	Stage 2	–	–	–	–
	Stage 3	195	197	161	171
Total financial assets		55,938	54,753	57,647	54,202

(1) Comparatives have been restated due to improvement in arrears and collateral data following implementation of updated ECL model upon transition to AASB 9 in the prior period.

There is no individual exposure included in impaired assets which exceeds 5% of shareholders' equity (2019: nil).

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, or appoint receivers and managers/administrators to, the collateral held against the loans and advances as a result of customer default. To ensure reduced exposure to losses in such scenarios, the collateral held by the Bank is then realised in accordance with legal and regulatory requirements whilst also taking into consideration the individual circumstances of each matter.

Estimates of fair value are based on the value of collateral assessed at the time of borrowing, or for commercial exposures updated values as periodically obtained in accordance with the BOQ policy and regulatory requirements. When a loan is individually assessed as impaired, the value of collateral held is updated regularly to assess any specific provisioning requirements. An estimate of the collateral held against past due but not impaired and impaired loans and advances at amortised cost is outlined below.

		Consolidated		Bank	
		2020 $m	2019 (1) $m	2020 $m	2019 (1) $m
Held against past due but not impaired assets		4,204	3,074	2,721	2,928
	Stage 1	2,724	1,345	1,276	1,265
	Stage 2	1,002	1,073	973	1,015
	Stage 3	478	656	472	648
Held against impaired assets		141	146	121	133
	Stage 1	–	–	–	–
	Stage 2	–	–	–	–
	Stage 3	141	146	121	133

(1) Comparatives have been restated due to improvement in arrears and collateral data following implementation of updated ECL model upon transition to AASB 9 in the prior period.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2020

3.6 RISK MANAGEMENT (CONTINUED)

(B) CREDIT RISK (CONTINUED)

(ii) Credit quality

The credit quality categories of financial assets have been determined based on Standard & Poor's credit ratings, APRA risk weightings and the Bank's standard risk grading. The categories are classified as below:

- High grade – generally corresponds to Standard & Poor's credit ratings AAA+ to BBB–;
- Satisfactory – generally corresponds to Standard & Poor's credit rating BB+ to B;
- Weak – generally corresponds to Standard & Poor's credit ratings up to B; and
- Unrated – Loans and advances which have been classified as unrated are not secured, however these are not deemed to be weak.

The table below presents an analysis of the credit quality of financial assets:

	Consolidated							
	2020 $m				2019 $m			
	Gross loans & advances				Gross loans & advances			
	Retail	Commercial	Gross loans & advances	Other financial assets	Retail	Commercial	Gross loans & advances	Other financial assets
High Grade	25,752	4,320	30,072	8,797	25,610	4,571	30,181	8,425
Stage 1	24,606	3,964	28,570	8,797	24,538	4,083	28,621	8,425
Stage 2	1,070	330	1,400	–	981	438	1,419	–
Stage 3	76	26	102	–	91	50	141	–
Satisfactory	5,065	8,831	13,896	–	4,970	9,688	14,658	–
Stage 1	4,840	7,935	12,775	–	4,800	8,872	13,672	–
Stage 2	199	855	1,054	–	139	620	759	–
Stage 3	26	41	67	–	31	196	227	–
Weak	612	2,365	2,977	6	313	902	1,215	6
Stage 1	353	1,035	1,388	6	160	629	789	6
Stage 2	106	1,045	1,151	–	43	200	243	–
Stage 3	153	285	438	–	110	73	183	–
Unrated	–	190	190	–	53	215	268	–
Stage 1	–	190	190	–	53	203	256	–
Stage 2	–	–	–	–	–	5	5	–
Stage 3	–	–	–	–	–	7	7	–
	31,429	15,706	47,135	8,803	30,946	15,376	46,322	8,431

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2020

3.6 RISK MANAGEMENT (CONTINUED)

(B) CREDIT RISK (CONTINUED)

(ii) Credit quality (continued)

	Bank							
	2020 $m				2019 $m			
	Gross loans & advances				Gross loans & advances			
	Retail	Commercial	Gross loans & advances	Other financial assets	Retail	Commercial	Gross loans & advances	Other financial assets
High Grade	25,752	3,770	29,522	15,007	25,610	3,865	29,475	12,149
Stage 1	24,606	3,415	28,021	15,007	24,538	3,377	27,915	12,149
Stage 2	1,070	329	1,399	–	981	438	1,419	–
Stage 3	76	26	102	–	91	50	141	–
Satisfactory	5,065	5,797	10,862	32	4,970	5,853	10,823	66
Stage 1	4,840	4,953	9,793	32	4,800	5,088	9,888	66
Stage 2	199	799	998	–	139	571	710	–
Stage 3	26	45	71	–	31	194	225	–
Weak	612	798	1,410	6	313	143	456	6
Stage 1	353	123	476	6	160	58	218	6
Stage 2	106	431	537	–	43	40	83	–
Stage 3	153	244	397	–	110	45	155	–
Unrated	–	–	–	808	53	215	268	960
Stage 1	–	–	–	808	53	214	267	960
Stage 2	–	–	–	–	–	–	–	–
Stage 3	–	–	–	–	–	1	1	–
	31,429	10,365	41,794	15,853	30,946	10,076	41,022	13,181

(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	
		2020 $m	2019 $m	2020 $m	2019 $m
Less than 30 days	– Retail	392	303	392	303
	– Commercial	503	262	436	150
30 to 89 days	– Retail	86	132	86	132
	– Commercial	47	56	27	29
90 days or more	– Retail	305	213	305	213
	– Commercial	129	98	118	90
		1,462	1,064	1,364	917

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2020

3.6 RISK MANAGEMENT (CONTINUED)

(B) CREDIT RISK (CONTINUED)

(iv) Concentration of exposure for gross loans and advances

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 Group 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 (before provisions and unearned income):	2020 $m	2019 $m	2020 $m	2019 $m
Queensland	19,633	19,963	17,793	18,170
New South Wales	14,543	13,105	13,205	11,729
Victoria	6,915	6,900	5,721	5,728
Northern Territory	253	272	234	256
Australian Capital Territory	340	341	314	310
Western Australia	3,959	4,333	3,610	3,981
South Australia	866	802	703	645
Tasmania	234	229	214	203
International (New Zealand)	392	377	–	–
	47,135	46,322	41,794	41,022

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2020

3.6 RISK MANAGEMENT (CONTINUED)

(C) LIQUIDITY RISK

Liquidity risk arises from the possibility that the Group 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 Group manages liquidity risk by maintaining sufficient cash balances and liquid assets, continuously monitoring forecast and actual cash flows, matching maturity profiles of financial assets and liabilities and monitoring liquidity scenario analysis.

Consolidated 2020	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	296	296	–	–	–	–	–	296
Deposits	39,593	19,773	11,778	7,264	943	–	–	39,758
Derivative financial instruments (1)	52	–	10	25	17	–	–	52
Accounts payable and other liabilities	458	–	310	28	98	29	–	465
Securitisation liabilities (2)	3,429	–	255	766	1,973	551	–	3,545
Borrowings (3)	7,910	–	647	1,016	6,461	–	–	8,124
Insurance policy liabilities	5	–	–	–	–	–	5	5
Total financial liabilities	**51,743**	**20,069**	**13,000**	**9,099**	**9,492**	**580**	**5**	**52,245**
DERIVATIVE FINANCIAL INSTRUMENTS (HEDGING RELATIONSHIP)								
Contractual amounts payable		–	775	415	2,433	139	–	3,762
Contractual amounts receivable		–	(703)	(260)	(2,041)	(66)	–	(3,070)
	643	–	72	155	392	73	–	692
OFF BALANCE SHEET POSITIONS								
Guarantees, indemnities and letters of credit	–	267	–	–	–	–	–	267
Customer funding commitments	–	1,659	–	–	–	–	–	1,659
	–	1,926	–	–	–	–	–	1,926

(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.
(3) Borrowings include the $0.8 billion Term Funding Facility.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2020

3.6 RISK MANAGEMENT (CONTINUED)

(C) LIQUIDITY RISK (CONTINUED)

Consolidated 2019	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	285	285	–	–	–	–	–	285
Deposits	38,337	16,343	13,614	7,702	969	1	–	38,629
Derivative financial instruments (1)	49	–	11	11	20	2	–	44
Accounts payable and other liabilities	394	–	394	–	–	–	–	394
Securitisation liabilities (2)	4,617	–	465	973	2,397	1,143	–	4,978
Borrowings	7,369	–	640	969	6,132	–	–	7,741
Insurance policy liabilities	9	–	–	–	–	–	9	9
Total financial liabilities	51,060	16,628	15,124	9,655	9,518	1,146	9	52,080
DERIVATIVE FINANCIAL INSTRUMENTS (HEDGING RELATIONSHIP)								
Contractual amounts payable		–	837	401	2,596	152	–	3,986
Contractual amounts receivable		–	(817)	(302)	(2,245)	(63)	–	(3,427)
	461	–	20	99	351	89	–	559
OFF BALANCE SHEET POSITIONS								
Guarantees, indemnities and letters of credit		301	–	–	–	–	–	301
Customer funding commitments		1,498	–	–	–	–	–	1,498
		1,799	–	–	–	–	–	1,799

(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 2020

3.6 RISK MANAGEMENT (CONTINUED)

(C) LIQUIDITY RISK (CONTINUED)

Bank 2020	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	296	296	-	-	-	-	296
Deposits	39,810	19,971	11,797	7,264	943	-	39,975
Derivative financial instruments (1)	52	-	10	25	17	-	52
Accounts payable and other liabilities	385	-	237	28	98	29	392
Borrowings (2)	7,914	-	647	1,016	6,461	-	8,124
Amounts due to controlled entities	6,707	6,707	-	-	-	-	6,707
Total financial liabilities	55,164	26,974	12,691	8,333	7,519	29	55,546
DERIVATIVE FINANCIAL INSTRUMENTS (HEDGING RELATIONSHIP)							
Contractual amounts payable		-	775	411	848	139	2,173
Contractual amounts receivable		-	(712)	(273)	(429)	(66)	(1,480)
	692	-	63	138	419	73	693
OFF BALANCE SHEET POSITIONS							
Guarantees, indemnities and letters of credit	-	267	-	-	-	-	267
Customer funding commitments	-	861	-	-	-	-	861
	-	1,128	-	-	-	-	1,128

(1) Derivative financial instruments other than those designated in hedge relationships.
(2) Borrowings include the $0.8 billion Term Funding Facility.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2020

3.6 RISK MANAGEMENT (CONTINUED)

(C) LIQUIDITY RISK (CONTINUED)

Bank 2019	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	285	285	–	–	–	–	285
Deposits	38,528	16,488	13,660	7,702	969	1	38,820
Derivative financial instruments (1)	49	–	11	11	20	2	44
Accounts payable and other liabilities	302	–	302	–	–	–	302
Borrowings	7,372	–	640	969	6,132	–	7,741
Amounts due to controlled entities	6,086	6,086	–	–	–	–	6,086
Total financial liabilities	52,622	22,859	14,613	8,682	7,121	3	53,278
DERIVATIVE FINANCIAL INSTRUMENTS (HEDGING RELATIONSHIP)							
Contractual amounts payable		–	834	397	934	152	2,317
Contractual amounts receivable		–	(827)	(326)	(616)	(63)	(1,832)
	546	–	7	71	318	89	485
OFF BALANCE SHEET POSITIONS							
Guarantees, indemnities and letters of credit		301	–	–	–	–	301
Customer funding commitments		651	–	–	–	–	651
		952	–	–	–	–	952

(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

In October 2019, the Boards of the insurance subsidiaries agreed to cease the sale of new business and transition into an orderly run-off. An existing relationship to underwrite involuntary unemployment cover for a wholesale provider will continue for the immediate future, however will not be part of the longer term strategy. 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 Group's ability to pay benefits and claims when due. Given the strategy to transition the business into an orderly run-off, there has been limited underwriting of risks during the year, however where it has occurrred it 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 Group's risk management strategy. Capital requirements take account of all of the various regulatory requirements to which the Group is subject.

Prudential capital requirements

Prudential capital requirements established by APRA are in place to safeguard policyholders' interests, which are primarily the ability to meet future claim payments to policyholders. These require the Group'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 2020

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 subsidiaries' 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 invest accordingly. Market risk is managed through investing in cash, deposits and bank issued commercial bills. No more than 35 per cent 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 Group aimed to maintain a diversified profile of ages, genders and geographic locations within its portfolio of policyholders. This policy maintained a balance between the current and future profitability of the life business and exposure to any significant external events. The historical distribution channels and subsequent historical demographic mix of the population of policyholders is sufficiently spread so that the risk concentration in relation to any particular group was small. Specific processes for monitoring identified key concentrations included monitoring the portfolios by product type, cover type, geography, age etc.

3.7 FAIR VALUE OF FINANCIAL INSTRUMENTS

(A) 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:

- Derivatives;
- Financial instruments designated at FVTPL; and
- Financial instruments designated at FVOCI.

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

Cash and cash equivalents, due from and to other financial institutions, accounts payable and other liabilities
The fair value approximates to 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 ending 31 August 2020 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 2020

3.7 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(B) COMPARISON OF FAIR VALUE TO CARRYING AMOUNTS

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

		Consolidated			
		Carrying value		Fair value	
	Note	2020 $m	2019 $m	2020 $m	2019 $m
ASSETS CARRIED AT AMORTISED COST					
Loans and advances	3.3	46,674	45,983	46,891	46,225
		46,674	45,983	46,891	46,225
LIABILITIES CARRIED AT AMORTISED COST					
Deposits	3.4	(39,593)	(38,337)	(39,599)	(38,372)
Borrowings	3.5	(11,339)	(11,986)	(11,330)	(11,981)
		(50,932)	(50,323)	(50,929)	(50,353)

		Bank			
		Carrying value		Fair value	
	Note	2020 $m	2019 $m	2020 $m	2019 $m
ASSETS CARRIED AT AMORTISED COST					
Loans and advances	3.3	41,520	40,836	41,618	40,958
Debt instruments at amortised cost	3.2	7,662	5,468	7,662	5,469
		49,182	46,304	49,280	46,427
LIABILITIES CARRIED AT AMORTISED COST					
Deposits	3.4	(39,810)	(38,528)	(39,816)	(38,563)
Borrowings	3.5	(7,914)	(7,372)	(7,916)	(7,372)
		(47,724)	(45,900)	(47,732)	(45,935)

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 2020

3.7 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(C) FAIR VALUE HIERARCHY

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

- Level 1: This category includes assets and liabilities for which the valuation is determined from inputs based on unadjusted quoted market prices in active markets for identical instruments;
- Level 2: This category includes assets and liabilities for which the valuation is determined from inputs other than quoted prices included within level 1, 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; and
- Level 3: This category includes assets and liabilities for which the valuation includes inputs that are not based on observable market data. This includes equity instruments where there are no quoted market prices.

The fair value hierarchy classification of instruments in Note 3.7 (B):

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

There was no movement between levels during the year.

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

	2020			
Consolidated	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial instruments measured at fair value				
Derivative financial assets	–	154	–	154
Financial assets at FVTPL	–	1,854	–	1,854
Debt instruments at FVOCI	4,125	405	–	4,530
Equity instruments at FVOCI	–	–	6	6
	4,125	2,413	6	6,544
Derivative financial liabilities	–	(803)	–	(803)
	4,125	1,610	6	5,741

	2019			
Consolidated	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial instruments measured at fair value				
Derivative financial assets	–	229	–	229
Financial assets at FVTPL	1,013	1,573	–	2,586
Debt instruments at FVOCI	3,097	472	–	3,569
Equity instruments at FVOCI	–	–	6	6
	4,110	2,274	6	6,390
Derivative financial liabilities	–	(687)	–	(687)
	4,110	1,587	6	5,703

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2020

3.7 FINANCIAL INSTRUMENTS (CONTINUED)

(C) FAIR VALUE HIERARCHY (CONTINUED)

	2020			
Bank	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial instruments measured at fair value				
Derivative financial assets	–	101	–	101
Financial assets at FVTPL	–	1,854	–	1,854
Debt instruments at FVOCI	4,125	405	–	4,530
Equity instruments at FVOCI	–	–	6	6
	4,125	2,360	6	6,491
Derivative financial liabilities	–	(799)	–	(799)
	4,125	1,561	6	5,692

	2019			
Bank	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial instruments measured at fair value				
Derivative financial assets	–	145	–	145
Financial assets at FVTPL	1,013	1,573	–	2,586
Debt instruments at FVOCI	3,097	472	–	3,569
Equity instruments at FVOCI	–	–	6	6
	4,110	2,190	6	6,306
Derivative financial liabilities	–	(687)	–	(687)
	4,110	1,503	6	5,619

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2020

3.8 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

(A) FAIR VALUE OF DERIVATIVES

The following tables summarise the notional and fair value of the Group'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 set out the fair values of the derivative financial instruments.

	Consolidated					
	2020			2019		
	Notional Amount	Fair Value		Notional Amount	Fair Value	
	$m	Asset $m	Liability $m	$m	Asset $m	Liability $m
DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS						
Interest rate swaps	13,118	44	(50)	11,500	50	(48)
Foreign exchange forwards	93	2	(2)	139	2	(1)
Futures	281	–	–	2,308	–	–
	13,492	46	(52)	13,947	52	(49)
DERIVATIVES HELD AS CASH FLOW HEDGES						
Interest rate swaps	15,503	26	(147)	26,636	41	(159)
Cross currency swaps	1,997	78	(8)	2,183	125	(8)
Foreign exchange forwards	731	4	(23)	687	11	(1)
	18,231	108	(178)	29,506	177	(168)
DERIVATIVES DESIGNATED AS FAIR VALUE HEDGES						
Interest rate swaps	3,597	–	(573)	2,637	–	(470)
DERIVATIVES DESIGNATED AS NET INVESTMENT HEDGES						
Foreign exchange forwards	25	–	–	26	–	–
	35,345	154	(803)	46,116	229	(687)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2020

3.8 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (CONTINUED)

(A) FAIR VALUE OF DERIVATIVES (CONTINUED)

	Bank					
	2020			2019		
	Notional Amount	Fair Value		Notional Amount	Fair Value	
	$m	Asset $m	Liability $m	$m	Asset $m	Liability $m
DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS						
Interest rate swaps	13,118	44	(50)	11,500	50	(48)
Foreign exchange forwards	118	2	(2)	165	3	(1)
Futures	281	–	–	2,308	–	–
	13,517	46	(52)	13,973	53	(49)
DERIVATIVES HELD AS CASH FLOW HEDGES						
Interest rate swaps	16,171	42	(147)	27,596	59	(159)
Cross currency swaps	443	9	(4)	463	22	(8)
Foreign exchange forwards	731	4	(23)	687	11	(1)
	17,345	55	(174)	28,746	92	(168)
DERIVATIVES DESIGNATED AS FAIR VALUE HEDGES						
Interest rate swaps	3,597	–	(573)	2,637	–	(470)
	34,459	101	(799)	45,356	145	(687)

(B) HEDGING STRATEGY

The Group and Bank used derivative financial instruments for both hedging and trading purposes in the current year and prior year. Refer to Note 3.6 (A) for an explanation of the Group's and Bank's risk management framework. The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operating, financing and investing activities.

The Group's hedging strategy is to protect Net Interest Income (**NII**) from variability in interest rates in Australian dollars. This requires the Group to enter into interest rate swaps allowing for the reduction in interest rate risk.

Foreign currency exposures are swapped to Australian dollars using cross-currency interest rate swaps. These cross currency swaps will be matched to the underlying interest rate exposure of fixed or floating, respectively.

The majority of exposures are managed under the above strategy. Where a risk is within agreed limits, the Group may decide not to apply hedge accounting to that risk. Instead, the Group will manage its exposure under broader risk management processes.

(C) ACCOUNTING FOR DERIVATIVES

In accordance with its treasury risk policies, the Group 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 initially measured at fair value. Subsequent to initial recognition, gains or losses on derivatives are recognised in the Income Statement, unless they are entered into for hedging purposes.

The fair value of interest rate swaps is the estimated amount that the Group 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2020

3.8 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (CONTINUED)

(C) ACCOUNTING FOR DERIVATIVES (CONTINUED)

The following table shows the maturity profile of hedging derivatives based on their notional amounts.

	2020				2019			
Consolidated	0 to 12 months $m	1 to 5 years $m	Over 5 years $m	Total $m	0 to 12 months $m	1 to 5 years $m	Over 5 years $m	Total $m
Interest rate swaps	19,734	10,490	1,994	32,218	29,908	8,999	1,866	40,773
Foreign exchange forwards	849	–	–	849	852	–	–	852
Futures	281	–	–	281	2,308	–	–	2,308
Cross currency swaps	154	1,842	1	1,997	132	2,049	2	2,183

(D) HEDGING RELATIONSHIPS

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 Group revokes designation of the hedge relationship and 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 in profit or loss in the Income Statement 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.

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. To the extent the hedge is ineffective, a portion is recognised immediately in the Income Statement within other income or other expenses.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2020

3.8 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (CONTINUED)

(D) HEDGING RELATIONSHIPS (CONTINUED)

The following table shows the executed rates for the most significant hedging instruments that have been designated in cash flow hedges and net investment hedges that are in place at the balance date.

			Consolidated	
	Hedging Instruments	Currency	2020	2019
Cash flow hedges	Interest rate swaps	AUD	0.090% – 4.340%	0.863% – 4.145%
Cash flow hedges	Cross currency swaps	AUD/USD	0.761 – 0.793	0.761 – 0.793
		AUD/JPY	–	83.100 – 83.178
		AUD/HKD	–	5.940 – 5.940
		AUD/EUR	0.617–0.672	0.617 – 0.672
		NZD/AUD	1.036-1.130	0.984 – 0.885
Net Investment hedges	Foreign exchange forwards	AUD/NZD	1.082	1.049

Fair value hedges

Fair value hedges are used by the Group to manage exposure to changes in the fair value of an asset. Changes in fair values arise from fluctuations in interest rates. The Group principally uses interest rate swaps to protect against such fluctuations.

Changes in the value of fair value hedges are recognised in the Income Statement, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

All gains and losses associated with the ineffective portion of fair value hedge relationships are recognised immediately in the Income Statement.

If the hedge relationship no longer meets the criteria for hedge accounting, it is discontinued. The fair value adjustment to the hedged item is amortised to the Income Statement from the date of discontinuation over the period to maturity of the previously designated hedge relationship using the effective interest method. If the hedged item is sold or repaid, the unamortised fair value adjustment is recognised immediately in the Income Statement.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2020

3.8 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (CONTINUED)

(D) HEDGING RELATIONSHIPS (CONTINUED)

The following table shows the carrying value of hedged items designated in fair value hedge accounting relationships and the cumulative fair value hedge accounting adjustment that has been recognised as part of that carrying value. These balances are being amortised to the Income Statement on an effective yield basis. The Group does not hedge its entire exposure to a class of financial instruments, nor does it apply hedge accounting in all instances, therefore the carrying amounts below will not equal the total carrying amounts disclosed in other notes to these financial statements. As noted in the Group's accounting policies, since the hedged item is adjusted only for the hedged risk, the hedged item's carrying value disclosed in the table will not be equivalent to its fair value as disclosed in other notes to these financial statements. The accumulated amount of fair value hedge adjustments remaining in the Balance Sheet for hedged items that have ceased to be adjusted for hedging gains and losses is a nil balance (2019: nil) for the Group. This amount will be amortised to the Income Statement as a gain on an effective interest rate basis.

	Consolidated			
	2020		2019	
	Carrying value (1) $m	Fair value hedge adjustments Debit/(Credit) $m	Carrying value (1) $m	Fair value hedge adjustments Debit/(Credit) $m
ASSETS				
Debt instruments at FVOCI	4,167	(303)	3,085	(297)

(1) The carrying amounts in the table above exclude accrued interest from the carrying amount of hedged items.

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.

(E) HEDGING INEFFECTIVENESS

Hedge ineffectiveness, in the case of a fair value hedge, is the extent to which the changes in the fair value of the hedging instrument differ to that of the hedged item and, in the case of cash flow and net investment hedge relationships, the extent to which the change in the hedging instrument exceeds that of the hedged item. Sources of hedge ineffectiveness primarily arise from basis and timing differences between the hedged items and hedging instruments.

The following table contains the hedge ineffectiveness associated with cash flow hedge and fair value hedge relationships during the period, as reported in Other operating income in the Income Statement:

	Consolidated					
	2020			2019		
	Gains/(losses) on hedge instruments $m	Gains/(losses) on hedge items $m	Hedge Ineffectiveness $m	Gains/(losses) on hedge instruments $m	Gains/(losses) on hedge items $m	Hedge Ineffectiveness $m
INTEREST RATE RISK						
Fair value hedges						
Interest rate swaps	6	(7)	(1)	(231)	230	(1)
Cash flow hedges						
Interest rate swaps	(1)	(6)	(7)	(114)	111	(3)
INTEREST RATE AND FOREIGN EXCHANGE RISK						
Fair value and cash flow hedges						
Cross currency swaps	41	(41)	-	49	(49)	-

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2020

3.8 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (CONTINUED)

(F) MASTER NETTING OR SIMILAR ARRANGEMENTS

The Group enters into derivative transactions under International Swaps and Derivatives Association (**ISDA**) master netting agreements. Amounts owed by each counter party are aggregated into a single net amount that is payable by one party to another. The Group receives and gives collateral in the form of cash in respect of derivatives and such collateral is subject to standard industry terms. The Group has not offset these amounts in the Balance Sheet as their ISDA agreements do not meet the criteria to do so. The Group 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 Group 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.

	2020			
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	**154**	**(48)**	**–**	**106**
Derivative financial liabilities	**(803)**	**48**	**745**	**(10)**

	2019			
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	229	(82)	–	147
Derivative financial liabilities	(687)	82	609	4

	2020			
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	**101**	**(48)**	**–**	**53**
Derivative financial liabilities	**(799)**	**48**	**745**	**(6)**

	2019			
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	145	(82)	–	63
Derivative financial liabilities	(687)	82	609	4

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2020

3.9 CAPITAL MANAGEMENT

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

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

Qualifying capital for Level 2 entities (1)	2020 $m	2019 $m
Common Equity Tier 1 Capital		
Paid-up ordinary share capital	3,871	3,497
Reserves	134	171
Retained profits, including current year profits	163	132
Total Common Equity Tier 1 Capital	4,168	3,800
Regulatory adjustments		
Goodwill and intangibles	(908)	(923)
Deferred expenditure	(187)	(183)
Other deductions	16	67
Total regulatory adjustments	(1,079)	(1,039)
Net Common Equity Tier 1 Capital	3,089	2,761
Additional Tier 1 Capital	350	500
Net Tier 1 Capital	3,439	3,261
Tier 2 Capital		
Tier 2 Capital	350	350
General reserve for credit losses	230	175
Net Tier 2 Capital	580	525
Capital base	4,019	3,786
Risk Weighted Assets	31,576	30,533
Common Equity Tier 1 Capital	9.78%	9.04%
Net Tier 1 Capital ratio	10.89%	10.68%
Total Capital Adequacy Ratio	12.73%	12.40%

(1) APRA Prudential Standard APS 001 *Definitions* 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:
- Bank of Queensland Limited Employee Share Plans Trust;
- Home Credit Management Pty Ltd;
- St Andrew's Australia Services Pty Ltd;
- St Andrew's Life Insurance Pty Ltd;
- St Andrew's Insurance (Australia) Pty Limited;
- Series 2012-1E REDS Trust;
- Series 2013-1 REDS Trust;
- Series 2015-1 REDS Trust;
- Series 2017-1 REDS Trust;
- Series 2018-1 REDS Trust; and
- Series 2019-1 REDS Trust.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2020

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 controlled entity of the Bank, pursuant to the Awards Right, Restricted Share and Employee Share Plans. 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	
	2020 No of shares	2019 No of shares	2020 No of shares	2019 No of shares
MOVEMENTS DURING THE YEAR				
Balance at the beginning of the year – fully paid	405,784,809	397,311,850	405,784,809	397,311,850
Dividend reinvestment plan (1)	3,642,826	8,472,959	3,642,826	8,472,959
Issues of ordinary shares (2)	440,000	–	440,000	–
Institutional share placement (3)	32,133,677	–	32,133,677	–
Share purchase plan (4)	12,334,101	–	12,334,101	–
Balance at the end of the year – fully paid	454,335,413	405,784,809	454,335,413	405,784,809
Treasury shares (included in ordinary shares above):				
Balance at the beginning of the year	644,034	587,515	–	–
Net acquisitions and disposals during the year	(10,847)	56,519	–	–
Balance at the end of the year	633,187	644,034	–	–

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

(2) On 29 November 2019, 440,000 ordinary shares were issued at $8.33 to the trustee of the Bank of Queensland Limited Employee Share Plans Trust to satisfy the exercise of award rights and issue of shares under the Award Rights Plans and the issue of shares under the BOQ salary sacrifice plans. Refer to Note 6.1 for further information.

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

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

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 a 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 Note 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. Consistent with the requirements of APRA Prudential Standard APS 220 *Credit Quality*, the equity reserve for credit losses represents the difference between the accounting collective provisions for impairment and the estimate of credit losses across the credit cycle. 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.

Profit reserve

The profit reserve represents accumulated profits available for distribution as a dividend.

Other reserves

FVOCI – Changes in the fair value of financial assets classified as debt and equity instruments at FVOCI are recognised in other comprehensive income as described in Note 3.2 and accumulated in a separate reserve within equity. For debt instruments at FVOCI, amounts are reclassified to Other operating income in the Income Statement when the associated assets are sold or impaired. For equity instruments at FVOCI, amounts are not subsequently transferred to the Income Statement when the associated assets are sold or impaired, but can be reclassified to retained profits.

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 Note 3.8 (D). Amounts are reclassified to Other operating income in the Income Statement when the associated hedged transaction affects the Income Statement. There is $26 million (2019: $34 million) remaining in the hedging reserve from hedging relationships for which hedge accounting is no longer applied.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2020

NOTE 4. OTHER ASSETS AND LIABILITIES

4.1 INTANGIBLE ASSETS

Consolidated	Goodwill $m	Customer related intangibles and brands $m	Computer software $m	Assets under construction $m	Other $m	Total $m
Balance as at 1 September 2018	682	10	112	69	2	875
Additions	–	–	–	95	3	98
Transfers to asset	–	–	47	(47)	–	–
Impairment	–	–	(3)	–	–	(3)
Amortisation charge	–	(1)	(41)	–	(4)	(46)
Balance as at 31 August 2019	682	9	115	117	1	924
Balance as at 1 September 2019	682	9	115	117	1	924
Opening balance adjustment (1)	3	–	–	–	–	3
Additions	–	–	–	100	2	102
Transfers to asset	–	–	56	(56)	–	–
Impairment (2)	–	–	–	(39)	–	(39)
Amortisation charge	–	(2)	(39)	–	(3)	(44)
Accelerated amortisation charge (3)	–	–	(37)	(1)	–	(38)
Balance as at 31 August 2020	685	7	95	121	–	908

(1) The opening balance adjustment reflects the recognition of a DTL on the balance of intangible assets acquired as part of historic acquisitions (Refer to Note 2.3).
(2) Impairment includes charges taken following the Group's Strategic asset review and calculation of retained asset values.
(3) This includes a $27 million non-recurring adjustment due to a change in the minimum threshold for the capitalisation of intangible assets to $1 million and $11 million amortisation acceleration of assets impacted by BOQ's revised strategy.

Bank	Goodwill $m	Customer related intangibles and brands $m	Computer software $m	Assets under construction $m	Other $m	Total $m
Balance as at 1 September 2018	619	9	102	66	2	798
Additions	–	–	–	93	3	96
Transfers to asset	–	–	42	(42)	–	–
Impairment	–	–	(3)	–	–	(3)
Amortisation charge	–	(1)	(38)	–	(4)	(43)
Balance as at 31 August 2019	619	8	103	117	1	848
Balance as at 1 September 2019	619	8	103	117	1	848
Opening balance adjustment (1)	3	–	–	–	–	3
Additions	–	–	–	100	1	101
Transfers to asset	–	–	56	(56)	–	–
Impairment (2)	–	–	–	(39)	–	(39)
Amortisation charge	–	(2)	(35)	–	(2)	(39)
Accelerated amortisation charge (3)	–	–	(35)	(1)	–	(36)
Balance as at 31 August 2020	622	6	89	121	–	838

(1) The opening balance adjustment reflects the recognition of a DTL on the balance of intangible assets acquired as part of historic acquisitions (Refer to Note 2.3).
(2) Impairment includes charges taken following the Group's Strategic asset review and calculation of retained asset values.
(3) This includes a $25 million non-recurring adjustment due to a change in the minimum threshold for the capitalisation of intangible assets to $1 million and $11 million amortisation acceleration of assets impacted by BOQ's revised strategy.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2020

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 or 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	3-10
Customer related intangibles and brands	3-10

INTANGIBLE ASSET REVIEW

The Group reviewed intangible assets relative to the Board approved strategy and the capitalisation threshold contained within the existing capitalisation policy. As a result of this review, the minimum threshold for the capitalisation of Intangible assets increased to $1 million (from $0.1 million) with a reduction in the software intangibles balance. In addition, the strategic reset of the technology roadmap led to a review of material existing IT intangible assets and assets under construction (**AUCs**) resulting in accelerated amortisation and impairment. The table below provides a breakdown:

	Consolidated	Bank
2020	$m	$m
Impairment of assets	39	39
Accelerated amortisation	38	36
Total	77	75

IMPAIRMENT TESTING OF THE CASH GENERATING UNITS CONTAINING GOODWILL

For the purpose of the annual impairment test, goodwill is allocated to groups of Cash-Generating Units (**CGUs**) which represent the Controlled Entity's operating segments - Retail Banking and BOQ Business (refer Note 2.5). The carrying amount of each CGU is compared to its recoverable amount. The recoverable amount is based on the CGU's value in use.

Value in use is 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 and business banking and are based on both external and internal sources.

Below are the key assumptions used in determining value in use:

- Cash flows are materially aligned with the Group's Strategic Plan as announced to market as part of the Bank's strategic review with adjustments made for expected COVID-19 impacts;
- Determined future lending growth and income growth in line with expected benefits from the Bank's increased capital investment and digital transformation;
- Cost growth assumptions are aligned with the Group's Strategic plan and aspirations to reduce cost to income targets;
- Subsequent cash flows were extrapolated for a further five years beyond the Board approved Strategic plan incorporating key growth rate assumptions;
- A terminal growth rate of 2.5 per cent (2019: 2.7 per cent) was used to extrapolate long-term growth; and
- A post-tax discount rate of 9.4 per cent (2019: 9.7 per cent) was used.

The key assumptions described above may change as economic and market conditions change. Management have stressed key assumptions to understand key sensitivities and impact to the value in use.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2020

4.1 INTANGIBLE ASSETS (CONTINUED)

IMPAIRMENT TESTING OF THE CASH GENERATING UNITS CONTAINING GOODWILL (CONTINUED)

The aggregate carrying amounts of goodwill for each CGU are:

	2020 (1) $m	2019 $m
Retail Banking	288	288
BOQ Business	394	394
Total	682	682

(1) The impairment testing does not reflect the opening balance adjustment for the recognition of a DTL on the balance of intangible assets acquired as part of historic acquisitions (Refer to Note 2.3).

The measurement of the CGU's recoverable amounts is most sensitive to a change in Net Interest Income and Cost to Income ratios. In addition, BOQ Business is sensitive to a change in Cost of Capital due to its higher capital usage. BOQ has considered reasonably possible changes in key assumptions and the table below provides these assumption changes across the period of assessment that would result in impairment if all other assumptions were held constant.

Model Parameter	Retail Banking	BOQ Business
	Change from base case	
Cost of Capital	0.7%	0.31%
Cost to Income	4.0%	3.0%
NIM Change	(6bps)	(5bps)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2020

4.2 PROVISIONS

A provision is recognised in the Balance Sheet when the Group 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	
	2020 $m	2019 $m	**2020 $m**	2019 $m
Employee benefits [1]	23	27	20	24
Leases [2]	–	2	–	2
Provision for non-lending loss [3]	13	3	13	–
Other [4]	11	8	5	–
Total provisions	47	40	38	26

(1) Employee benefits provision consists 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 Group 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 and is discounted using the rates attached to Australian 10 year corporate bonds at reporting date which most closely match the terms of maturity of the related liabilities. $18 million (2019: $ 22 million) of this provision balance is classified as current.

(2) Lease provisions existing at 31 August 2019 have been adjusted against the Right of Use Asset upon application of AASB 16 on 1 September 2019.

(3) Provision for non-lending loss includes $9 million in relation to the Group's Pay and leave entitlements review.

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

MOVEMENTS IN PROVISIONS

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

	Consolidated			Bank		
2020	Leases [1] $m	Non-lending loss $m	Other $m	Leases [1] $m	Non-lending loss $m	Other $m
Carrying amount at beginning of year	2	3	8	2	–	–
Additional provision recognised	–	14	6	–	14	6
Amounts utilised during the year	(2)	(4)	(2)	(2)	(1)	(1)
Release of provision	–	–	(1)	–	–	–
Carrying amount at end of year	–	13	11	–	13	5
Current	–	13	11	–	13	5
Non-current	–	–	–	–	–	–
	–	13	11	–	13	5

(1) Lease provisions existing at 31 August 2019 have been adjusted against the Right of Use Asset upon application of AASB 16 on 1 September 2019.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2020

NOTE 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 2020. 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 standards 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 Consumer Credit Insurance and 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 per cent 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 and forecast expenses at the reporting date.

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.

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 shareholders' 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 shareholders' equity.
Discontinuance rates	Higher than expected policy discontinuance rates reduces future premium income, however this is offset by reduced future claims costs and commissions. 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 2020

5.1 INSURANCE BUSINESS (CONTINUED)

(B) PROCESSES USED TO DETERMINE ACTUARIAL ASSUMPTIONS (CONTINUED)

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 2020 varied from 0.18 to 2.94 per cent.

(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. Changes in assumptions will instead give rise to a difference in the emergence of profit margins in future periods. As at 31 August 2020, the Consumer Credit Insurance related product group was in loss recognition. Therefore changes in assumptions for this related product group will impact the policy liabilities in the current period. Changes in assumptions will not affect policy liabilities determined using the accumulation method, however, claims provisions would be affected in the current period.

(D) RECONCILIATION OF MOVEMENTS

	2020 $m	2019 $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	9	6
Increase / (decrease) in life insurance contract policy liabilities (i)	(1)	3
Gross life insurance contract liabilities at the end of the financial year	8	9
Liabilities ceded under reinsurance		
Opening balance at the beginning of the financial year	(4)	(2)
Increase in life reinsurance assets (ii)	(1)	(2)
Closing balance at the end of the financial year	(5)	(4)
Net life policy liabilities at the end of the financial year	3	5
(i) plus (ii) = change in life insurance contract liabilities reflected in the profit for the year	(2)	1
Components of net life insurance contract liabilities		
Future policy benefits	14	23
Future charges for acquisition costs	(11)	(18)
Total net life insurance contract policy liabilities	3	5
Components of general insurance liabilities		
Unearned premium liability	1	3
Outstanding claims liability	1	1
	2	4
Total insurance policy liabilities	5	9

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2020

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 basis for determining the capital base and regulatory capital requirements are in accordance with relevant prudential requirements.

	2020		2019	
	Statutory Fund No. 1 $m	Shareholders' Fund $m	Statutory Fund No. 1 $m	Shareholders' Fund $m
CAPITAL BASE				
Net assets	29	1	30	1
Add / (subtract) regulatory adjustments to net assets	(6)	–	(11)	–
Total capital base	23	1	19	1
Asset risk charge	1	–	1	–
Insurance risk charge	4	–	2	–
Operational risk charge	1	–	2	–
Aggregation benefit	(1)	–	(1)	–
Total prescribed capital amount	5	–	4	–
Assets in excess of prescribed capital amount	18	1	15	1
Capital adequacy multiple	4	87	5	73

	2020 $m	2019 $m
COMPOSITION OF CAPITAL BASE		
Common Equity Tier 1 Capital	31	31
Subtract regulatory adjustments to Common Equity Tier 1 Capital	(6)	(11)
Total capital base	25	20
PRESCRIBED CAPITAL AMOUNT		
Statutory Fund No. 1	5	4
Additional amount to meet insurance company minimum	5	6
Total prescribed capital amount	10	10
Assets in excess of prescribed capital amount	15	10
Capital adequacy multiple	3	2

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2020

5.1 INSURANCE BUSINESS (CONTINUED)

(E) LIFE INSURANCE REGULATORY CAPITAL REQUIREMENTS (CONTINUED)

Disaggregated information on life insurance (before consolidation adjustments) is as follows:

SUMMARISED INCOME STATEMENT	2020 $m	2019 $m
Revenue		
Life insurance premium revenue	35	44
Investment income	1	1
Net life insurance revenue	36	45
Expenses		
Net claims and other liability expense from insurance contracts	25	39
Other expenses	12	9
	37	48
Profit / (loss) before income tax	(1)	(3)
Income tax expense / (income)	–	1
Profit / (loss) after income tax	(1)	(2)
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	1	3
Difference between actual and assumed experience	(2)	(6)
Investment earnings on assets in excess of life insurance policy liabilities and provision	–	1
SUMMARISED BALANCE SHEET		
Assets		
Investment assets	37	42
Other assets	4	5
	41	47
Liabilities		
Net life insurance liabilities	3	5
Liabilities other than life insurance liabilities	8	11
	11	16
Issued capital, reserves and retained profits		
Directly attributable to shareholders	30	31
	30	31

The life insurance business has no life investment contracts.

(F) ACCOUNTING POLICY

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

The insured benefit is not linked to the market value of the investments held by the Group. Financial risks are substantially borne by the Group.

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 Group's financial statements comprise the total of all statutory funds and the shareholders' fund.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2020

5.1 INSURANCE BUSINESS (CONTINUED)

(F) ACCOUNTING POLICY (CONTINUED)

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, commissions, 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 Consumer Credit Insurance and 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 were recorded in profit or loss in the Income Statement in the year they were incurred. The value and future recovery of these costs are reassessed each year 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 Group'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 2020

NOTE 6. OTHER NOTES

6.1 EMPLOYEE BENEFITS

(A) SUPERANNUATION COMMITMENTS

Superannuation plan

The Group contributes to a number of 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 Group's contributions are also based on various percentages of employees' gross salaries.

The Group is under no legal obligation to make superannuation contributions except for the minimum contributions required under the relevant superannuation guarantee legislation.

(B) SHARE BASED PAYMENTS

The Group currently operates an Award Rights Plan for equity-settled compensation. The plan allows the Group'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 first introduced and approved by shareholders on 11 December 2008, the current Award Rights Plan was approved by shareholders on 30 November 2017. It is an equity based program under which Award Rights are granted as long-term incentives. The four types of award rights currently granted to employees under the plan are Deferred Award Rights (**DARs**), Performance Award Rights (**PARs**), BOQ Group Transformation Award (**BTAs**) and BOQ Group Transformation Award - Virgin (**VTAs**). 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 from December 2015 the vesting framework will be based on the Total Shareholder Return (**TSR**) and EPS. The TSR component makes up 80 per cent of the employee's PARs and is 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 TSR component will vest if the Bank's TSR performance over the three year period is in the top 50 per cent of the peer group. All of the PARs' TSR component vests if the Bank's TSR performance is in the top 25 per cent. For TSR performance between those targets, a relative proportion of the PARs between 50 per cent and 100 per cent would vest. If the Bank's TSR performance is below 50 per cent of the Peer Group, no TSR component of the PARs vests.

The remaining 20 per cent of PARs vest based on the Bank's EPS performance, measured against a financial services peer group over a three year period.

For issues granted from December 2018, the performance testing and vesting period for both the TSR and the EPS tranches was extended to four years.

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

DARs

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

Restricted shares

The Group 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 2020

6.1 EMPLOYEE BENEFITS (CONTINUED)

(B) SHARE BASED PAYMENTS (CONTINUED)

(i) Description of share based payments (continued)

BTAs

The performance hurdles or vesting conditions for BTAs are linked to BOQ Group meeting cash earnings excluding loan impairment expense and income tax targets. BTAs vest in two tranches in the ratio of 50 per cent in year one and 50 per cent in year two if BOQ Group meets the respective cash earnings targets. There is an opportunity for retest in year 2 and 3. There are no market performance hurdles. BTAs may be exercised by the employee once they have vested.

VTAs

The performance hurdles or vesting conditions for VTAs are linked to the delivery of Project de Novo and BOQ Group meeting cash earnings excluding loan impairment expense and income tax targets. VTAs vest in two tranches in the ratio of 50 per cent subject to the delivery of Project de Novo and 50 per cent if BOQ Group meet cash earnings targets in year two. There is an opportunity for retest in year 3. There are no market performance hurdles. VTAs may be exercised by the employee once they have vested.

(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		BOQ Group transformation award		BOQ Group transformation award – Virgin		Restricted Shares	
	2020 '000	2019 '000	**2020 '000**	2019 '000	**2020 '000**	2019 '000	**2020 '000**	2019 '000	**2020 '000**	2019 '000
Balance at beginning of the year	**1,252**	999	**1,787**	2,278	**–**	–	**–**	–	**202**	234
Granted	**837**	665	**1,065**	811	**435**	–	**66**	–	**–**	178
Forfeited / expired	**(139)**	(108)	**(1,057)**	(1,203)	**(4)**	–	**–**	–	**–**	–
Exercised	**(344)**	(304)	**(3)**	(99)	**–**	–	**–**	–	**(129)**	(210)
Outstanding at the end of the year	1,606	1,252	1,792	1,787	431	–	66	–	73	202

(iii) Measurement of fair values

The fair value of the PARs, DARs, BTAs and VTAs 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 5 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 was as follows:

	Deferred award rights		Performance award rights		BOQ Group transformation award		BOQ Group transformation award- Virgin		Restricted Shares	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019
Fair value at grant date ($)	**6.09**	8.21	**3.61**	4.91	**6.12**	–	**6.12**	–	**–**	10.71
Share price at grant date ($)	**7.41**	9.61	**7.42**	9.64	**7.41**	–	**7.41**	–	**–**	9.96
Expected volatility (%)	**18.0**	19.0	**18.0**	19.0	**18.0**	–	**18.0**	–	**–**	20.1
Risk free interest rate (%)	**0.8**	2.0	**0.8**	2.0	**0.8**	–	**0.8**	–	**–**	2.0
Dividend yield (%)	**8.8**	7.8	**8.8**	7.8	**8.8**	–	**8.8**	–	**–**	7.4

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2020

6.1 EMPLOYEE BENEFITS (CONTINUED)

(B) SHARE BASED PAYMENTS (CONTINUED)

(iv) Salary sacrifice arrangements

The Group also offers the following salary sacrifice arrangements to facilitate the purchase of BOQ shares:

- The Non-Executive Director Fee (NEDs) Sacrifice Rights Plan (NED Plan) allows NEDs to sacrifice a portion of their Board fees to acquire BOQ shares. The equity under this plan is not subject to any conditions apart from a disposal restriction for a minimum of three years.
- The Employee Share Plan allows all Australian based permanent full-time or part-time employees to salary sacrifice up to $1,000 of BOQ share purchases per annum. The equity under this plan is not subject to any conditions apart from a disposal restriction for a minimum of three years.

6.2 COMMITMENTS

	Consolidated		Bank	
	2020 $m	2019 $m	2020 $m	2019 $m
(A) CUSTOMER FUNDING COMMITMENTS				
Guarantees, indemnities and letters of credit	267	301	267	301
Customer funding commitments	1,659	1,498	861	651
	1,926	1,799	1,128	952

In the normal course of business the Group 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 Group 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.

6.3 CONTINGENT LIABILITIES

As at 31 August 2020, the Group does not have any contingent liabilities (2019: Nil).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2020

6.4 RELATED PARTIES INFORMATION

(A) CONTROLLED ENTITIES

Details of interests in materially controlled entities are set out in Note 6.5.

During the year there have been transactions between the Bank and 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 Virgin Money (Australia) Pty Limited, Virgin Money Financial Services Pty Ltd, BOQ Specialist Pty Ltd, BOQ Home Pty Limited, Home Credit Management Pty Ltd and dormant entities as set out in Note 6.5(a).

The Bank receives management fees from its operating controlled entities except Virgin Money Financial Services Pty Ltd, BOQ Specialist Pty Ltd, BOQ Home Pty Limited, Home Credit Management Pty Ltd and dormant entities as set out in Note 6.5(a).

The Bank has a related party relationship with equity accounted joint ventures and associates, refer to Note 6.6.

(B) KEY MANAGEMENT PERSONNEL COMPENSATION

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

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

	2020 $	2019 $
Short term employee benefits	5,944,543	6,958,085
Long term employee benefits	46,646	156,398
Post employment benefits	267,565	316,392
Share based employment benefits	1,451,477	1,719,578
Termination benefits	686,024	975,000
	8,396,255	10,125,453

Individual Directors and Senior Executives compensation disclosures

Information regarding individual Directors and Senior Executives' compensation and some equity instruments disclosures, as permitted by Regulation 2M.3.03 of the *Corporations Regulations 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' interests existing at year end.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2020

6.4 RELATED PARTIES INFORMATION (CONTINUED)

(C) OTHER FINANCIAL INSTRUMENT TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL AND THEIR RELATED PARTIES

A number of 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 Group. 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 (2019: nil).

The transactions undertaken between the Group and KMP or their related parties up to 31 August 2020 are:

	Balance as at		For the period (1)		
	1 September 2019 (2) $	31 August 2020 $	Total loan drawdowns / (repayments) $	Total loan / overdraft interest $	Total fees on loans / overdraft $
Term products (loans / advances)					
KMP	1,529,029	350,000	(16,441)	16,595	40
Other related parties	186,543	760,430	731,742	25,851	175
Total	1,715,572	1,110,430	715,301	42,446	215

	Balance as at		For the period (3)		
	1 September 2018 $	31 August 2019 $	Total loan drawdowns / (repayments) $	Total loan / overdraft interest $	Total fees on loans / overdraft $
Term products (loans / advances)					
KMP	1,928,903	1,536,789	314,022	78,824	240
Other related parties	1,460,422	186,543	(33,809)	20,962	60
Total	3,389,325	1,723,333	280,213	99,786	300

(1) Amounts are included only for the period that the Director / Executive is classified as a member of the key management personnel. Matthew Baxby resigned on 31 October 2019, Donna-Maree Vinci resigned on 13 December 2019 and Richard Haire resigned on 8 April 2020. On this basis, loans and advances between the Group and Mr Baxby, Ms Vinci and Mr Haire are not included in the closing balance as at 31 August 2020.

(2) Opening balance restated to exclude where a KMP's aggregate loan balance is under $100,000.

(3) Amounts are included only for the period that the Director / Executive is classified as a member of the key management personnel. John Sutton resigned on 5 December 2018 and Brendan White ceased employment 6 March 2019. On this basis, loans and advances between the Group and Mr Sutton and Mr White are not included in the closing balance as at 31 August 2019.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2020

6.4 RELATED PARTIES INFORMATION (CONTINUED)

(C) OTHER FINANCIAL INSTRUMENT TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL AND THEIR RELATED PARTIES (CONTINUED)

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 at a price of $10,000 per note. The Wholesale Capital Notes were redeemed by BOQ on 26 May 2020.

On 28 December 2017, the Bank issued 3,500,000 million Capital Notes [1] at a price of $100 per note.

Details of those notes issued to BOQ Directors are set out below:

		2020		2019	
		Balance $	Interest earned $	Balance $	Interest earned [2] $
Former Directors					
Roger Davis [3]	Wholesale Capital Notes	-	1,354	200,000	8,785
David Willis [4]	Wholesale Capital Notes	-	776	70,000	3,075
Roger Davis [3]	Capital Notes	n/a	270	50,000	1,537
Roger Davis's related parties [3]	Capital Notes	n/a	270	50,000	1,537
Total		-	2,670	370,000	14,934

(1) Capital notes are classified as non-current.
(2) Interest is pro-rated for the period during which the Director held office.
(3) Balance and interest accrued for Roger Davis as at resignation date 31 October 2019.
(4) Balance and interest accrued for David Willis as at resignation date 10 December 2019.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2020

6.5 CONTROLLED ENTITIES

(A) PARTICULARS IN RELATION TO MATERIALLY CONTROLLED ENTITIES

The Group's controlled entities at 31 August 2020 are set out below. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly by the Group. The country of incorporation or registration is also their principal place of business.

	Place of business/ country of incorporation	Parent entity's interest		Amount of investment		Principal activities
Controlled entities:		2020 %	2019 %	2020 $m	2019 $m	
Alliance Premium Funding Pty Ltd	New Zealand	100%	100%	-	-	Dormant
Bank of Queensland Limited Employee Share Plans Trust	Australia	100%	100%	-	-	Trust
BOQ Asset Finance and Leasing Pty Ltd	Australia	100%	100%	-	-	Asset finance & leasing
BOQ Covered Bond Trust	Australia	100%	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	Australia	100%	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%	-	-	Dormant
BOQ Home Pty Ltd	Australia	100%	100%	157	157	Investment holding entity
BOQ Share Plans Nominee Pty Ltd	Australia	100%	100%	-	-	Dormant
BOQ Specialist (Aust) Limited	Australia	100%	100%	13	13	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
Home Credit Management Pty Ltd	Australia	100%	100%	-	-	Investment holding entity
Home Financial Planning Pty Ltd	Australia	100%	100%	-	-	Dormant
Impala Trust No. 1 - Sub-Series 2	Australia	100%	100%	-	-	Securitisation
Pioneer Permanent Pty Ltd	Australia	100%	100%	32	32	Dormant
Series 2008-1 REDS Trust	Australia	100%	100%	-	-	Securitisation
Series 2009-1 REDS Trust	Australia	-	100%	-	-	Securitisation
Series 2010-1 REDS Trust	Australia	-	100%	-	-	Securitisation
Series 2010-2 REDS Trust	Australia	100%	100%	-	-	Securitisation
Series 2012-1E REDS Trust	Australia	100%	100%	-	-	Securitisation
Series 2013-1 REDS Trust	Australia	100%	100%	-	-	Securitisation
Series 2015-1 REDS Trust	Australia	100%	100%	-	-	Securitisation
Series 2017-1 REDS Trust	Australia	100%	100%	-	-	Securitisation
Series 2018-1 REDS Trust	Australia	100%	100%	-	-	Securitisation
Series 2018-1 REDS EHP Trust	Australia	100%	100%	-	-	Securitisation
Series 2019-1 REDS Trust	Australia	100%	100%	-	-	Securitisation

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2020

6.5 CONTROLLED ENTITIES (CONTINUED)

(A) PARTICULARS IN RELATION TO MATERIALLY CONTROLLED ENTITIES (CONTINUED)

	Place of business/ country of incorporation	Parent entity's interest		Amount of investment		Principal activities
Controlled entities:		2020 %	2019 %	2020 $m	2019 $m	
St Andrew's Australia Services Pty Ltd [(1)]	Australia	100%	100%	30	–	Insurance holding entity
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
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
				552	522	

(1) During the year ended 31 August 2020, the Bank entered into a Subscription Agreement in relation to a debt for equity swap for the purchase of 8,128 fully paid ordinary shares issued by its subsidiary, St Andrew's Australia Services Pty Ltd, for the value of $30 million.

(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

All business combinations occurring on or after 1 July 2009 are accounted for by applying the acquisition method. 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.

Transaction Costs

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

(ii) Entities established during the year

There have been no new entities established during the financial year.

(D) DISPOSAL OF CONTROLLED ENTITIES

The following entities were closed during the financial year:

- Series 2009-1 REDS Trust was closed on 23 September 2019; and
- Series 2010-1 REDS Trust was closed on 9 March 2020.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2020

6.6 INVESTMENTS IN JOINT ARRANGEMENTS AND ASSOCIATES

The Group holds interests in a number of collectively and individually immaterial joint ventures and investments in associates that are accounted for using the equity method.

(A) ACCOUNTING FOR JOINT ARRANGEMENTS AND ASSOCIATES

The Group's investments in joint venture entities and associates are accounted for under the equity method of accounting in the consolidated financial statements. Joint ventures are entities in which the Group has joint control over all operational decisions and activities. Associates are entities in which the Group has significant influence over, but not control.

(B) DETAILS OF JOINT VENTURE AND ASSOCIATES

Set out below are the joint ventures and associates of the Group as at 31 August 2020 which, in the opinion of the Directors, are immaterial to the Group. Australia is the place of business and also the country of incorporation for all joint ventures and associates.

	Ownership Interest		Carrying amount	
	2020 (%)	2019 (%)	**2020 $m**	2019 $m
Joint arrangements [1]				
Ocean Springs Pty Ltd (Brighton)	**9.31**	9.31	**6**	6
Dalyellup Beach Pty Ltd (Dalyellup)	**17.08**	17.08	**7**	7
East Busselton Estate Pty Ltd (Provence)	**25.00**	25.00	**–**	–
Coastview Nominees Pty Ltd (Margaret River)	**5.81**	5.81	**–**	–
Provence 2 Pty Ltd (Provence 2)	**25.00**	25.00	**–**	–
Associates				
MiFund Pty Ltd [2]	**–**	35.00	**–**	3
Total equity accounted investments			**13**	16

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

(2) The Bank's investment in MiFund Pty Ltd was impaired and, subsequently, fully divested during the year ended 31 August 2020.

Summary financial information for equity accounted joint ventures and associates, adjusted for the share of ownership held by the Group and the Bank, is contained below:

	2020 $m	2019 $m
Loss from continuing operations	**–**	(1)
Total comprehensive loss	**–**	(1)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2020

6.7 AUDITOR'S REMUNERATION

	Consolidated		Bank	
KPMG AUSTRALIA	2020 $000	2019 $000	2020 $000	2019 $000
Audit services				
– Statutory audits and reviews of the financial reports	1,857	1,773	1,437	1,324
– Regulatory audits and reviews as required by regulatory authorities	762	462	667	325
Total audit services	2,619	2,235	2,104	1,649
Audit related services				
– Other assurance services	402	534	143	397
– Regulatory assurance services	–	94	–	–
Total audit related services	402	628	143	397
Non-audit services				
– Taxation services	122	169	77	169
– Other	192	333	174	263
Total non-audit services	314	502	251	432

Non-audit services, other, include OMB profit share and other model reviews and corporate reporting advisory.

6.8 EVENTS SUBSEQUENT TO BALANCE DATE

Other than as disclosed below, the Directors are not aware of any matters or circumstances 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 Group in future financial years.

The evolution of the COVID-19 pandemic remains uncertain, including the duration of the pandemic, the severity of the downturn and the speed of the economic recovery. BOQ has considered whether events subsequent to the reporting date have confirmed conditions existing as at reporting date and has not identified any COVID-19 related developments which would require adjustments to the amounts or disclosures contained in the consolidated financial statements. Future economic conditions may differ to the assumptions and scenarios used in the consolidated financial statements, the impact of which will be reflected in future reporting periods.

On 13 October 2020, the Bank entered into an agreement to sell the Bank's controlled entities – St Andrew's Australia Services Pty Ltd and its subsidiaries, St Andrew's Insurance (Australia) Pty Ltd and St Andrew's Life Insurance Pty Ltd for proceeds of approximately $23 million. The transaction is expected to be completed before the end of FY2021 and is subject to certain conditions including regulatory approvals. At 31 August 2020, the Consolidated Entity did not meet the relevant criteria for reporting St Andrew's Services Pty Ltd and its subsidiaries as held for sale under AASB 5 Non-current assets held for sale and discontinued operations. As such, the indicative loss on sale after tax of $27 to $30 million will be reflected in the FY2021 financial results. The final loss on sale will be determined at completion and will be impacted by completion adjustments and transaction costs and final taxation impacts. Under the transaction, BOQ will provide a capped indemnity to Farmcove Investment Holdings (Farmcove) for certain pre-completion matters. In addition, a vendor loan has been agreed between BOQ and Farmcove which will become effective on the completion date. The sale of St Andrew's Australia Services Pty Ltd and its subsidiaries would impact the operating segment, Other.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2020

6.9 SIGNIFICANT ACCOUNTING POLICIES

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 Group.

(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 Group conducts a loan securitisation program whereby mortgage loans are packaged and sold to the REDS RMBS Trusts. The Group also securitises hire purchase, chattel mortgages and finance leases which are packaged and sold to the REDS EHP Trusts. The Bank acquired Impala Trust No. 1 - Sub-Series 2 (**Impala Trust**) through the acquisition of Investec Bank (Australia) Limited. Assets securitised to the Impala Trust are financed by the Bank through the BOQ Specialist channel and consist of medical finance equipment.

The Group

The Group receives the residual income distributed by the REDS and Impala Trust (**Trusts**) after all payments due to investors and associated costs of the program have been met. As a result, the Group is considered to retain the risks and rewards of the Trusts and they do not meet the derecognition criteria of AASB 9.

The Trusts fund their purchase of the loans by issuing floating-rate debt securities. The securities are issued by the Trusts. These are represented as borrowings of the Group, however, the Group does not stand behind the capital value or the performance of the securities or the assets of the Trusts. The Group 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 Trusts. The Group is not obliged to support any losses that may be suffered by investors and does not intend to provide such support.

The Bank provides 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 Trusts. The investors in the securities issued by the Trusts have full recourse to the assets transferred to the Trusts.

Bank

Interest rate risk from the Trusts is transferred back to the Bank by way of interest rate and basis swaps. Accordingly, under AASB 9 the original transfer of the mortgages from the Bank to the Trusts does not meet the derecognition criteria set out in AASB 9. The Bank continues to reflect the securitised loans in their entirety and also recognises a financial liability to the 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.

(B) FOREIGN CURRENCY

(i) Foreign currency transactions

Transactions in foreign currencies are, initially, translated at the foreign exchange rate ruling at the date of the transaction. Subsequently, at reporting date, monetary assets and liabilities denominated in foreign currencies 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 remain translated using the original exchange rate at the date of the transaction. Foreign exchange differences arising on translation are recognised in profit or 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 Note 3.8.

(ii) Foreign operations

The Group carries out its foreign operations in New Zealand through the wholly controlled subsidiary, BOQ Finance (NZ) Limited and through the non-incorporated branch of BOQ Equipment Finance Limited.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2020

6.9 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(C) OPERATING LEASES

Operating leases, in which the Group 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. This is generally recognised in profit or loss. Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(D) 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.

(E) PROPERTY, PLANT AND 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 Group 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 Group 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 useful lives are reassessed annually.

(F) 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 at the same time each year.

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 – a 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 its 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.

DIRECTORS' DECLARATION

1. In the opinion of the Directors of Bank of Queensland Limited:

   (a) the consolidated financial statements and notes and the remuneration report included within the Directors' Report set out on pages 64 to 174, 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 Group as at 31 August 2020 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 Group 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 & CEO and Chief Financial Officer for the financial year ended 31 August 2020.

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:

Patrick Allaway
Chairman
13 October 2020

George Frazis
Managing Director & CEO
13 October 2020

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 2020 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 Bank comprise:

- Balance Sheets as at 31 August 2020;
- 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; and
- Directors' Declaration.

The ***Consolidated Entity*** consists of the 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 (including the Independence Standards)* (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.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matters

The ***Key Audit Matters*** we identified for the Consolidated Entity and Bank are:

- Expected Credit Loss (ECL) for loans and advances at amortised cost
- Valuation of goodwill
- Valuation of intangible computer software and recognition of impairment charge
- Valuation of financial instruments at fair value
- Information technology (IT) systems controls

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audits of the Financial Reports of the current period.

These matters were addressed in the context of our audits of the Financial Reports as a whole, and in forming our opinions thereon, and we do not provide a separate opinion on these matters.

Expected credit loss (ECL) for loans and advances at amortised cost- Consolidated Entity and Bank

Refer to Note 3.3 to the Financial Reports

The key audit matter	How the matter was addressed in our audits
ECL (**collective provision for impairment**) for loans and advances at amortised cost is a key audit matter due to the significance of loans and advances balances and judgement applied by the Consolidated Entity and Bank in determining the ECL, and the resulting judgement required by us in challenging these estimates. The Consolidated Entity and Bank measure ECLs on a forward-looking basis reflecting a range of future economic conditions, including key forward-looking macroeconomic assumptions such as forecast Real Gross Domestic Product (GDP), residential and commercial property prices and unemployment rates. Given the COVID-19 pandemic and associated economic uncertainty, significant judgement was exercised by the Consolidated Entity and Bank in developing the forward-looking macroeconomic assumptions and in the multiple forward-looking economic scenarios and probability weighting determined for each of these scenarios. This estimation is inherently challenging and uses complex models based on the Consolidated Entity's and Bank's ability to predict probability of default and loss given	Our procedures for ECL (**collective provision for impairment**) **included**: • Understanding key controls implemented by the Consolidated Entity and Bank to estimate the ECL, including: – Review and approval by Management of key forward-looking macroeconomic assumptions used in the model; – Review and approval by Management of key assumptions used in the ECL models; – Monitoring mechanisms to identify loans with a SICR or default event; and – Review and approval mechanisms in place to assess the ECL output and out of model adjustments. With the assistance of our credit risk specialists, our procedures included: • Assessing the appropriateness of the Consolidated Entity's and Bank's provisioning methodology against the requirements of the

default. The ECL staging requirements in the models incorporate estimates of default on both a 12 month and lifetime basis depending on whether a significant increase in credit risk (SICR) event has been identified. Significant judgement is applied by the Consolidated Entity and Bank in determining the nature and level of out of model adjustments. It is the Consolidated Entity's and Bank's policy to use out of model adjustments where the underlying models may not represent emerging risks or trends in the loan portfolios. We applied significant judgement to assess the impact of the forward-looking macroeconomic assumptions and economic scenarios used and the judgemental out of model adjustments applied to the ECL models.	accounting standards and industry practice including estimates of default on both a 12 month and lifetime basis. • Testing the completeness and accuracy of relevant data elements used within ECL models for a sample of customers, such as checking year end balances to the general ledger, and repayment history and risk ratings to source systems. • Re-performing the ECL calculation for loan portfolios using the Consolidated Entity's and Bank's provisioning methodology and relevant data used within the ECL models, as tested above and which incorporated consideration of the impacts of COVID-19. We compared our results to the amount recorded by the Consolidated Entity and Bank. • Determining key assumptions within the ECL models including SICR and assessed the Consolidated Entity's and Bank's analysis over these assumptions including whether the methodology used in developing the assumption was appropriate and in line with accounting standards requirements. • Working with our KPMG Economic specialists, we challenged the Consolidated Entity's and Bank's forward-looking information and economic scenarios and their associated probability weighting. We compared the Consolidated Entity's and Bank's forecast Real GDP, residential and commercial property price index and unemployment rates to relevant publicly available macro-economic information and the sensitivity of the ECL to changes in such assumptions. We focused on ensuring that these key assumptions reflected the impacts of COVID-19; • Assessing the out of model adjustments applied by the Consolidated Entity and Bank to the ECL estimates. We compared the loan portfolios' underlying performance and characteristics to current market conditions, emerging risks and trends, using our knowledge of the industry and public views of commentators.
For credit–impaired loans, it is the Consolidated Entity's and Bank's policy to determine an ECL (**specific provision for impairment**) based on their judgement. This focuses on estimating when an impairment event has occurred and	Our procedures for ECL (**specific provision for impairment**) for credit-impaired loans included: • Testing key credit risk monitoring controls, including controls for loan risk ratings, annual

the present value of expected future cash flows, which have high estimation uncertainty. We focused on the high degree of estimation uncertainty related to the business and agribusiness loans, as the forecast cash flows are dependent on future and uncertain events, for example, the timing and proceeds from the future sale of collateral.	assessments of loans and security valuations. • Performing credit assessment, on a sample of loans and advances including business and agribusiness loans for which specific impairment provisions are held, with particular focus on the impact of COVID-19 on high-risk industries. This included: – Challenging the Consolidated Entity's and Bank's risk grading of the loans. – Considering the latest developments in relation to the borrower by inspecting the Consolidated Entity's and Bank's latest loan strategy papers for evidence of occurrence of impairment events and inquiries with Management; – Examining the forecasts of future cash flows prepared by the Consolidated Entity and Bank, including key assumptions and consideration of COVID-19 impacts in relation to the amount and timing of recoveries, by: – Checking the collateral valuation and other sources of repayment underlying the Consolidated Entity's and Bank's determination of the impairment to external evidence where available, including the Consolidated Entity's and Bank's external valuation expert reports; and – Checking the consistency of methods applied by the Consolidated Entity and Bank in estimating the expected future cash flows, including timing, from the estimated sale proceeds from the collateral in calculating the recoveries. • Challenging the Consolidated Entity's and Bank's judgement with respect to estimated recoverable values by considering current economic conditions and specific areas of credit risk concentration (industries and geographies), which may impact security values. • Assessing the appropriateness of the Consolidated Entity's and Bank's disclosures in the financial reports using our

	understanding obtained from our testing against the requirements of the accounting standards.

Valuation of goodwill – Consolidated Entity and Bank

Refer to Note 4.1 to the Financial Reports

The key audit matter	**How the matter was addressed in our audits**
The assessment of the valuation of goodwill is considered a key audit matter due to the significant forward-looking assumptions used in the Consolidated Entity's and Bank's value-in-use (VIU) model. We focused on the significant forward-looking assumptions applied in the VIU model, including: • Forecast operating cash flows, forecast growth rates and the terminal growth rates. The ongoing economic uncertainty from the COVID-19 global pandemic has impacted the cash flow forecasts and other estimates and assumptions used in the VIU model. These conditions increase the inherent uncertainty of the forecasts, the probability of a wider range of possible outcomes and the possibility of goodwill being impaired; and • Discount rate – this is judgemental in nature and varies according to the specific conditions and environment of the relevant cash-generating unit (CGU). In addition to the above, the carrying amount of the net assets of the Consolidated Entity exceeded the Consolidated Entity's market capitalisation at year end, increasing the assessed likelihood of goodwill being impaired. This further increased our audit effort in this key audit area. We involved valuation specialists to supplement our senior audit team members in assessing this key audit matter.	Our procedures included: • Considering the appropriateness of the VIU 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 integrity of the VIU model used, including the accuracy of the underlying calculations. • Assessing the historical accuracy of the Consolidated Entity's and Bank's forecast operating cash flows by comparing to actual past performance, to inform our evaluation of forecasts incorporated in the VIU model. • Challenging the key forecast cash flow assumptions used in the VIU model considering the known and anticipated COVID-19 impacts, using our knowledge of the Consolidated Entity and Bank, their past performance, and our inquiries with Management. We also checked the consistency of the key assumptions used in the VIU model to the Consolidated Entity's and Bank's Board approved cash flow forecasts. • Using our industry knowledge and published studies of industry trends and expectations, assessing the Consolidated Entity's and Bank's key assumptions, specifically growth rates and terminal growth rates, for indicators of bias and inconsistent application. • Working with our valuation specialists, using our knowledge of the Consolidated Entity and Bank and its industry, to independently develop a discount rate range considered comparable using publicly available market data for comparable entities adjusted by risk factors specific to the Consolidated Entity and the industry it operates in. • Performing sensitivity analysis by varying key assumptions, in particular discount rates,

	forecast growth rates and terminal growth rates, within a reasonably possible range. We did this to identify those CGUs at higher risk of impairment and those assumptions at a higher risk of bias or inconsistency in application and to focus our further procedures. • Assessing the disclosures in the financial report, using our understanding of the information obtained from our testing and against the requirements of the accounting standards. We focused on the adequacy of the disclosures where a reasonably possible change in key assumptions could cause the carrying amount of a CGU to exceed its recoverable amount.

Valuation of intangible computer software and recognition of impairment charge – Consolidated Entity and Bank

Refer to Note 4.1 to the Financial Reports

The key audit matter	How the matter was addressed in our audits

The assessment of the valuation of intangible computer software is considered a key audit matter due to the significant:
• Amount of costs capitalised during the year.
• Amount of impairment charge and the accelerated amortisation charge recognised during the year in determining the carrying value. This drives additional audit effort given the judgement involved in making the impairment assessment.
• Judgement applied by us to assess the Consolidated Entity's and Bank's determination of:
  • Capitalised costs – the nature and amount of costs to be capitalised in accordance with the requirements of the accounting standards. This can be inherently subjective for internally generated computer software projects.
  • Expected useful life – on completion of internally generated computer software, the accounting standards require the Consolidated Entity and Bank to 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
	Our procedures included:
	• Evaluating the Consolidated Entity's and Bank's intangible computer software capitalisation policy and its application during the year against the capitalisation criteria and guidance 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. Specifically, we challenged:
	  – The nature of project costs capitalised by testing a sample of capitalised costs to the project scope of work and underlying invoices and timesheets, as well as inquiries with Management; and
	  – The Consolidated Entity's and Bank's assessment of projects not yet classified as 'ready for-use' for indicators of being in use, such as checking the phase of implementation with Project Managers, and hence being subject to amortisation.
	  – We checked that the impairment charge on the projects impaired

asset. This can be judgemental and dependent upon future events, including advances in technology, thereby increasing the complexity in estimating useful life. We also focused on the analysis of impairment indicators performed by the Consolidated Entity and Bank.	during the year has been recognised in the current period. Additionally, we assessed that the remaining carrying value of the projects were not impaired. We also specifically focused on the continuation of the original project feasibility for those projects behind schedule, considering emerging technology. ● For a sample of internally generated computer software classified as 'in-use', challenging the Consolidated Entity's and Bank's estimated period of economic benefit from the use of the software compared to the original project plan. ● Considering the Consolidated Entity's and Bank's assessment of intangible computer software impairment indicators by using our knowledge of the Consolidated Entity and Bank's broader technology roadmap, results of our testing and inquiring with Project Managers. ● Assessing the adequacy of the disclosures associated with impairment testing of intangible computer software in the financial report.

Valuation of financial instruments at fair value – Consolidated Entity and Bank

Refer to Note 3.7 to the Financial Reports

The key audit matter	How the matter was addressed in our audits
The valuation of financial instruments measured at fair value is considered a key audit matter as determining the fair value of financial instruments involves a significant level of judgement by the Consolidated Entity and Bank. COVID-19 has impacted on the volatility of certain inputs by the Consolidated Entity and Bank. The level of judgement increases where key inputs to the valuation are not readily available in the market and require additional judgement. This increases the risk of error and adds complexity to our audit. We involved valuation specialists to supplement our senior audit team members in assessing this key audit matter.	Working with our valuation specialists, our procedures included: ● Checking the Consolidated Entity's and the Bank's valuation of a sample of financial instruments (asset and liabilities), by comparing the observable inputs, including quoted prices, to independently sourced market data. ● Using independent models, reperforming the valuation for a sample of derivative assets and liabilities where fair value was determined using observable inputs. This included comparing a sample of observable inputs in the Consolidated Entity's and Bank's valuations to independently sourced market data, such as interest rates, foreign exchange rates and volatilities. ● Where the fair value of derivatives and other

	financial assets were determined using unobservable inputs ('level 3' instruments), challenging the Consolidated Entity's and Bank's valuation by testing the key inputs used to comparable data in the market, including the use of proxy instruments and available alternatives. We also checked the Consolidated Entity's and Bank's valuation methodology to industry practice and the criteria in the accounting standards. • Assessing the appropriateness of the Consolidated Entity's and Bank's disclosures in the financial reports using our understanding obtained from our testing against the requirements of the accounting standards.
Information Technology (IT) systems and controls – Consolidated Entity and Bank	
Refer to Basis of Preparation in Note 1 to the Financial Reports	
The key audit matter	**How the matter was addressed in our audits**
The Consolidated Entity's and Bank's business utilises a number of complex, interdependent Information Technology (IT) systems to process and record a high volume of transactions. Controls over user access, change management, program development and other operational controls in IT systems are critical to the recording of financial information and the preparation of financial reports. The IT systems and controls, as they impact the financial recording and reporting of transactions, is a key audit matter, and significantly affect our audit approach. Our IT specialists were used throughout the engagement as a core part of our audit team.	We tested the general controls over key IT applications (systems) used in processing significant transactions and recording balances in the general ledger. We also tested automated controls embedded within these systems. Working with our IT specialists, our procedures included: • Testing the governance controls used by the Consolidated Entity's and Bank's IT team to monitor system integrity, by checking matters impacting the operational integrity of core systems for escalation and action in accordance with the Consolidated Entity's and Bank's policies. • Testing the access rights (including privileged users) given to staff by checking them to approved records and inspecting the reports for granting and removal of access rights. • Testing preventative controls designed to enforce segregation of duties between users within particular IT systems. • Testing the change management controls related to code development and workflows approval. • Testing the automated controls, principally relating to the automated calculation of certain transactions and the generation of certain

	reports. For a sample of automated calculations, we tested the inputs used within the calculations to source data and also tested the accuracy of the calculations.

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 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's and Bank's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the 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.

INDEPENDENT AUDITOR'S REPORT

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 Reports.

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_responsibilities/ar1.pdf. 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 2020, complies with *Section 300A* of the *Corporations Act 2001*.

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 64 to 88 of the Directors' report for the year ended 31 August 2020.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

KPMG

Robert Warren
Partner

Sydney
13 October 2020

SHAREHOLDING DETAILS

As at Wednesday 23 September 2020, the following shareholding details applied:

1. TWENTY LARGEST ORDINARY SHAREHOLDERS

	No. of ordinary shares	%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	55,514,205	12.22
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	30,805,695	6.78
CITICORP NOMINEES PTY LIMITED	24,228,830	5.33
NATIONAL NOMINEES LIMITED	20,088,408	4.42
BNP PARIBAS NOMINEES PTY LTD	3,694,402	0.81
BNP PARIBAS NOMS PTY LTD	3,182,969	0.70
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	2,982,808	0.66
GOLDEN LINEAGE PTY LTD	2,214,890	0.49
CITICORP NOMINEES PTY LIMITED	1,845,648	0.41
CARLTON HOTEL LIMITED	772,000	0.17
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	767,457	0.17
MR KIE CHIE WONG	764,127	0.17
NATIONAL EXCHANGE PTY LTD	760,000	0.17
THE MANLY HOTELS PTY LIMITED	659,667	0.15
AMP LIFE LIMITED	549,641	0.12
PACIFIC CUSTODIANS PTY LIMITED	544,673	0.12
BNP PARIBAS NOMINEES PTY LTD	537,128	0.12
ACE PROPERTY HOLDINGS PTY LTD	530,000	0.12
CELESTIAL INHERITANCE PTY LTD	518,606	0.11
EMICHROME PTY LIMITED	485,000	0.11
Total	151,446,154	33.33

The above table includes shareholders that may hold shares for the benefit of third parties.

VOTING RIGHTS

On a poll every person who is a holder of ordinary shares or a duly appointed representative of a holder of ordinary shares has one vote.

SHAREHOLDING DETAILS

As at Wednesday 23 September 2020, the following holding details applied:

2. TWENTY LARGEST CAPITAL NOTE HOLDERS

	No. of capital notes	%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	163,933	4.68
BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD	122,910	3.51
DIOCESE DIOCESE DEVELOPMENT FUND – CATHOLIC DIOCESE OF PARAMATTA	56,238	1.61
JOHN E GILL TRADING PTY LTD	54,593	1.56
CITICORP NOMINEES PTY LIMITED	52,257	1.49
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	52,071	1.49
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED – A/C 2	46,587	1.33
NATIONAL NOMINEES LIMITED	43,818	1.25
DOMER MINING CO PTY LTD	32,200	0.92
TRUSTEES OF CHURCH PROPERTY FOR THE DIOCESE OF NEWCASTLE	27,499	0.79
BERNE NO 132 NOMINEES PTY LTD	23,705	0.68
NETWEALTH INVESTMENTS LIMITED	22,358	0.64
FEDERATION UNIVERSITY AUSTRALIA	21,935	0.63
INVIA CUSTODIAN PTY LIMITED	21,310	0.61
HAVENFLASH PTY LTD	21,000	0.60
NAVIGATOR AUSTRALIA LTD	18,491	0.53
MUTUAL TRUST PTY LTD	17,870	0.51
NAVIGATOR AUSTRALIA LTD	16,289	0.47
NULIS NOMINEES (AUSTRALIA) LIMITED	15,895	0.45
PACIFIC DEVELOPMENT CORPORATION PTY LTD	15,500	0.44
Total	846,459	24.18

The above table includes shareholders that may hold shares for the benefit of third parties.

VOTING RIGHTS

Capital Notes do not give the holders any voting rights at any general shareholders meetings, except in certain circumstances.

3. DISTRIBUTION OF SECURITY HOLDERS

	Ordinary Shares		Capital Notes	
Category	**2020**	2019	**2020**	2019
1 – 1,000	**60,991**	57,361	**5,547**	5,148
1,001 – 5,000	**34,022**	31,527	**397**	403
5,001 – 10,000	**8,334**	6,764	**26**	30
10,001 – 100,000	**5,413**	4,017	**28**	26
100,001 – and over	**120**	93	**2**	1
Total	108,880	99,762	6,000	5,608

The number of ordinary shareholders holding less than a marketable parcel is 4,895.

The number of capital notes holders holding less than a marketable parcel is 21.

SHAREHOLDING DETAILS

4. PARTLY PAID SHARES

There are no partly paid shares.

5. SUBSTANTIAL SHAREHOLDERS

The names of substantial shareholders in the Bank, per the meaning within the *Corporations Act 2001* (Cth), and the number of shares in which each has an interest as disclosed in substantial shareholder notices given to the Bank were:

	No. of ordinary shares in which interest is held (at date of notification)	Date of notification
The Vanguard Group Inc.	19,929,774	9 July 2018

6. SECURITIES EXCHANGE LISTING

The shares of Bank of Queensland Limited (**BOQ**) and Capital Notes (**BOQPE**) are quoted on the Australian Stock Exchange.

Notes issued under BOQ's Euro Medium Term Note Programme and covered bonds issued under BOQ's Covered Bond Programme may be listed on the London Stock Exchange.

7. OPTIONS

At 31 August 2020, 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 21, 10 Eagle Street
Brisbane Qld 4000

Australia: 1800 779 639
International: +61 1800 779 639
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:

2020	
Financial full year end	31 August 2020
Full year results and dividend announcement	14 October 2020
Full year ex-dividend date	4 November 2020
Full year dividend record date	5 November 2020
Full year dividend payment date	25 November 2020
Annual General Meeting	8 December 2020

GLOSSARY

TERM	DESCRIPTION
APRA Prudential Standard (**APS**)	Prudential standards issued by APRA which are applicable to ADIs.
Australian Accounting Standards Board (**AASB**)	The AASB produces a series of technical pronouncements that set out the measurement and recognition requirements when accounting for particular types of transactions and events, along with the preparation and presentation requirements of an entity's financial statements.
Australian Finance Industry Association (**AFIA**)	AFIA is the national association for the equipment leasing and financing industry. Formerly Australian Equipment Lessors Association.
Australian Prudential Regulation Authority (**APRA**)	APRA is the prudential regulator of the Australian financial services industry. APRA is an independent statutory authority that supervises institutions across banking, insurance and superannuation and promotes financial system stability in Australia.
Australian Securities And Investments Commission (**ASIC**)	ASIC is Australia's corporate, markets and financial services regulator.
Australian Securities Exchange (**ASX**)	Australian Securities Exchange or ASX Limited (ABN 98 008 624 691) and the market activities operated by ASX Limited.
Authorised deposit-taking institution (**ADI**)	A corporation which is authorised under the *Banking Act 1959* and includes banks, building societies and credit unions.
Available stable funding (**ASF**)	ASF is the portion of capital and liabilities expected to be reliable over the time horizon considered by the NSFR, which extends to one year.
Average interest earning assets	Average balance over the period for a bank's assets that accrue interest income.
Bank of Queensland Limited (**the Bank** or **BOQ**)	The Bank is a for-profit entity primarily involved in providing retail banking, leasing finance and insurance products to its customers.
Basel II and III	A global regulatory framework to improve the regulation, supervision and risk management within the banking system developed by the Basel Committee on Banking Supervision.
Basis points (**bps**)	One per cent of one per cent (0.01 per cent).
Capital Notes (**BOQPE**)	Capital Notes are perpetual, convertible, unguaranteed and unsecured notes issued by BOQ, with preferred, discretionary, non-cumulative distributions. Capital Notes may convert into common shares in certain circumstances as described in the offer documentation of the notes.
Cash earnings	Cash Earnings is a non-accounting standards measure commonly used in the banking industry to assist in presenting a clear view of underlying earnings.
Committed liquidity facility (**CLF**)	The RBA provides a CLF to certain ADIs as part of Australia's implementation of the Basel III liquidity standards. The facility is designed to ensure that participating ADIs have enough access to liquidity to respond to an acute stress scenario, as specified under the relevant APS.
Common equity tier 1 (**CET1**)	Capital that is recognised as the highest quality component of capital under APS.
Common equity tier 1 ratio (**CET1 ratio**)	CET1 capital divided by total RWA calculated in accordance with relevant APS.
Consolidated Entity (**the Group**)	BOQ and its subsidiaries
Coronavirus disease (**COVID-19**)	The Coronavirus decease that was declared as a global pandemic on 11 March 2020.
Corporations Act 2001	The *Corporations Act 2001* (Cth)
Corporation Regulations 2001	The *Corporations Regulations 2001* made under the *Corporations Act 2001* (Cth)
Cost to income ratio (**CTI**)	Operating expenses divided by net operating income.
Covered bond guarantor	Perpetual Corporate Trust Limited ABN 99 000 341 533, incorporated with limited liability in the Commonwealth of Australia and having its registered office at Level 18, 123 Pitt Street, Sydney, NSW 2000, as trustee of the BOQ Covered Bond Trust (the Trustee).
Days past due (**dpd**)	A loan or lease payment that has not been made by a customer by the due date.
Dividend payout ratio	Dividends paid on ordinary shares divided by earnings.
Dividend reinvestment plan (**DRP**)	A plan which provides shareholders with the opportunity to convert all or part of their entitlement to a dividend into new shares.
Dividend yield	Dividend shown as a percentage of the share price.
Earnings per share (**EPS**)	Measure of earnings attributed to each equivalent ordinary share over a twelve month period. This is calculated by dividing the company's earnings by the weighted average number of shares on issue in accordance with AASB 133 *Earnings per share*.
Effective tax rate	Income tax expense divided by profit before tax.
Equipment hire purchase trust (**EHP trust**)	EHP trust under the REDS securitisation program, issuing asset backed securities to the term market.
Euro-Commercial Paper (**ECP**)	ECP is an offshore short term commercial paper program.
Euro Medium Term Note (**EMTN**)	EMTN is an offshore medium term note program.
Expected Credit Loss (**ECL**)	Estimated credit losses using a forward looking impairment methodology accounted for in accordance with AASB 9 Financial Instruments.
Fair value through other comprehensive income (**FVOCI**)	Measurement and classification of financial assets under AASB 9 *Financial Instruments*. FVOCI include gains or losses arising from changes in the fair value of contractual cash flows.
Fair value through profit or loss (**FVTPL**)	Measurement and classification of financial assets under AASB 9 *Financial Instruments*. FVTPL include financial assets that are held for trading.
Full time equivalent (**FTE**)	A calculation based on number of hours worked by full and part time employees as part of their normal duties.
General reserve for credit losses (**GRCL**)	An estimate of the reasonable and prudent expected credit losses over the remaining life of the portfolio and on non-defaulted assets, not covered by provisions for impairment.

GLOSSARY

TERM	DESCRIPTION
Gross loans and advances (**GLA**)	Gross loans and advances is the principal amount of loans and advances provided, gross of provisions and deferred fee income and including any accrued interest.
High Quality Liquid Assets (**HQLA1**)	Comprises of the Bank's notes and coins and marketable securities representing claims on or guaranteed by the Australian Government or Semi-Government authorities.
Impaired assets	Exposures that have deteriorated to the point where full collection of principal and interest is in doubt.
Interest bearing liabilities	The Bank's liabilities that accrue interest expense.
International Accounting Standards Board (**IASB**)	Independent, private-sector body that develops and approves International Financial Reports Standards.
International Financial Reporting Standards (**IFRS**)	IFRS produces a series of globally accepted accounting standards for accounting for particular types of transactions and events.
International Panel on Climate Change (**IPCC**)	IPCC is the United Nations body charged with overseeing climate change and publishing the global climate models' (including RCP's).
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 HQLA1 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.
Net interest margin (**NIM**)	Net interest income divided by average interest-earning assets.
Net stable funding ratio (**NSFR**)	The NSFR is defined as the amount of ASF relative to the amount of required stable funding. This ratio should be equal to at least 100% on an on-going basis. ASF is defined as the portion of capital and liabilities expected to be reliable over the time horizon considered by the NSFR, which extends to one year. The amount of such stable funding required of a specific institution is a function of the liquidity characteristics and residual maturities of the various assets held by that institution as well as those of its off-balance sheet exposures.
Net tangible assets (NTA)	Net tangible assets are calculated as the total assets of a company minus any intangible assets such as goodwill, less all liabilities and the par value of preferred stock.
Non-interest earning assets	The Bank's assets that do not accrue interest income.
Owner-managed Branch (**OMB**)	A branch which is run by a franchisee.
REDS	Term to describe the BOQ securitisation programmes.
Representative Concentration Pathway (**RCP**)	RCP are physical climate scenario's set by the IPCC (with the assistance of the global scientific community).
Required stable funding (**RSF**)	RSF is an input to the calculation of the NSFR for bank prudential management purposes. A bank's RSF is calculated from its assets, weighted according to their maturity, credit quality and liquidity, together with an amount in relation to off balance sheet commitments.
Reserve Bank of Australia (**RBA**)	Australia's central bank and drives its functions and powers from the *Reserve Bank Act 1959*.
Residential mortgage backed securities (**RMBS**)	BOQ's securitisation program which enables the trustee to issue debt securities backed by assets originated by the Group such as mortgages and equipment finance receivables.
Return on average equity (**ROE**)	Net profit attributable to the owners of the Bank divided by average ordinary equity.
Return on average tangible equity (**ROTE**)	Net profit attributable to the owners of the Bank divided by average ordinary equity less goodwill and identifiable intangible assets.
Right-of-use (**ROU**) asset	The right-of-use asset is a lessee's right to use an asset over the life of a lease.
Risk weighted assets (**RWA**)	A quantitative measure of various risks including credit, operational, market and securitisation as defined by APS.
Significant Increase in Credit Risk (**SICR**)	SICR is a significant change in the estimated risk of default over the remaining expected life of the financial asset. SICR is assessed by comparing the risk of a default occurring over the expected life of a financial asset at the reporting date compared to the corresponding risk of default at origination.
Small and Medium Enterprises (**SME**)	SME are businesses whose personnel numbers fall below certain limits.
Term Funding Facility (**TFF**)	Funding Facility for authorised deposit-taking institutions established by the RBA to support the Australian economy.
Total capital adequacy ratio	Total capital divided by total RWA calculated in accordance with relevant APS.
Treasury shares	Shares that the Bank has issued but are held by a trust included within the Bank's consolidated results. Treasury shares are not considered shares outstanding and are not included in 'per share' calculations.
Virgin Money Australia (**VMA** or **Virgin Money**)	Virgin Money (Australia) 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 life (**WAL**)	Is the average length of time for the principal on a loan to be paid in full.
Weighted average number of shares (**WANOS**)	Calculated in accordance with AASB 133 *Earnings per share*.
Wholesale Capital Notes (**WCN**)	WCNs are notes that may convert into common shares in certain circumstances as described in the offer documentation of the notes.

Bank of Queensland Limited
ABN 32 009 656 740

BOQ

2020 Annual Report