BOQ Investor Information

2021 HALF YEAR RESULTS

Incorporating the requirements of Appendix 4D

BOQ GROUP

BOQ GROUP - 2021 HALF YEAR RESULTS

ASX APPENDIX 4D

FOR THE HALF YEAR PERIOD ENDED 28 FEBRUARY 2021

RESULTS FOR ANNOUNCEMENT TO THE MARKET [1]

				$m
Revenues from ordinary activities [2]	Up	6%	to	577
Profit from ordinary activities after tax attributable to members [2]	Up	66%	to	154
Profit for the period attributable to members [2]	Up	66%	to	154

Dividends	Record Date	Paid or payable on	Amounts per security
ORDINARY SHARES (BOQ)			
Full year ordinary dividend – fully franked	5 November 2020	25 November 2020	12 cents
Interim ordinary dividend – fully franked	6 May 2021	26 May 2021	17 cents
CAPITAL NOTES (BOQPE)			
November 2020 BOQPE distribution – fully franked	30 October 2020	16 November 2020	67.19 cents
February 2021 BOQPE distribution – fully franked	29 January 2021	15 February 2021	65.79 cents
May 2021 BOQPE distribution – fully franked [3]	29 April 2021	17 May 2021	65.62 cents
CAPITAL NOTES 2 (BOQPF)			
February 2021 BOQPF distribution – fully franked	29 January 2021	15 February 2021	56.41 cents
May 2021 BOQPF distribution – fully franked [3]	29 April 2021	17 May 2021	66.49 cents

(1) Rule 4.2A.3. Refer to *Appendix 6.1* for the cross reference index for *ASX Appendix 4D*.
(2) On prior corresponding period (six months ended 29 February 2020). Based on statutory profit results.
(3) Expected dates and values only. The payment of any distribution is subject to the terms of the Capital Notes (**BOQPE**) and Capital Notes 2 (**BOQPF**).

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BOQ GROUP - 2021 HALF YEAR RESULTS

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.

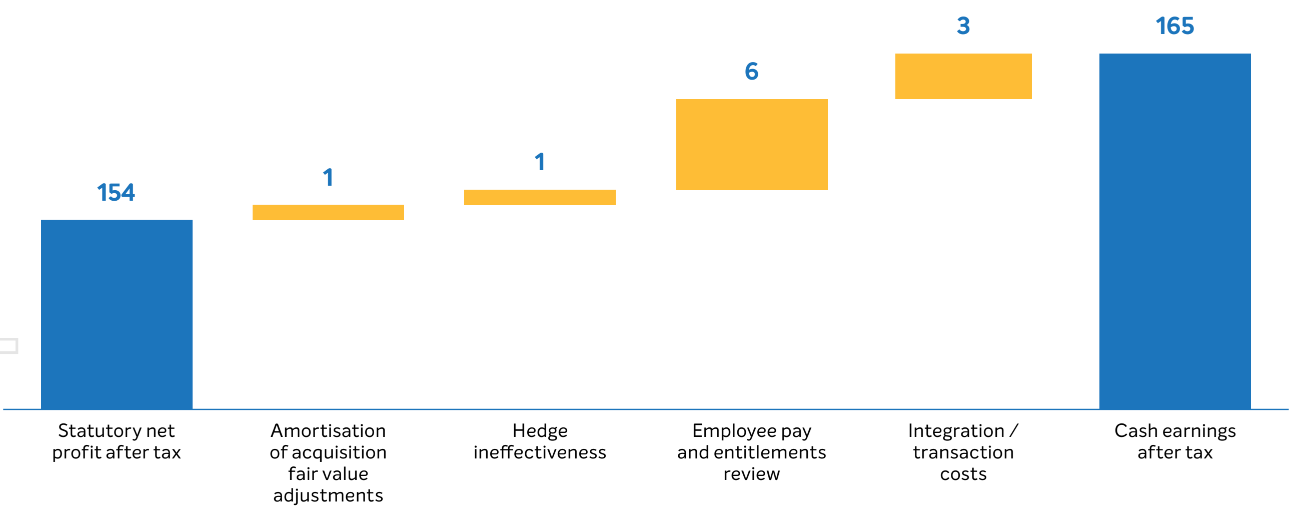
Figures disclosed in this report are on a cash earnings basis unless stated as being on a statutory profit basis. The non-statutory measures have not been subject to an independent audit or review.

Cash earnings 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;
- Employee pay and entitlements review - costs associated with the employee pay remediation program; and
- Integration / transaction costs – costs associated with the acquisition of Members Equity Bank Limited (**ME Bank**).

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



BOQ GROUP - 2021 HALF YEAR RESULTS

1.1 RECONCILIATION OF STATUTORY PROFIT TO CASH EARNINGS (CONTINUED)

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

	Half Year Performance				
$ million	Feb-21	Aug-20	Feb-20	Feb-21 vs Aug-20	Feb-21 vs Feb-20
Cash earnings after tax	165	74	151	123%	9%
Amortisation of acquisition fair value adjustments	(1)	(2)	(2)	(50%)	(50%)
Hedge ineffectiveness	(1)	(7)	(3)	(86%)	(67%)
Integration / transaction costs	(3)	-	-	100%	100%
Intangible asset review	-	(25)	(32)	(100%)	(100%)
Restructure	-	(8)	(15)	(100%)	(100%)
Regulatory / compliance	-	(3)	(2)	(100%)	(100%)
Employee pay and entitlements review	(6)	(8)	-	(25%)	100%
Other legacy items	-	1	(4)	(100%)	(100%)
Statutory net profit after tax	154	22	93	600%	66%

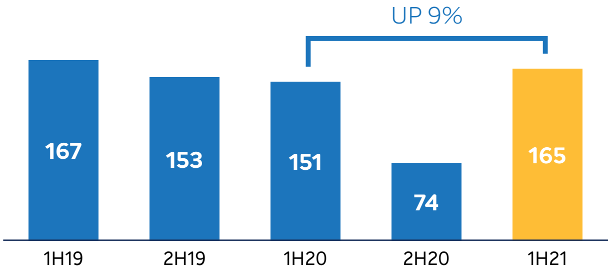
(B) NON-CASH EARNINGS RECONCILING ITEMS

$ million	Cash earnings Feb-21	Virgin Money Australia	Amortisation of acquisition fair value adjustments	Hedge ineffectiveness	Integration / transaction costs	Employee pay and entitlements review	Statutory net profit Feb-21
Net interest income	512	-	-	-	-	-	512
Non-interest income	57	9	-	(1)	-	-	65
Total income	569	9	-	(1)	-	-	577
Operating expenses	(306)	(9)	(2)	-	(3)	(10)	(330)
Underlying profit	263	-	(2)	(1)	(3)	(10)	247
Loan impairment expense	(24)	-	-	-	-	-	(24)
Profit before tax	239	-	(2)	(1)	(3)	(10)	223
Income tax expense	(74)	-	1	-	-	4	(69)
Profit after tax	165	-	(1)	(1)	(3)	(6)	154

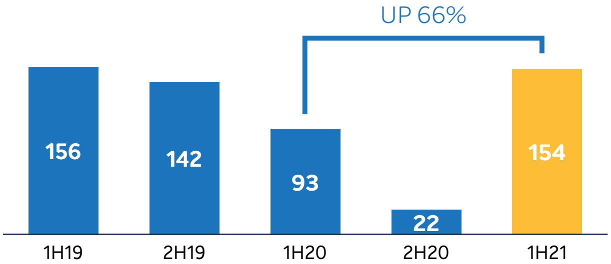
BOQ GROUP - 2021 HALF YEAR RESULTS

1.2 FINANCIAL SUMMARY

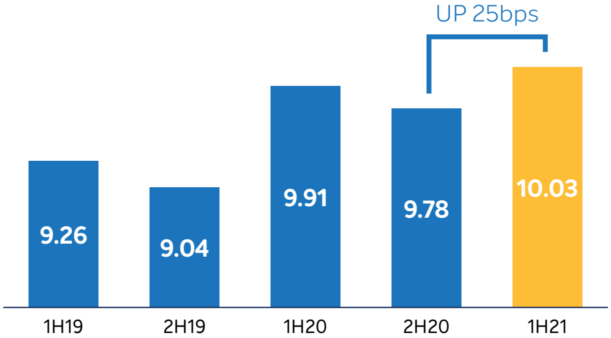
Cash earnings after tax ($m)



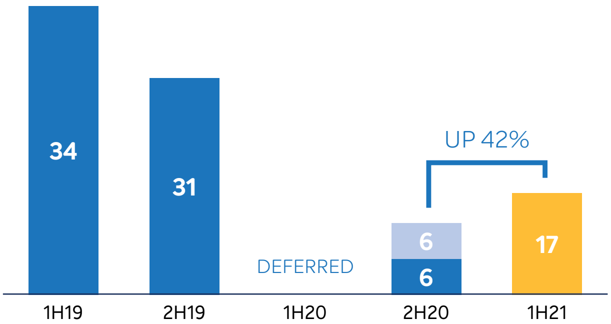
Statutory net profit after tax ($m)



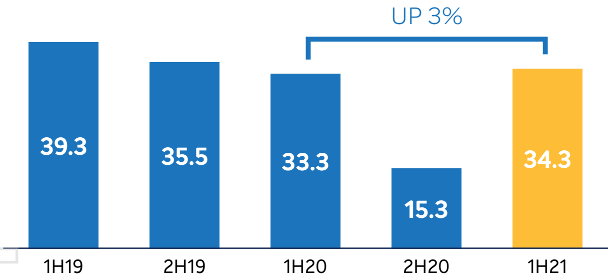
Common equity tier 1 (**CET1**) (%)



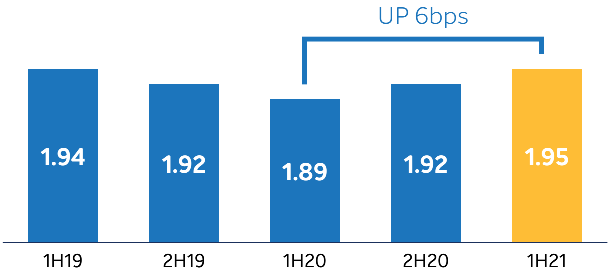
Dividends per ordinary share (cents) [(1)]



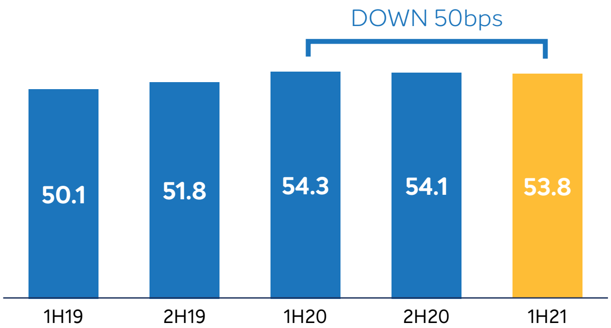
Cash basic earnings per share (**EPS**) (cents) [(2)]



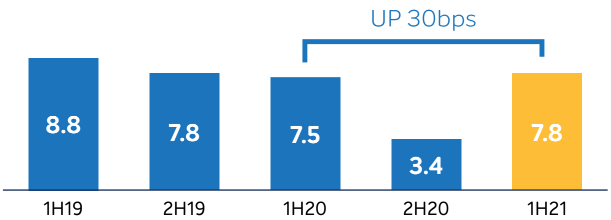
Cash net interest margin (**NIM**) (%)



Cash cost to income (**CTI**) (%) [(3)]



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 in 1H20. Refer to BOQ Australian Securities Exchange (**ASX**) Release "BOQ FY20 Interim Dividend Deferral", 8 April 2020.

(2) The basic and diluted earnings per share for all prior periods have been adjusted for the effects of the Group's capital raise in March 2021.

(3) Includes a restatement of employee costs from loan impairment expense to operating expenses of $2 million in 1H20 and $3 million in 2H20.

BOQ GROUP - 2021 HALF YEAR RESULTS

1.2 FINANCIAL SUMMARY (CONTINUED)

CASH EARNINGS AFTER TAX

$165m

Increase of nine per cent on 1H20, driven by solid income growth and lower impairment expense.

CASH NET INTEREST MARGIN

1.95%

Increase of six basis points on 1H20, driven by funding cost benefits and lower hedging costs.

CASH OPERATING EXPENSES

$306m

Increase of four per cent on 1H20, driven by investments in strategic technology projects and supporting business growth.

LOAN IMPAIRMENT EXPENSE

$24m

Represents 10 basis points / Gross loans and advances (**GLA**), which is two basis points lower than 1H20.

CET1

10.03%

Increase of 25 basis points on 2H20, driven by organic capital generation and a lower FY20 dividend payment.

CASH ROE

7.8%

Increase of 30 basis points on 1H20, driven by higher earnings.

BOQ's cash earnings after tax for 1H21 was $165 million, nine per cent higher than the 1H20 result. Statutory net profit after tax was $154 million, a 66 per cent increase on 1H20. The increase in cash earnings was the result of increased net interest income and lower loan impairment expense, partly offset by higher operating expenses. Higher statutory earnings were driven by restructuring expenses and costs associated with the intangible asset review in 1H20 not recurring this half.

The novel coronavirus (**COVID-19**) pandemic continued to impact in 1H21, however the outlook is now more positive. The focus has been on our customers, and lending growth to support the economic recovery.

On 22 February 2021, BOQ entered into an agreement to acquire 100 per cent of ME Bank. Completion of the acquisition is expected in 2H21. The 1H21 financial results do not include any impacts of this, other than a small amount of transaction costs and an adjustment for basic and diluted EPS, relating to a capital raise to fund the acquisition.

NET INTEREST INCOME

Net interest income of $512 million increased by $29 million or six per cent on 1H20. This was driven by three per cent growth in average interest earning assets together with an increase of six basis points in net interest margin to 1.95 per cent.

GLA growth of five per cent (annualised) on 2H20 was primarily driven by home lending, which achieved annualised growth of six per cent. This reflected strong lending volumes and a return to growth in the BOQ Retail Banking housing portfolio after a period of decline. The business lending portfolio grew two per cent (annualised) despite challenging market conditions.

NIM increased six basis points on 1H20 and three basis points on 2H20. This was primarily driven by lower funding costs due to the benefit from deposit repricing actions and improved mix, together with lower hedging costs. These were partially offset by the ongoing impact of a low interest rate environment on the returns on capital and the low cost deposit portfolio and competitive acquisition prices in lending.

NON-INTEREST INCOME

Non-interest income of $57 million decreased by $1 million or two per cent on 1H20. This was driven by lower insurance income with the material closure of St Andrew's to new business in FY20 and ongoing impacts of COVID-19 on Virgin Money Australia (**VMA**) third party product distribution income, offset by one-off income from a new card services arrangement with a third party supplier.

OPERATING EXPENSES

Total operating expenses of $306 million increased by $12 million or four per cent and cost to income (**CTI**) improved by 50 basis points on 1H20. The operating expense increase was primarily driven by investments in strategic technology projects including VMA digital transformation and to support an increase in lending volumes. Underlying expenses, excluding these uplifts, were up by less than two per cent on 1H20.

LOAN IMPAIRMENT EXPENSE

Loan impairment expense of $24 million decreased by 14 per cent on 1H20 and loan impairment expense to GLAs decreased by two basis points to 10 basis points. This included a small decrease in the collective provision of $4 million reflecting an improvement in the underlying economic forecast compared to the previous half, partly offset by adjustments to management overlays. Specific provisions were higher than 1H20 reflecting reduced residential property values in some regional areas of Australia, partly offset by the favourable impact of COVID-19 support measures including loan deferrals and government stimulus packages.

CAPITAL MANAGEMENT

BOQ CET1 ratio of 10.03 per cent remains well capitalised to withstand shocks from prevailing economic uncertainty, whilst continuing to invest and grow assets. This was an increase of 25 basis points from 2H20, primarily driven by underlying capital generation of 28 basis points with an increase in cash earnings and a lower dividend for FY20 in line with guidance from the Australian Prudential Regulation Authority (**APRA**). At 10.03 per cent, there is a significant buffer above the upper end of the management target range of 9.0 per cent to 9.5 per cent. Following the capital raise announced on 22 February, the net proceeds are expected to increase CET1 ratio by over 400 basis points, which will be maintained until completion of the acquisition of ME Bank.

SHAREHOLDER RETURNS

On 29 July 2020, APRA provided a letter to all authorised deposit-taking institutions (**ADIs**) and Insurers regarding capital management. APRA advised that they expected ADIs and insurers to maintain caution in planning capital distributions. BOQ therefore paid a dividend of 12 cents, which represented 47.4 per cent of full year statutory earnings for FY20. Further guidance was issued on 15 December 2020 where APRA advised that ADIs and insurers are expected to maintain a prudent approach to capital management and dividend payouts. BOQ has determined to pay an interim ordinary dividend of 17 cents per share, which is 65.9 per cent of half year cash earnings. The Board is targeting a dividend payout ratio of 60-75 per cent of full year cash earnings for FY21.

BOQ GROUP - 2021 HALF YEAR RESULTS

2. GROUP PERFORMANCE ANALYSIS

2.1 INCOME STATEMENT AND KEY METRICS

	Half Year Performance				
$ million	**Feb-21**	Aug-20	Feb-20	Feb-21 vs Aug-20	Feb-21 vs Feb-20
Net interest income	**512**	503	483	2%	6%
Non-interest income	**57**	52	58	10%	(2%)
Total income	**569**	555	541	3%	5%
Operating expenses[1]	**(306)**	(300)	(294)	2%	4%
Underlying profit	**263**	255	247	3%	6%
Loan impairment expense[1]	**(24)**	(147)	(28)	(84%)	(14%)
Profit before tax	**239**	108	219	121%	9%
Income tax expense	**(74)**	(34)	(68)	118%	9%
Cash earnings after tax	165	74	151	123%	9%
Statutory net profit after tax[2]	154	22	93	600%	66%

(1) Includes a restatement of employee costs from loan impairment expense to operating expenses of $2 million in 1H20 and $3 million in 2H20.
(2) 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.

		Half Year Performance				
Key metrics		**Feb-21**	Aug-20	Feb-20	Feb-21 vs Aug-20	Feb-21 vs Feb-20
SHAREHOLDER RETURNS						
Share price	($)	**8.79**	6.13	7.49	43%	17%
Market capitalisation	($ million)	**4,004**	2,785	3,403	44%	18%
Dividends per ordinary share (fully franked)[1]	(cents)	**17**	12	-	42%	n/a
CASH EARNINGS BASIS						
Basic earnings per share (**EPS**)[2]	(cents)	**34.3**	15.3	33.3	124%	3%
Diluted EPS[2]	(cents)	**31.8**	14.5	30.5	119%	4%
Dividend payout ratio[1][3]	(%)	**65.9**	24.2	-	large	large
STATUTORY BASIS						
Basic EPS[2]	(cents)	**31.8**	4.6	20.4	591%	56%
Diluted EPS[2]	(cents)	**29.6**	5.2	19.4	469%	53%
Dividend payout ratio[1][3]	(%)	**70.6**	47.4	-	large	large

(1) Based on APRA correspondence issued on 15 December 2020, BOQ has determined to pay a dividend of 17 cents per share, which represents 65.9 per cent of half year cash earnings. The dividend of 12 cents in 2H20 represented 6 cents per share from 1H20 profits and 6 cents per share from 2H20 profits, following the decision to defer the dividend in 1H20. The dividend of 12 cents represented 24.2 per cent of full year cash earnings and 47.4 per cent of full year statutory earnings.
(2) The basic and diluted earnings per share for all prior periods have been adjusted for the effects of the Group's capital raise in March 2021.
(3) The dividend payout ratio is based on shares on issue at 28 February 2021 and the Group's capital raise in March 2021.

BOQ GROUP - 2021 HALF YEAR RESULTS

2.1 INCOME STATEMENT AND KEY METRICS (CONTINUED)

Key metrics		Half Year Performance Feb-21	Aug-20 (1)	Feb-20 (1)	Feb-21 vs Aug-20	Feb-21 vs Feb-20
PROFITABILITY AND EFFICIENCY MEASURES						
CASH EARNINGS BASIS						
Net profit after tax	($ million)	**165**	74	151	123%	9%
Underlying profit (2)	($ million)	**263**	255	247	3%	6%
NIM (3)	(%)	**1.95**	1.92	1.89	3bps	6bps
CTI	(%)	**53.8**	54.1	54.3	(30bps)	(50bps)
Loan Impairment expense to GLA	(bps)	**10**	62	12	(52bps)	(2bps)
Return on average equity (**ROE**)	(%)	**7.8**	3.4	7.5	440bps	30bps
Return on average tangible equity (**ROTE**) (4)	(%)	**9.9**	4.3	9.8	560bps	10bps
STATUTORY BASIS						
Net profit after tax	($ million)	**154**	22	93	600%	66%
Underlying profit (2)	($ million)	**247**	180	165	37%	50%
NIM (3)	(%)	**1.95**	1.92	1.89	3bps	6bps
CTI	(%)	**57.2**	67.1	69.7	(990bps)	large
Loan impairment expense to GLA	(bps)	**10**	62	12	(52bps)	(2bps)
ROE	(%)	**7.2**	1.0	4.6	620bps	260bps
ROTE (4)	(%)	**9.2**	1.3	6.0	790bps	320bps
ASSET QUALITY						
30 days past due (**dpd**) arrears	($ million)	**575**	567	525	1%	10%
90 dpd arrears	($ million)	**381**	433	291	(12%)	31%
Impaired assets	($ million)	**194**	195	196	(1%)	(1%)
Specific provisions to impaired assets	(%)	**53**	48	43	500bps	large
Total provision and general reserve for credit losses (**GRCL**) coverage / GLA	(bps)	**95**	98	69	(3bps)	26bps
CAPITAL						
CET1 ratio	(%)	**10.03**	9.78	9.91	25bps	12bps
Total capital adequacy ratio	(%)	**13.83**	12.73	13.21	110bps	62bps
Risk weighted assets (**RWA**) (5)	($ million)	**32,126**	31,576	31,164	4%	3%

(1) Includes a restatement of employee costs from loan impairment expense to operating expenses of $2 million in 1H20 and $3 million in 2H20.
(2) Profit before loan impairment expense and tax.
(3) NIM is calculated 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).
(5) Growth rates have been annualised.

BOQ GROUP - 2021 HALF YEAR RESULTS

2.2 NET INTEREST INCOME

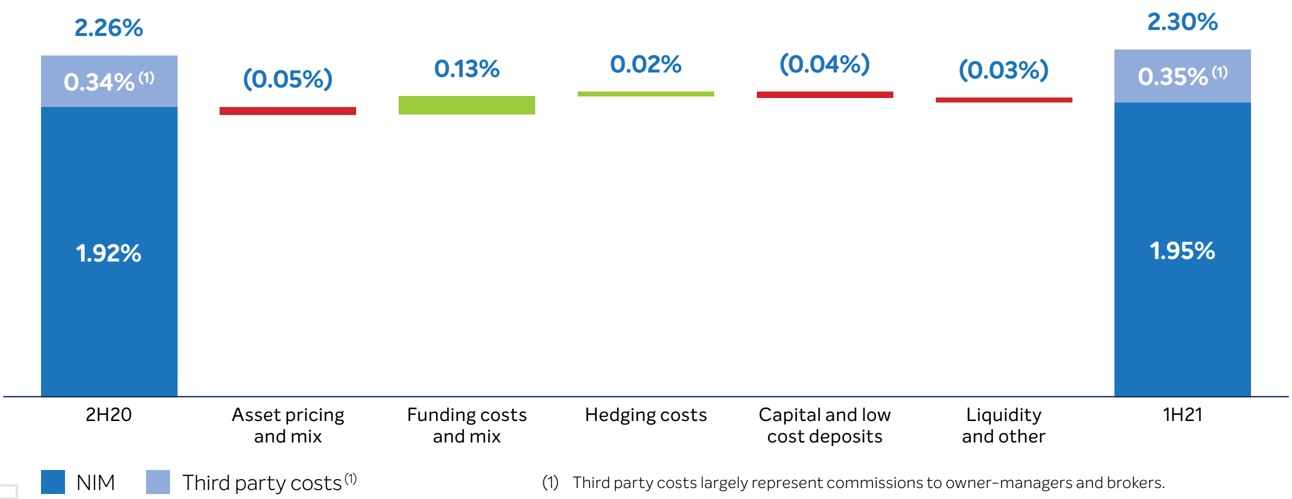
$ million	Half Year Performance Feb-21	Aug-20	Feb-20	Feb-21 vs Aug-20	Feb-21 vs Feb-20
Net interest income	**512**	503	483	2%	6%
Average interest earning assets	**52,952**	51,926	51,407	2%	3%
NIM	**1.95**	1.92	1.89	3bps	6bps

Net interest income increased by $29 million or six per cent on 1H20 driven by three per cent growth in average interest earnings assets and a six basis points increase in NIM.

1H21 net interest income also increased $9 million or two per cent on 2H20 driven by two per cent growth in average interest earnings assets and a three basis points increase in NIM, partly offset by three fewer days which would have contributed $8 million.

NIM increased by three basis points on 2H20 driven by the benefit from deposit repricing actions and lower hedging and wholesale funding costs. The ongoing impact of competition for new housing on front book rates, retention discounting and a switch from variable to fixed rate loans was partly offset by the benefit of loan repricing. The ongoing interest rate environment continued to adversely impact the returns on capital and the low cost deposit portfolio.

Net interest margin – August 2020 to February 2021



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

NIM increased by three basis points on 2H20 to 1.95 per cent. The key drivers of the movement are set out below.

Asset pricing and mix: Reduced margin by five basis points on 2H20. Competition for new home loans through more attractive front book rates and retention discounting, together with increased flows into lower margin fixed rate lending reduced margin by six basis points. A further one basis point reduction came from lower front book rates on commercial lending. Partially offsetting this was two basis points of benefit from repricing.

Funding costs and mix: Improved margin by 13 basis points primarily as a result of repricing at-call, retail term deposit and money market portfolios together with an improvement in portfolio mix as at-call growth continued while more expensive term deposit funding was run-off. Margin also benefitted by one basis point due to the utilisation of the Term Funding Facility (**TFF**) for the full period.

Hedging costs: Improved margin by two basis points due to lower basis costs as cash-bills spreads decreased from an average of 17 basis points in 2H20 to one basis point in 1H21.

Capital and low cost deposits: Reduced margin by four basis points as the low market rate environment continued to impact the $4.9 billion replicating portfolio (covering BOQ's capital and invested low cost deposits), uninvested capital and low cost deposits.

Liquidity and other: Reduced margin by three basis points as the continued strong growth in the retail deposit portfolio resulted in higher average liquidity balances with minimal impact to net interest income.

Third party costs: Increased owner-manager commissions and higher amortised costs were driven by higher NIM and loan growth and the conversion of branches from corporate to owner-manager.

BOQ GROUP - 2021 HALF YEAR RESULTS

2.3 NON-INTEREST INCOME

	Half Year Performance				
$ million	**Feb-21**	Aug-20	Feb-20	Feb-21 vs Aug-20	Feb-21 vs Feb-20
Banking income	**35**	33	36	6%	(3%)
Insurance income	**4**	5	6	(20%)	(33%)
Other income (1)	**16**	11	14	45%	14%
Trading income	**2**	3	2	(33%)	-
Total non-interest income (2)	57	52	58	10%	(2%)

(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 $57 million decreased by $1 million or two per cent on 1H20 and increased by $5 million on 2H20 which was significantly impacted by COVID-19. COVID-19 continues to impact several transaction fee categories, notably those related to travel.

Banking income decreased by $1 million on 1H20 reflecting an ongoing shift in customer preference to low or no fee products. 1H21 income recovered off the back of lower 2H20, which was impacted by COVID-19 including reduced transaction and dishonour fee income, removal of certain fee charges and reduced transaction volumes. This has partially recovered in 1H21 and banking income also benefitted from higher income in the Financial Markets business.

Other income increased by $2 million or 14 per cent on 1H20 and was $5 million higher than 2H20. The increase in 1H21 was mainly due to income from a new card services arrangement with a third party supplier and associated one-off benefit of $3 million. VMA third party product distribution income, which was impacted in 2H20 by COVID-19 due to the slowing of the travel industry, benefitted from slightly higher credit card income, although was still down on 1H20.

Trading income of $2 million was in line with 1H20. This was supported by active management of credit and interest rate exposure allowing BOQ to benefit from contracting credit spreads as market liquidity conditions continued to improve in 1H21 following the initial COVID-19 impact.

Insurance income is discussed in detail in Section 2.4 below.

2.4 INSURANCE OVERVIEW

	Half Year Performance				
$ million	**Feb-21**	Aug-20	Feb-20	Feb-21 vs Aug-20	Feb-21 vs Feb-20
Gross written premium (net of refunds)	**23**	24	25	(4%)	(8%)
Net earned premium	**21**	24	26	(13%)	(19%)
Underwriting result	**4**	4	5	-	(20%)
Other insurance income	**-**	-	1	-	(100%)
Total income	**4**	4	6	-	(33%)
Consolidation adjustment	**-**	1	-	(100%)	-
Group insurance result	4	5	6	(20%)	(33%)

St Andrew's contributed $4 million to non-interest income in 1H21, a decrease of $2 million or 33 per cent on 1H20. This was consistent with the decision to materially close to new business in 1H20.

Gross written premium (net of refunds) declined $2 million against 1H20. The underwriting result was also $1 million lower compared to 1H20 with reduced net earned premium partly offset by reduced commission and acquisition costs. Other insurance income was impacted by reduced yields on term deposits and no account management service fees, which ceased in 1H20. With the exception of term deposit yields which are market driven, these trends are consistent with the decision to close to new business.

The services and the interests of existing policyholders remain a priority for BOQ while preparation for the sale and divestment of St Andrew's progresses. The sale is expected to complete in 2H21.

BOQ GROUP - 2021 HALF YEAR RESULTS

2.5 OPERATING EXPENSES

	Half Year Performance				
$ million	Feb-21	Aug-20 (1)	Feb-20 (1)	Feb-21 vs Aug-20	Feb-21 vs Feb-20
Salaries and on costs	151	134	135	13%	12%
Employee share programs and other	6	7	7	(14%)	(14%)
EMPLOYEE EXPENSES	157	141	142	11%	11%
Data processing	59	60	57	(2%)	4%
Amortisation - intangible assets	17	21	18	(19%)	(6%)
Depreciation - fixed assets	-	1	-	(100%)	-
TECHNOLOGY EXPENSES	76	82	75	(7%)	1%
Marketing	6	9	8	(33%)	(25%)
Commissions to owner-managed branches (**OMB**)	2	3	2	(33%)	-
Communications, print and stationery	10	9	11	11%	(9%)
Processing costs	7	7	6	-	17%
Other	11	14	14	(21%)	(21%)
OPERATIONAL EXPENSES	36	42	41	(14%)	(12%)
Depreciation - right-of-use assets and lease expenses	14	14	13	-	8%
Depreciation - fixed assets	5	5	5	-	-
Other	1	1	1	-	-
OCCUPANCY EXPENSES	20	20	19	-	5%
Professional fees	10	9	12	11%	(17%)
Directors' fees	1	1	1	-	-
Other	6	5	4	20%	50%
ADMINISTRATION EXPENSES	17	15	17	13%	-
Total operating expenses (2)	306	300	294	2%	4%
CTI	53.8	54.1	54.3	(30bps)	(50bps)
Number of employees (**FTE**) (3)	2,146	2,021	2,013	6%	7%

(1) Includes a restatement of employee costs from loan impairment expense to operating expenses of $2 million in 1H20 and $3 million in 2H20.
(2) Refer to Section 1.1 (B) Non-cash earnings reconciling items for a reconciliation of cash operating expenses to statutory operating expenses.
(3) FTE numbers and operating expenses exclude VMA third party costs as the net result is included in non-interest income. Expenses relating to the VMA mortgage offering have been included in the above table.

SUMMARY

Total operating expenses of $306 million increased by $12 million or four per cent on 1H20. This increase was primarily driven by investments in strategic technology projects, including the VMA digital transformation, and to support an increase in lending volumes. Underlying operating expenses were up by less than two per cent on 1H20.

EMPLOYEE EXPENSES

Employee expenses of $157 million increased by $15 million or 11 per cent on 1H20 largely driven by investments in strategic technology projects, including the VMA digital transformation, to support an increase in lending volumes and to provide support to customers impacted by COVID-19. Expenses increased 11 per cent on 2H20, which benefitted from lower short term incentives and annual leave provisions to mitigate for COVID-19.

FTEs at 28 February 2021 increased by seven per cent on 1H20 primarily as a result of additional FTEs for the VMA digital transformation, to support an increase in lending volumes, to provide support to customers impacted by COVID-19 and the conversion of contractors to permanent employees.

TECHNOLOGY EXPENSES

Technology expenses of $76 million increased by $1 million or one per cent on 1H20. The increase was mainly driven by investments in the VMA digital transformation and other strategic technology projects, partly offset by a reduction in spend on risk and regulatory projects and the non-recurrence of costs incurred in the prior year on the transition of data centres.

Amortisation expense of $17 million decreased by $1 million or six per cent on 1H20 as the level of newly amortising assets was less than the level of assets becoming fully amortised.

BOQ GROUP - 2021 HALF YEAR RESULTS

2.5 OPERATING EXPENSES (CONTINUED)

OPERATIONAL EXPENSES

Operational expenses of $36 million decreased by $5 million or 12 per cent on 1H20. The primary drivers were lower discretionary expenditure as a result of COVID-19, including marketing and travel and entertainment. These reductions more than offset additional consumables and other costs associated with COVID-19.

ADMINISTRATION EXPENSES

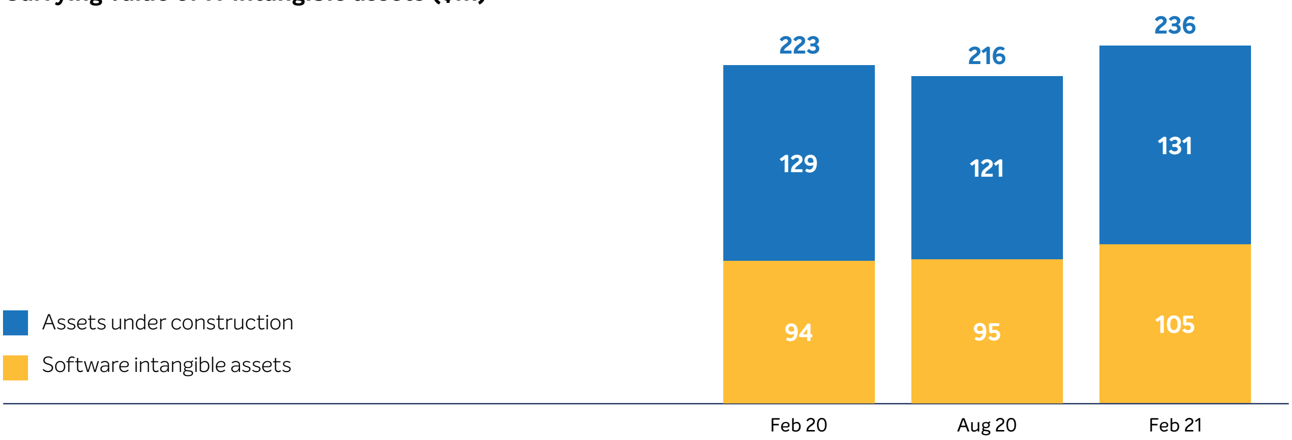
Administration expenses of $17 million were in line with 1H20. This reflected an increase in group insurance costs offset by a reduction in the costs of consulting support for risk and regulatory projects.

2.6 CAPITALISED INVESTMENT EXPENDITURE

BOQ's comprehensive digital transformation plan continues. Phase 1 of building a next generation core platform through VMA to provide an enhanced customer experience has launched to the market. This delivers transaction accounts, savings accounts and credit cards, while Phase 2, also underway, will expand the VMA offering to include term deposits and lending.

In 2H21 the carrying value of intangible assets is expected to increase further, reflecting commencement of BOQ's Enterprise Data Management Platform and building the digital capability to transform the Retail Bank. This foundational investment aligns to BOQ's digital transformation strategy, which will provide our customers with better access to our products and services through easy to use digital experiences that are oriented around their needs.

Carrying value of IT intangible assets ($m)



2.7 LENDING

Gross loans and advances grew by $1,065 million or five per cent (annualised) in 1H21. This was primarily achieved through above system growth in home lending with BOQ Blue, BOQ Specialist and VMA all contributing strong lending volumes. Commercial lending grew by $72 million or two per cent (annualised) in 1H21, despite a challenging environment for small business clients with the ongoing impacts of COVID-19. Consumer lending continued to decline reflecting falling credit card balances and a run-down of working capital facilities as customer deposit balances increased.

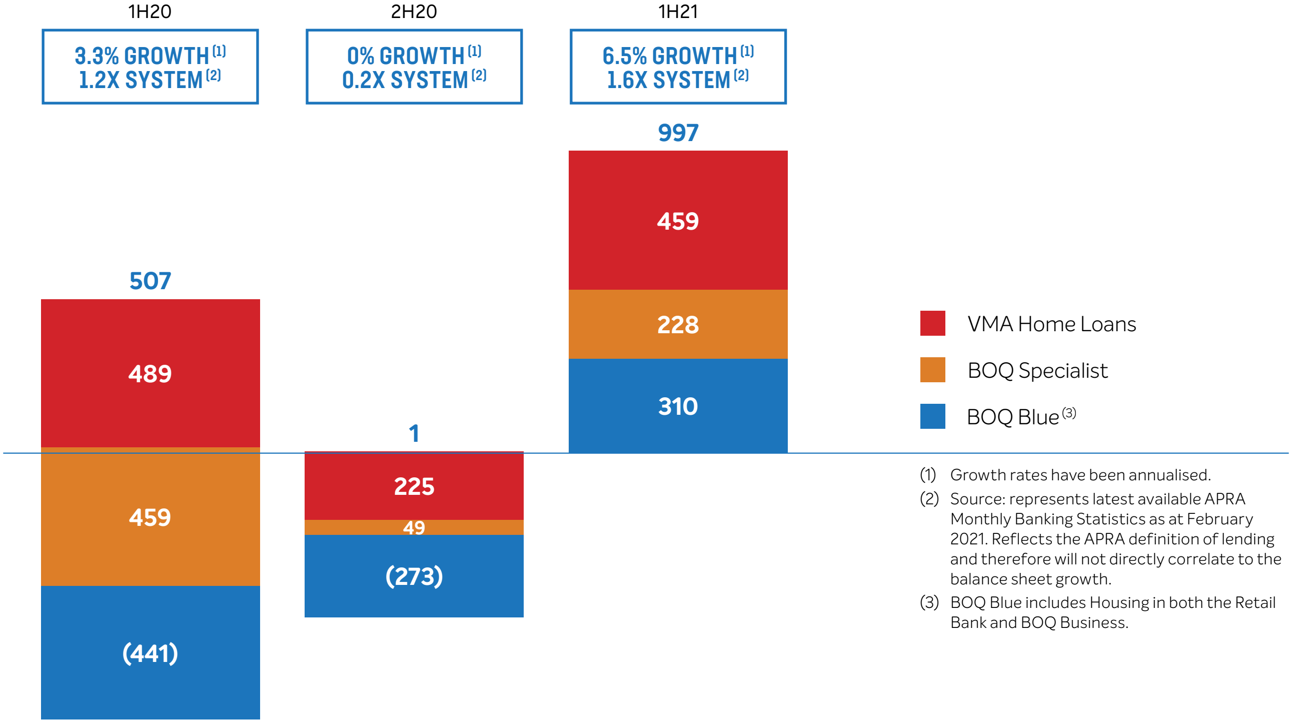
	As at				
$ million	Feb-21	Aug-20	Feb-20	Feb-21 vs Aug-20 [(1)]	Feb-21 vs Feb-20
Housing lending	**30,187**	28,891	28,555	9%	6%
Housing lending - APS 120 qualifying securitisation [(2)]	**1,965**	2,264	2,599	(27%)	(24%)
	32,152	31,155	31,154	6%	3%
Commercial lending [(3)]	**9,428**	9,356	9,298	2%	1%
Asset finance [(3)]	**6,278**	6,259	6,237	1%	1%
Consumer	**250**	273	309	(17%)	(19%)
Gross loans and advances	48,108	47,043	46,998	5%	2%
Provision for impairment	**(374)**	(369)	(235)	3%	59%
Net loans and advances	47,734	46,674	46,763	5%	2%

(1) Growth rates have been annualised.
(2) Securitised loans subject to capital relief under APS 120 *Securitisation* (**APS 120**).
(3) BOQ Specialist Asset finance products have been reclassified from Commercial lending to Asset finance for all periods presented.

BOQ GROUP - 2021 HALF YEAR RESULTS

2.7 LENDING (CONTINUED)

Growth in Housing gross loans & advances ($m)



(1) Growth rates have been annualised.
(2) Source: represents latest available APRA Monthly Banking Statistics as at February 2021. Reflects the APRA definition of lending and therefore will not directly correlate to the balance sheet growth.
(3) BOQ Blue includes Housing in both the Retail Bank and BOQ Business.

The housing portfolio grew by $997 million in 1H21, representing annualised growth of six per cent on 2H20 or 1.6x system growth. Positive growth was achieved across all three channels, for the first time since FY16, as the momentum generated towards the end of 2H20 was maintained and converted into growth. Settlement volumes increased by 30 per cent on 1H20 while elevated levels of run-off across third party channels moderated due to focussed client retention initiatives.

Growth was largely driven by increased owner occupied loans and weighted to a higher proportion of fixed rate lending compared to prior periods. The positive performance was driven by embedding the Retail Banking strategy, which included mortgage process simplification, improved retail banking and lending capability, an uplift in customer experience and quality third party broker relationships. Pleasingly, the mortgage net promoter score (**NPS**) has also improved from -2 in August 2020 to +9 in February 2021.

The VMA mortgage portfolio continued to deliver strong growth in 1H21. The portfolio grew by $459 million, representing annualised growth of 28 per cent on 2H20 and taking the portfolio to over $3.7 billion. The Virgin Money Australia brand is a globally recognised brand, tends to attract a more tech-savvy customer base and contributes to the Bank's geographical diversification by targeting metropolitan-based customers across Australia.

BOQ Specialist home lending portfolio saw momentum return in 1H21 with growth of $228 million. Settlement volumes increased in the second quarter as the number of clients being managed through COVID-19 repayment relief declined significantly and focus returned to new business. BOQ Specialist continues to deliver above system growth by focussing on building relationships with health professionals in the early stages of their careers. The mortgage offering creates future opportunities to meet the commercial lending needs of the targeted health professional market segments into the future stages of their career.

The BOQ Blue portfolio grew by $310 million, the first positive result since FY16. This result was underpinned by a turnaround in branch performance, which contributed with positive growth in the half, and another strong result reported through the Broker channel.

The Broker channel grew by $371 million in 1H21, representing annualised growth of 24 per cent. The strong result was achieved by continuing to build and grow quality new and existing third party partnerships, competitive pricing and consistent credit decisions. Settlement volumes have more than doubled compared to 1H20. Levels of run-off were initially elevated but have moderated through focussed client retention initiatives. Broker and customer experience have improved due to the release of new broker enabled technologies and the delivery of consistent process efficiencies, reflected in an improved NPS result.

The BOQ branch portfolio also reflected a turnaround in its performance with a return to positive growth in 1H21 of $26 million, the first positive half of growth since FY15. The corporate and owner-manager network both contributed to the improved performance with an uplift in settlement volumes, compared to 1H20, of 49 per cent and 36 per cent respectively.

BOQ GROUP - 2021 HALF YEAR RESULTS

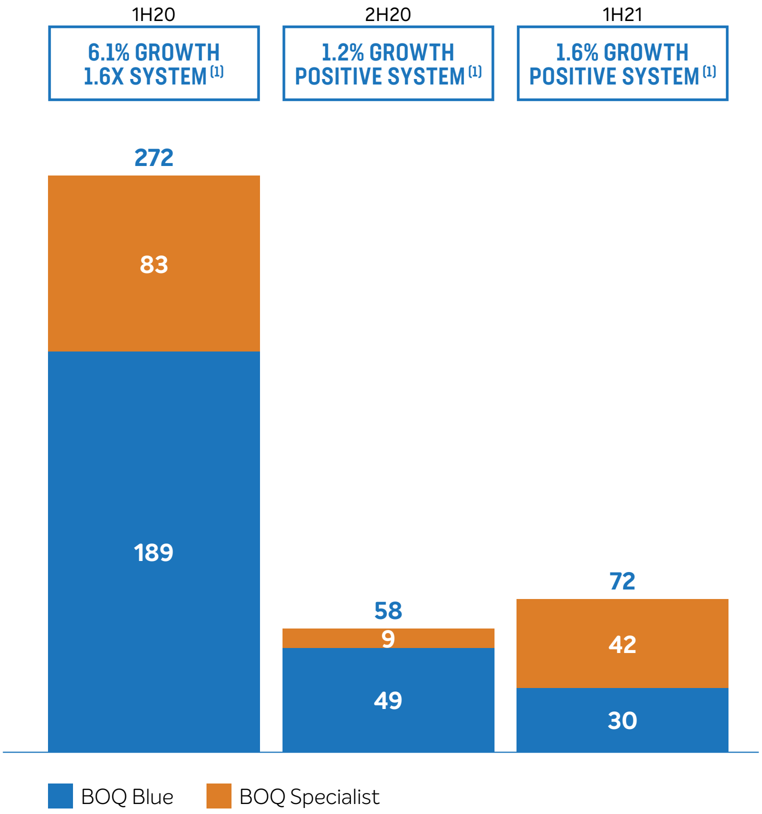
2.7 LENDING (CONTINUED)

Growth in Commercial lending ($m)

The BOQ Commercial lending portfolio grew by $72 million in 1H21, representing annualised growth of two per cent on 2H20. The positive result was despite higher run-off due to continued COVID-19 restrictions and economic uncertainty.

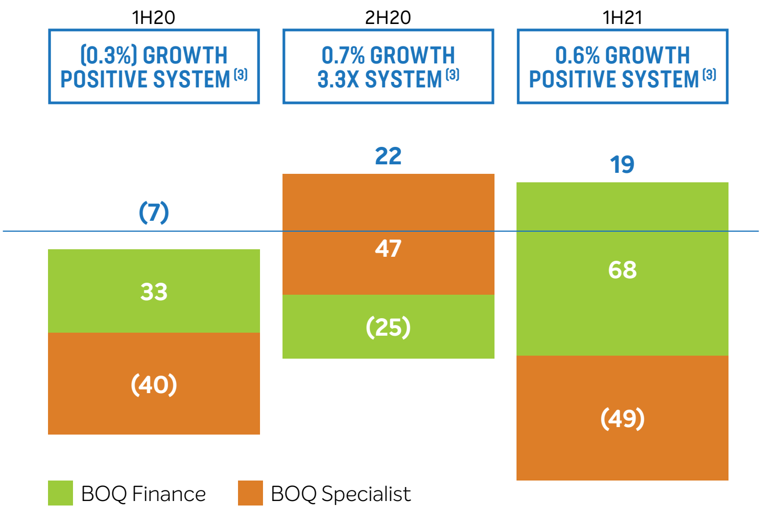
The impact of COVID-19 on business lending in the BOQ Blue brand resulted in both lower settlements and higher run-off in the larger Corporate portfolio than in 1H20. Small Business Lending contracted in line with system. The strength of the BOQ client base was evident as 98 per cent of small and medium enterprise (**SME**) customers previously on a banking relief package (**BRP**) have returned to performing as at 28 February 2021. Run-off continued to improve compared to prior periods reflecting the deepening of relationships during the COVID-19 pandemic and improved lender support and capability through the branches as part of the small business strategy.

The BOQ Specialist business lending portfolio grew by $42 million in 1H21 representing annualised growth of four per cent on 2H20 and 99 per cent of customers previously on BRP returned to performing.



Growth in Asset finance lending ($m) [2]

The Asset finance portfolio grew by $19 million in 1H21, representing annualised growth of one per cent on 2H20 compared to negative system growth. Growth was underpinned by continued momentum in the Equipment Finance portfolio, which contributed $44 million of growth in 1H21. This was partly offset by a contraction in the BOQ Specialist portfolio as dentistry and some specialised surgery has been slower to recover to pre COVID-19 activity levels.



(1) Commercial system growth represents latest available APRA Monthly Banking Statistics as at February 2021. Reflects the APRA definition of lending, which also includes BOQ Specialist Asset finance and will therefore not directly correlate to the balance sheet growth. 'Positive system' represents a growth better than system whereas 'Negative system' represents a growth worse than system.

(2) BOQ Specialist Asset finance products have been reclassified from Commercial lending to Asset finance for all periods presented.

(3) Asset finance system growth represents latest available Australian Finance Industry Association (**AFIA**) system growth statistics as at February 2021.

BOQ GROUP - 2021 HALF YEAR RESULTS

2.8 CUSTOMER DEPOSITS

	Half Year Performance				
$ million	Feb-21	Aug-20	Feb-20	Feb-21 vs Aug-20 [1]	Feb-21 vs Feb-20
Term deposits	14,240	15,012	15,195	(10%)	(6%)
Savings and investment accounts	14,411	13,337	11,704	16%	23%
Transaction accounts	4,020	3,596	2,842	24%	41%
Sub-total	32,671	31,945	29,741	5%	10%
Mortgage offsets [2]	3,152	2,816	2,575	24%	22%
Total	35,823	34,761	32,316	6%	11%
Deposit to loan ratio	74%	74%	69%	-	5%

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

CUSTOMER DEPOSITS

Customer deposits grew by $1,062 million or six per cent (annualised) in 1H21, consistent with the Bank's strategy to increase stable sources of funding while also reflecting ongoing high levels of liquidity in the market.

The Retail Bank remains the primary source of customer deposits with the majority generated through the branch network. Balance sheet growth in 1H21 was predominantly through savings and investment accounts, partly offset by a run-down of high cost term deposits. This reflects changes in customer preferences towards at-call savings products in a low yield environment.

This has enabled the Bank to maintain a strong liquidity position with the deposit to loan ratio at 74 per cent in line with 2H20.

TERM DEPOSITS

Term deposits decreased by $772 million, an annualised decline of 10 per cent on 2H20. This was 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. As a result, term deposits have reduced from 43 per cent of the total portfolio in August 2020 to 40 per cent in February 2021.

SAVINGS AND INVESTMENT ACCOUNTS

Savings and investment accounts grew by $1,074 million or 16 per cent (annualised) on 2H20 with retail and commercial accounts each achieving growth of 16 per cent.

The Bonus Interest Savings Account (**BISA**) achieved annualised growth of over 46 per cent in 1H21 and accounted for most of the increase in retail savings and investment accounts. The growth is attributed to the highly accessible and flexible product, offering competitive rates during 1H21.

TRANSACTION ACCOUNTS AND MORTGAGE OFFSETS

Transaction accounts and mortgage offsets grew by $424 million and $336 million on 2H20 respectively. The trend in both balances in 1H21 is largely aligned to the previous six months, aided by elevated flows associated with ongoing COVID-19 government stimulus payments to both small businesses and individuals.

BOQ GROUP - 2021 HALF YEAR RESULTS

3. BUSINESS SETTINGS

3.1 ASSET QUALITY

		Half Year Performance				
		Feb-21	Aug-20	Feb-20	Feb-21 vs Aug-20	Feb-21 vs Feb-20
Loan impairment expense	($ million)	**24**	147	28	(84%)	(14%)
Loan impairment expense / GLA	(bps)	**10**	62	12	(52bps)	(2bps)
Impaired assets	($ million)	**194**	195	196	(1%)	(1%)
30 dpd arrears	($ million)	**575**	567	525	1%	10%
90 dpd arrears	($ million)	**381**	433	291	(12%)	31%
90dpd arrears / GLA	(bps)	**79**	92	62	(13bps)	17bps
Total provision and GRCL coverage / GLA	(bps)	**95**	98	69	(3bps)	26bps

The Group's loan impairment expense for 1H21 of $24 million, or ten basis points of GLA, decreased by $123 million or 84 per cent over the half due to the collective provision overlay recorded in 2H20 for the potential impacts of COVID-19.

Total provision and GRCL coverage on GLAs decreased by three basis points in 1H21 to 95 basis points driven by strong growth in loans and advances and a small decline in the collective provision balance from $275 million in August 2020 to $271 million in February 2021. This reflected an improved economic outlook particularly with regard to Gross Domestic Product (**GDP**) and residential house prices, partly offset by updates to existing management overlays.

Arrears in the 30 day category grew by $8 million or one per cent on 2H20. However, this reflected a one basis point reduction as a proportion of the total lending portfolio. Arrears in the 90 day category decreased by $52 million or 12 per cent on 2H20. 90 day arrears remain elevated on 1H20 due to changed collection activities to support customers during the pandemic. 1H21 has seen a renewed focus on collection efforts on loans above 30 day arrears that have exited BRP. This experience is consistent with the industry.

LOAN IMPAIRMENT EXPENSE

	Half Year Performance					
	Feb-21		Aug-20		Feb-20	
	Expense ($m)	**Expense / GLA (1) (bps)**	Expense ($m)	Expense / GLA (1) (bps)	Expense ($m)	Expense / GLA (1) (bps)
Retail lending	**(6)**	**(4)**	52	33	9	6
Commercial lending (2)	**15**	**32**	48	101	3	6
Asset finance (2)	**15**	**48**	47	149	16	52
Total loan impairment expense	24	10	147	62	28	12

(1) Metrics have been annualised.
(2) BOQ Specialist Asset finance products have been reclassified from Commercial lending to Asset finance for all periods presented.

The loan impairment expense of $24 million for 1H21 was down $123 million from 2H20 and down $4 million from 1H20 primarily due to the collective provision overlay recorded of $123 million and $10 million in the respective halves for the potential impacts of COVID-19.

Retail loan impairment credit of $6 million for 1H21 was primarily driven by a reduction in the collective provision as forward looking assumptions, notably the housing market driven by a rebound in expectations for residential house prices, have improved since 2H20. Underlying specific provisioning activity was consistent with 1H20 but up on 2H20 as collection activities normalised.

Commercial loan impairment expense of $15 million decreased by $33 million from 2H20 due to the collective provision overlay recorded in 2H20. The increase of $12 million on 1H20 is driven by a higher collective provision, to reflect ongoing economic uncertainty in the Commercial sector and expectations of commercial property price volatility. Specific provisioning activity in the Commercial portfolio was also higher than 1H20, driven by lower commercial property values in some regional areas.

Asset finance loan impairment expense of $15 million decreased by $32 million from 2H20 also due to the collective provision overlay recorded in 2H20. The expense decreased by $1 million from 1H20 driven by low specific provisioning activity in light of reduced collection activities and BRP support available to customers during COVID-19 and is in line with lower levels of arrears.

BOQ GROUP - 2021 HALF YEAR RESULTS

3.1 ASSET QUALITY (CONTINUED)

IMPAIRED ASSETS

	As at				
$ million	Feb-21	Aug-20	Feb-20	Feb-21 vs Aug-20	Feb-21 vs Feb-20
Retail lending	87	71	74	23%	18%
Commercial lending	81	90	94	(10%)	(14%)
Asset finance	26	34	28	(24%)	(7%)
Total impaired assets	194	195	196	(1%)	(1%)
Impaired assets / GLA	40bps	41bps	42bps	(1bps)	(2bps)

Total impaired assets decreased by $1 million or one per cent on 2H20 to $194 million. This was primarily driven by a large facility in the Commercial portfolio returning to performing status, partially offset by new impairments in both the Retail and Commercial portfolios.

Retail impaired assets increased by $16 million or 23 per cent on 2H20 and $13 million (18 per cent) on 1H20 driven by an increase in new impairments while realisations remained relatively static. This was driven by declining property values in some regional areas.

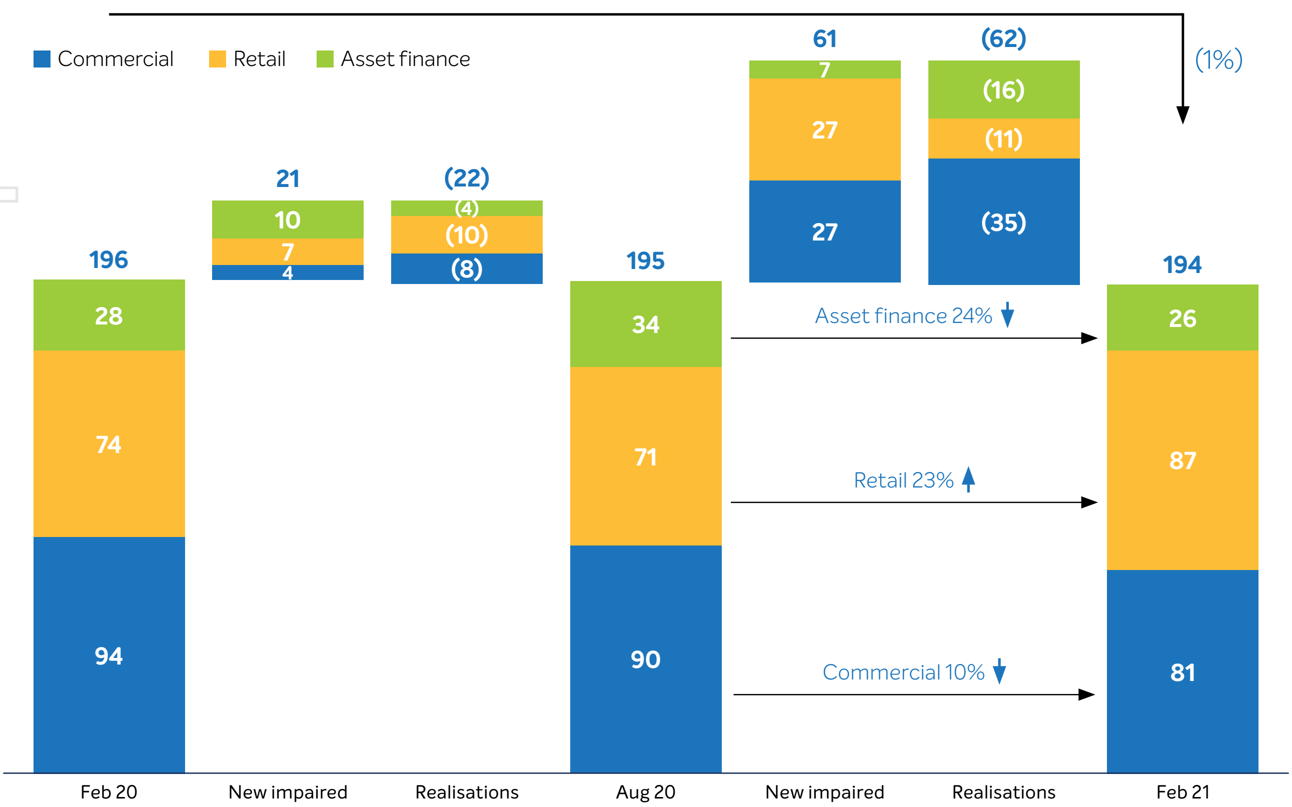
Commercial impaired assets decreased by $9 million or 10 per cent on 2H20. This was primarily due to one large Agribusiness exposure of $28 million returning to performing following a strong 2020 crop due to improved weather conditions. Excluding this borrower, commercial impaired assets increased by $20 million during 1H21 resulting from impairment of new exposures that have emerged during the period and COVID-19 impacting workout strategies on a number of the existing impaired exposures which slowed run-off. The majority of the new impaired exposures for 1H21 was due to a decline in commercial property values in some regional areas already showing signs of financial stress pre COVID-19.

Asset finance impaired assets decreased by $8 million or 24 per cent on 2H20. This was primarily driven by low new provisioning activity as customers were well supported during and after COVID-19 banking relief and one single large facility for $4.5 million exiting the Group.

The Group holds two exposures with impaired balances greater than $5 million for a combined total of $15 million, down from $54 million at August 2020. In 1H21, the Group returned a $28 million facility to performing and two facilities reduced exposure to below $5 million. The Group no longer holds any exposure with impaired balances greater than $10 million.

The following chart outlines the movements in impaired assets since February 2020.

Impaired assets ($m)



BOQ GROUP - 2021 HALF YEAR RESULTS

3.1 ASSET QUALITY (CONTINUED)

PROVISION COVERAGE

	As at				
$ million	Feb-21	Aug-20	Feb-20	Feb-21 vs Aug-20	Feb-21 vs Feb-20
Specific provision	103	94	85	10%	21%
Collective provision (**CP**)	271	275	150	(1%)	81%
Total provisions	374	369	235	1%	59%
GRCL ($ million)	58	64	64	(9%)	(9%)
Specific provisions to impaired assets	53%	48%	43%	500bps	large
Total provisions and GRCL coverage / impaired assets (1)	236%	236%	166%	-	large
CP and GRCL / Total RWA	111bps	116bps	77bps	(5bps)	34bps
Total provisions and GRCL coverage / GLA (1)	95bps	98bps	69bps	(3bps)	26bps

(1) GRCL gross of tax effect.

Total provisions increased by $5 million or one per cent on 2H20 driven by an increase in specific provisions partly offset by a decrease in the collective provision.

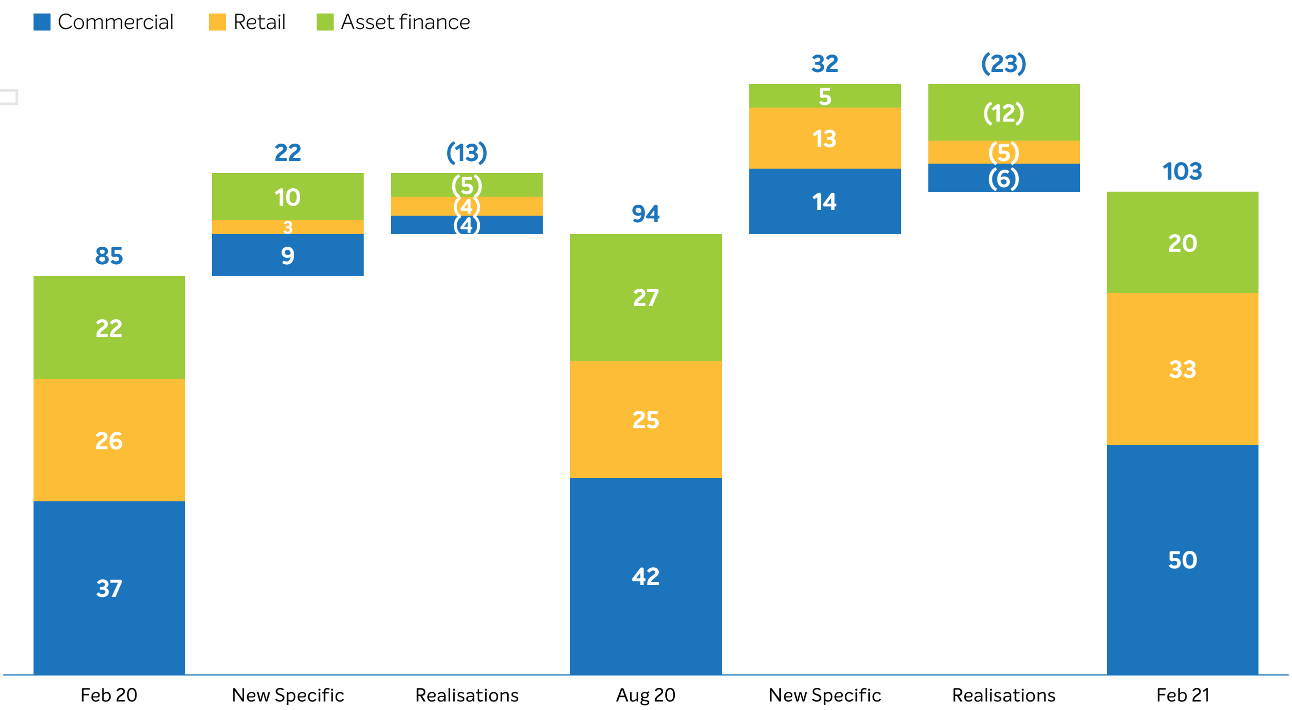
Specific provisions have increased by $9 million or 10 per cent on 2H20 taking the coverage of impaired assets up to 53 per cent. New specific provisioning activity in Retail and Commercial was up in 1H21 as collection activities normalised and was further impacted by declining property values in some regional areas. This was partly offset by realisations in Asset finance following improved drought and economic conditions.

The collective provision decreased by $4 million or one per cent on 2H20. This reflected an improved economic outlook compared to 2H20, partly offset by growth in loans and advances and updates to existing management overlays. The collective provision is $121 million or 81 per cent higher than 1H20 before the majority of the COVID-19 overlay was taken.

Total provisions and GRCL coverage to GLA decreased by three basis points on 2H20 driven by growth in loans and advances. However, this remains elevated compared to 1H20 and is considered a prudent position in light of continued economic uncertainty.

The following chart outlines the movements in specific provisions since February 2020.

Specific provisions ($m)



BOQ GROUP - 2021 HALF YEAR RESULTS

3.1 ASSET QUALITY (CONTINUED)

ARREARS

Key metrics	Portfolio balance ($m) Feb-21	Feb-21	Aug-20	Feb-20	Feb-21 vs Aug-20	Feb-21 vs Feb-20
Total lending - portfolio balance ($ million)		48,108	47,043	46,998	2%	2%
30 dpd ($ million)		575	567	525	1%	10%
90 dpd ($ million)		381	433	291	(12%)	31%
		Proportion of portfolio				
30 dpd: GLAs		1.20%	1.21%	1.12%	(1bps)	8bps
90 dpd: GLAs		0.79%	0.92%	0.62%	(13bps)	17bps
By portfolio						
30 dpd: GLAs (Retail)	32,402	1.25%	1.25%	1.07%	-	18bps
90 dpd: GLAs (Retail)		0.88%	0.97%	0.59%	(9bps)	29bps
30 dpd: GLAs (Commercial) (1)	9,428	1.48%	1.53%	1.60%	(5bps)	(12bps)
90 dpd: GLAs (Commercial) (1)		0.91%	1.25%	1.04%	(34bps)	(13bps)
30 dpd: GLAs (Asset finance) (1)	6,278	0.48%	0.50%	0.60%	(2bps)	(12bps)
90 dpd: GLAs (Asset finance) (1)		0.15%	0.17%	0.12%	(2bps)	3bps

(1) BOQ Specialist Asset finance products have been reclassified from Commercial lending to Asset finance for all periods presented.

RETAIL ARREARS

Retail arrears in the 30 day category are consistent with 2H20 but are 18 basis points higher than 1H20. This was primarily due to housing loans that have exited BRP during 1H21. The nine basis point decrease in the 90 day category was driven by the recommencement of collection activity on late stage arrears (for non-BRP customers) following an extended moratorium during 2020.

COMMERCIAL ARREARS

Commercial arrears decreased by five basis points in the 30 day category and by 34 basis points in the 90 day category since 2H20. The 30 day arrears in 2H20 were impacted by performing commercial loan facilities reaching their contract end date and considered to be in arrears until the formal extension is processed. The majority of these cleared in early 1H21. The decrease in the 90 day category was driven by the recommencement of collection activity on late stage arrears following an extended moratorium during 2020 and the recovery of BOQ Specialist customers as the healthcare sector rebounds.

ASSET FINANCE ARREARS

Asset finance arrears decreased by two basis points in both the 30 day and 90 day categories since 2H20. The decrease primarily reflected improved drought conditions during FY20, improving economic conditions and recommencement of collection activity since 2H20.

COVID-19 BANKING RELIEF PACKAGE

From March 2020, the Bank offered a number of support measures to retail and business customers impacted by COVID-19 as part of BRP. This included repayment deferrals of up to six months with potential to extend for a further four months.

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

95 per cent of housing loan customers and 98 per cent of SME customers previously on BRP have returned to performing as at 28 February 2021.

BOQ GROUP - 2021 HALF YEAR RESULTS

3.2 FUNDING AND LIQUIDITY

On 19 March 2020, the Reserve Bank of Australia (**RBA**) announced it was establishing the 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 the official cash rate and is available to be drawn through to 30 June 2021. The BOQ TFF is comprised of an initial allowance ($1.24 billion) and supplementary allowance ($0.83 billion). To date, $1.24 billion of the facility has been utilised.

LIQUIDITY COVERAGE RATIO (LCR)

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

BOQ's LCR at 28 February 2021 was 182 per cent, which was 18 per cent higher than FY20. BOQ's average LCR for 1H21 was 156 per cent, which was six per cent higher than the average for 2H20. The increase in LCR is primarily due to a large increase in contractual inflows resulting from BOQ's equity raising for the ME Bank acquisition. The additional inflow has more than offset the negative impacts to the LCR from;

1. the return of the temporary $500 million committed liquidity facility (**CLF**) increase offered to ADI's by the RBA in response to the COVID-19 pandemic;
2. a reduction in BOQ's undrawn TFF due to a decrease in the additional allowance and drawing of the initial allowance; and
3. an increase to net cash outflows relating to increased customer deposits.

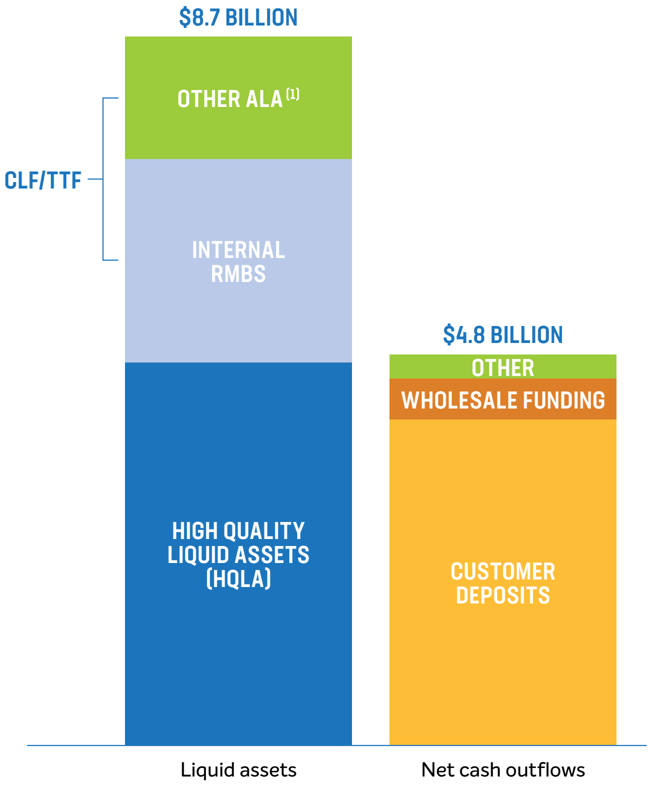
NET STABLE FUNDING RATIO (NSFR)

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.

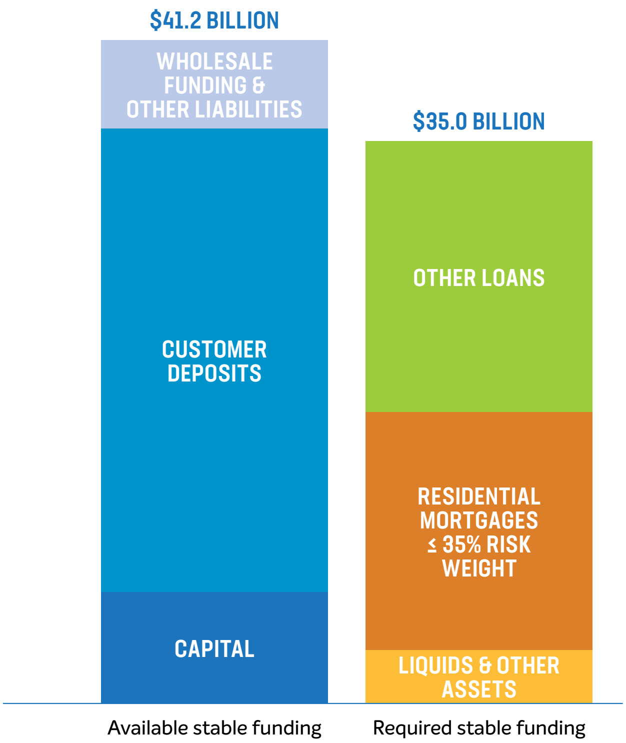
BOQ's NSFR as at 28 February was 118 per cent, which is one per cent lower than FY20 and reflective of BOQ's reduced CLF and TFF. The average NSFR for 1H21 was 119 per cent, a three per cent increase from the 2H20.

LCR - February 2021 (182%)



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

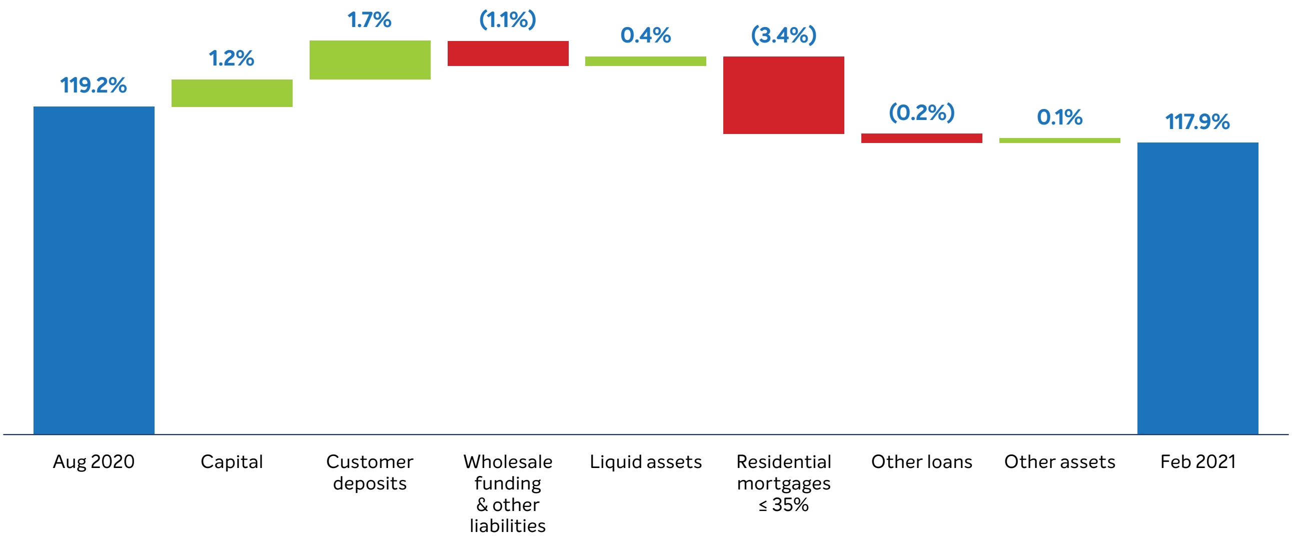
NSFR - February 2021 (118%)



BOQ GROUP - 2021 HALF YEAR RESULTS

3.2 FUNDING AND LIQUIDITY (CONTINUED)

NSFR waterfall 31 August 2020 - 28 February 2021



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 residential mortgage-backed securities (**RMBS**) that are eligible for repurchase with the RBA.

BOQ was granted a $3.4 billion CLF for the 2020 calendar year which was, subsequently, extended until the 2021 CLF allocation became effective on 1 April 2021. In December 2020, BOQ returned the additional $500 million CLF that was granted on a temporary basis in April 2020, as part of the response to COVID-19, and reverted to the original allocation of $3.4 billion. BOQ has applied and was granted a lower $2.9 billion CLF commencing on 1 April 2021, which is reflective of the increase in HQLA available to the banking system.

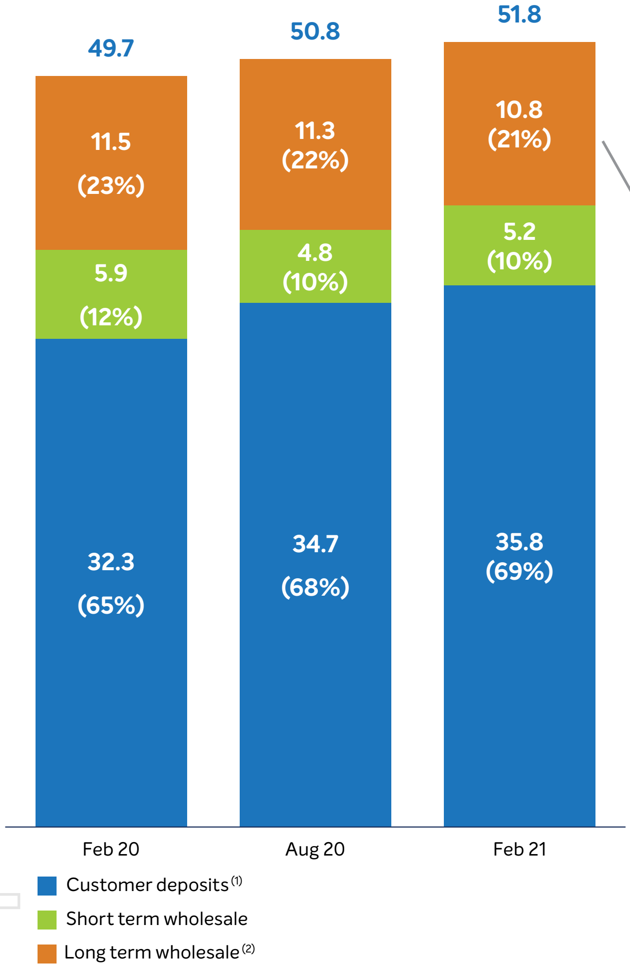
BOQ GROUP - 2021 HALF YEAR RESULTS

3.2 FUNDING AND LIQUIDITY (CONTINUED)

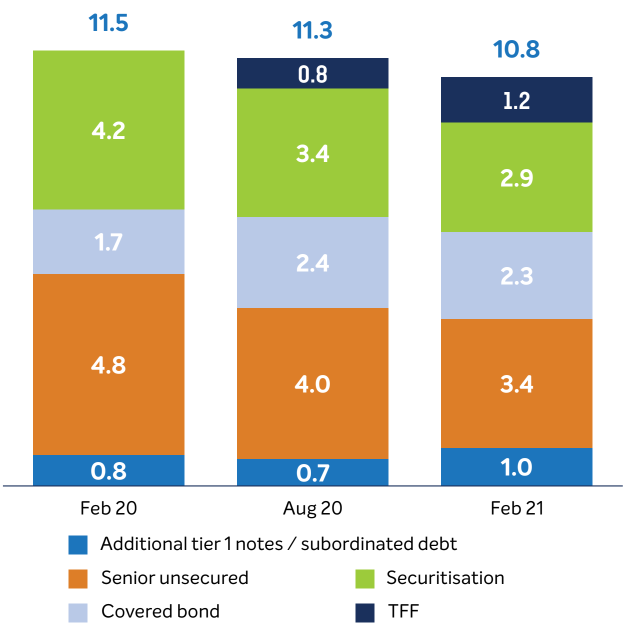
FUNDING

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 focusses 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 1H21 strong growth in customer deposits, combined with the $260 million Capital Notes 2 issuance (Additional Tier 1), meant loan growth was predominantly 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 69 per cent at 1H20 to 74 per cent at 1H21. The increase in customer deposits has enabled BOQ to continue to manage the short term wholesale funding portfolio, which has decreased by approximately $650 million since 1H20.

BOQ GROUP - 2021 HALF YEAR RESULTS

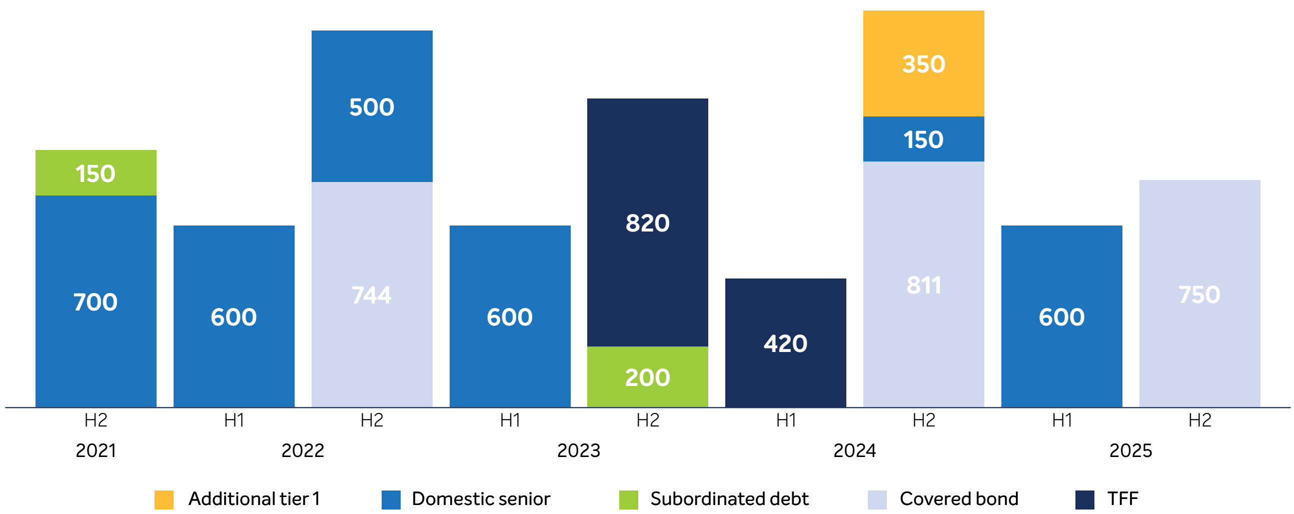
3.2 FUNDING AND LIQUIDITY (CONTINUED)

TERM FUNDING ISSUANCE

BOQ issued only a modest amount of wholesale funding in 1H21, due to our ability to access the TFF and the strong inflow of customer deposits during the year. This included the $260 million Capital Notes 2 (Additional Tier 1) issuance, which replaced the $150 million Wholesale Capital Notes that were called in May 2020.

BOQ continues to have a range of debt programmes available 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) (5)]



(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.
(5) The $260 million Capital Notes 2 issued in November 2020 has an optional call date (subject to APRA approval) of May 2027 which was has not been included in the graph.

3.3 CAPITAL MANAGEMENT

CAPITAL ADEQUACY

	As at				
$ million	Feb-21	Aug-20	Feb-20	Feb-21 vs Aug-20 [(1)]	Feb-21 vs Feb-20
CET1	**3,221**	3,089	3,088	9%	4%
Additional tier 1 capital	**610**	350	500	150%	22%
Total tier 2	**613**	580	529	11%	16%
Total capital base	4,444	4,019	4,117	21%	8%
Total RWA	**32,126**	31,576	31,164	4%	3%
CET1 ratio	**10.03%**	9.78%	9.91%	25bps	12bps
Total capital adequacy ratio	13.83%	12.73%	13.21%	110bps	62bps

(1) Growth metrics have been annualised.

BOQ GROUP - 2021 HALF YEAR RESULTS

3.3 CAPITAL MANAGEMENT (CONTINUED)

The Group's CET1 ratio increased by 25 basis points during 1H21 from 9.78 per cent to 10.03 per cent. At 10.03 per cent, BOQ has a significant buffer above the upper end of the management target range of 9.0 per cent to 9.5 per cent. The proceeds from the capital raise related to the acquisition of ME Bank are not included in the CET1 ratio as at 28 February 2021.

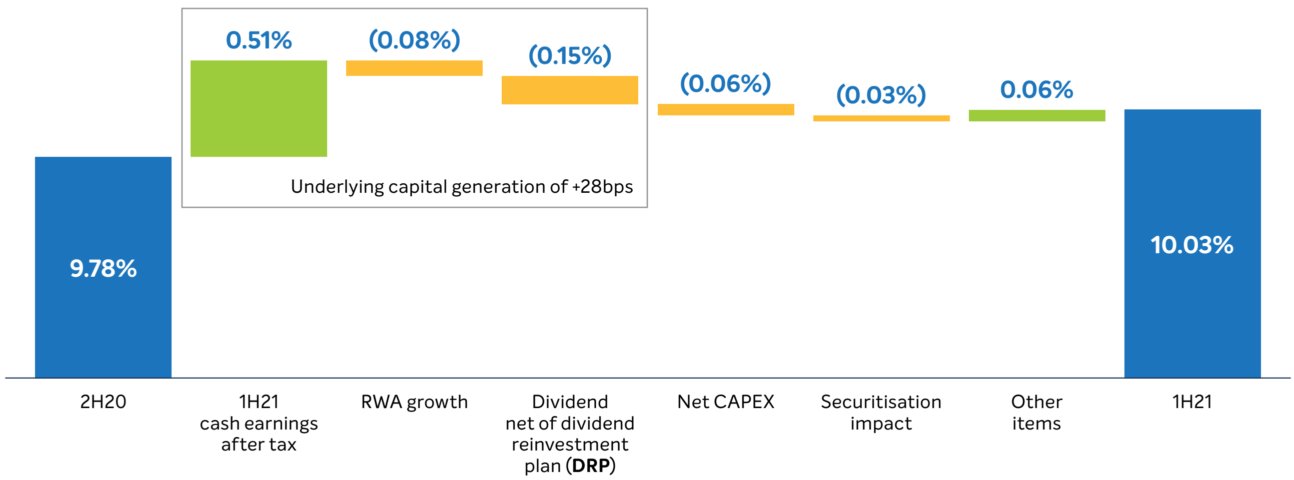
There was 28 basis points of underlying capital generation during 1H21 due to cash earnings partly offset by RWA growth of eight basis points and payment of a lower dividend for FY20 in line with the capital management guidance from the APRA.

Net capitalised investment (**CAPEX**) due to software expenditure in line with the strategic roadmap, net of amortisation, utilised six basis points of capital. $37 million of the planned $109 million capitalised investment for FY21 was incurred in the first half.

Increased liquidity and capital levels meant the Bank chose not to issue new RMBS which resulted in run-off in capital relief securitised housing loans increasing risk-weighted assets and reducing CET1 by three basis points.

Other items improved CET1 by six basis points largely due to favourable increases in reserves and a reduction in the deferred tax asset balance. This was partly offset by an increase in off-balance sheet credit RWA resulting from the impact of changes in the terms to undrawn limits.

1H21 CET1 Walk



3.4 TAX EXPENSE

Tax expense arising on cash earnings for 1H21 amounted to $74 million. This represented an effective tax rate of 30.8 per cent, which is above the corporate tax rate of 30 per cent primarily due to the non-deductibility of interest payable on Capital Notes issued in FY18 and FY21.

BOQ GROUP - 2021 HALF YEAR RESULTS

4. DIVISIONAL PERFORMANCE

4.1 RETAIL INCOME STATEMENT, KEY METRICS AND FINANCIAL PERFORMANCE REVIEW

OVERVIEW

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

	Half Year Performance				
$ million	Feb-21	Aug-20	Feb-20	Feb-21 vs Aug-20	Feb-21 vs Feb-20
Net interest income	**236**	223	214	6%	10%
Non-interest income	**27**	27	29	-	(7%)
Total income	**263**	250	243	5%	8%
Operating expenses (1)	**(167)**	(162)	(155)	3%	8%
Underlying profit	**96**	88	88	9%	9%
Loan impairment expense (1)	**6**	(48)	(8)	(113%)	(175%)
Profit before tax	**102**	40	80	155%	28%
Income tax expense	**(32)**	(12)	(25)	167%	28%
Cash earnings after tax	70	28	55	150%	27%

KEY METRICS (2)

		Feb-21	Aug-20	Feb-20	Feb-21 vs Aug-20	Feb-21 vs Feb-20
PERFORMANCE INDICATORS (3)						
CTI (1)	(%)	**63.5**	64.8	63.8	(130bps)	(30bps)
Net interest income / average GLA (4)	(%)	**2.04**	1.91	1.85	13bps	19bps
ASSET QUALITY						
90dpd arrears	($ million)	**274**	294	185	(14%)	48%
Impaired assets	($ million)	**78**	66	69	37%	13%
Loan impairment expense / GLA	(bps)	**(5)**	39	6	(44bps)	(11bps)
BALANCE SHEET						
GLA (5)	($ million)	**26,055**	25,253	25,307	6%	3%
Housing (5)	($ million)	**25,990**	25,195	25,245	6%	3%
Other retail	($ million)	**65**	58	62	24%	5%
AVERAGE CREDIT RWA	($ million)	**9,158**	8,720	8,604	10%	6%
CUSTOMER DEPOSITS (5) (6)	($ million)	**17,424**	17,210	15,777	3%	10%
Term deposits	($ million)	**4,833**	5,647	5,713	(29%)	(15%)
Mortgage offsets	($ million)	**2,030**	1,801	1,642	26%	24%
Savings & investment (5)	($ million)	**8,398**	7,784	6,818	16%	23%
Transaction accounts (5)	($ million)	**2,163**	1,978	1,604	19%	35%
DEPOSIT TO LOAN RATIO	(%)	**67**	68	62	(100bps)	500bps

(1) Includes a restatement of employee costs from loan impairment expense to operating expenses.
(2) Balance sheet key metrics have been annualised.
(3) Calculated on a cash earnings basis.
(4) Net of offset accounts.
(5) GLA and customer deposits include a reclassification from BOQ Business Banking to Retail Banking reflecting customer segmentation changes. Prior periods have been restated for comparative purposes.
(6) Treasury managed deposits are included in the Bank's Other operating segment.

BOQ GROUP - 2021 HALF YEAR RESULTS

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

BUSINESS REVIEW

The Retail Bank remains focussed on executing the strategic initiatives previously announced to the market and is committed to supporting our customers in the current environment. Strong growth in cash earnings has been driven by lower loan impairments, improved lending margins and above system mortgage growth. The momentum generated at the end of 2H20 has translated into positive lending growth across all core channels. The BOQ Blue brand has achieved positive growth for the first time since FY16 as settlements increased 51 per cent on 1H20. The successful turnaround in the BOQ Blue brand is attributed to improvements which have been delivered over the past 18 months, including the home buying transformation program; an experienced retail leadership team; quality third party relationships and a focus on expanding owner-managers.

The BOQ branch network consists of 98 owner-managed and 61 corporate branches supported by seven transaction centres. The first Business Relationship Centre, a lower cost branch model, focussed on lending and deposit acquisition, was opened in November 2020 in New Farm, Queensland. Expanding and leveraging the unique owner-manager model, anchored in the communities we serve, remains a strategic focus. The branch network has delivered a turnaround in performance by reporting positive housing growth, the first time since FY15. Settlement volumes increased 38 per cent on 1H20 whilst run-off has been managed through proactive retention initiatives.

The broker channel recorded home lending growth of $371 million, representing annualised growth of 24 per cent on 1H20. This was driven by building new and existing quality third party relationships, improved customer retention and simplified end-to-end mortgage processes. Whilst further improvement is being targeted, processing times have already been significantly reduced and customer experience improved through the new broker enabled technologies.

The Virgin Money Australia brand is a globally recognised brand which appeals to 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 $3.7 billion since the mid-2016 launch. The business has been impacted by subdued credit card performance due to the portfolio being largely linked to frequent flyer cards. The reduction in non-interest income from the prior year was more than offset by a strong uplift in interest revenue generated from VMA's home loan business. VMA has launched its Digital Bank offering, representing the largest production deployment in the Group's history. The Digital Bank launched with transaction, savings and an integrated credit card and loyalty offering.

FINANCIAL PERFORMANCE REVIEW

Retail Bank cash earnings after tax increased by $15 million or 27 per cent on 1H20. Improved lending margins and lower collective provisioning have been partially offset by increased investment in the VMA digital transformation.

Net interest income

Net interest income increased by $22 million or 10 per cent on 1H20 driven by margin improvement and strong lending balance growth. Housing margins improved due to lower funding and hedging costs and repricing. Front-to-back book impacts continued due to competition in the market. Deposit margins decreased due to a lower interest rate environment, impacting transaction and saving deposit account margins. Strong transaction and savings balances growth, a function of high levels of liquidity in the market, has continued into 1H21 driving total deposit growth of $214 million in the half. This was net of a reduction in high cost term deposits of $814 million on 2H20. Third party cost increases were driven by higher payments to owner-managers as a result of higher growth and NIM performance, while the acceleration of housing loan growth resulted in higher amortised costs.

Non-interest income

Non-interest income reduced by $2 million or seven per cent on 1H20 as COVID-19 continues to impact several transaction fee categories, notably those related to travel, whilst an ongoing shift in customer preference to low or no fee products continues to impact fee revenue. Lower VMA card and insurance revenue was impacted in 2H20 by COVID-19 due to the slowing of the travel industry. This was partly offset by one-off income from a new card services arrangement with a third party supplier.

Operating expenses

Operating expenses increased by $12 million or eight per cent on 1H20. This was largely driven by investment in strategic technology projects, including the VMA digital transformation, and to support an increase in lending volumes.

Loan impairment expense

Loan impairment expense decreased by $14 million on 1H20 and by $54 million on 2H20. The reduction in loan impairment expense reflects an improved economic outlook particularly with regard to GDP and residential house prices. Underlying specific provisioning activity was consistent with 1H20 but up on 2H20 as collection activities normalised. The strength of the BOQ client base was evident as 95 per cent of Retail housing loan customers previously on BRP have returned to performing as at 28 February 2021.

BOQ GROUP - 2021 HALF YEAR RESULTS

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

OVERVIEW

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

	Half Year Performance				
$ million	Feb-21	Aug-20	Feb-20	Feb-21 vs Aug-20	Feb-21 vs Feb-20
Net interest income	**270**	272	271	(1%)	-
Non-interest income	**25**	19	21	32%	19%
Total income	**295**	291	292	1%	1%
Operating expenses [1]	**(132)**	(130)	(128)	2%	3%
Underlying profit	**163**	161	164	1%	(1%)
Loan impairment expense [1]	**(30)**	(99)	(20)	(70%)	50%
Profit before tax	**133**	62	144	115%	(8%)
Income tax expense	**(41)**	(19)	(45)	116%	(9%)
Cash earnings after tax	92	43	99	114%	(7%)

KEY METRICS [2]

		Feb-21	Aug-20	Feb-20	Feb-21 vs Aug-20	Feb-21 vs Feb-20
PERFORMANCE INDICATORS [3]						
CTI [1]	(%)	**44.7**	44.7	43.8	-	90bps
Net interest income / average GLA [4]	(%)	**2.60**	2.57	2.61	3bps	(1bps)
ASSET QUALITY						
90dpd arrears	($ million)	**107**	139	106	(46%)	1%
Impaired assets	($ million)	**115**	129	128	(22%)	(10%)
Loan impairment expense / GLA	(bps)	**27**	91	18	(64bps)	9bps
BALANCE SHEET						
GLA [5]	($ million)	**22,053**	21,790	21,691	2%	2%
Housing [5]	($ million)	**6,162**	5,960	5,909	7%	4%
Commercial and other [6]	($ million)	**9,613**	9,571	9,545	1%	1%
Asset finance [6]	($ million)	**6,278**	6,259	6,237	1%	1%
AVERAGE CREDIT RWA	($ million)	**17,553**	17,736	17,611	(2%)	-
CUSTOMER DEPOSITS [5] [7]	($ million)	**10,338**	9,727	8,522	13%	21%
Term deposits	($ million)	**1,349**	1,543	1,467	(25%)	(8%)
Mortgage offsets	($ million)	**1,122**	1,015	933	21%	20%
Savings & investment [5]	($ million)	**6,011**	5,550	4,884	17%	23%
Transaction accounts [5]	($ million)	**1,857**	1,618	1,237	30%	50%
DEPOSIT TO LOAN RATIO	(%)	**47**	45	39	200bps	800bps

(1) Includes a restatement of employee costs from loan impairment expense to operating expenses.
(2) Balance sheet key metrics have been annualised.
(3) Calculated on a cash earnings basis.
(4) Net of offset accounts.
(5) GLA and customer deposits include a reclassification from BOQ Business Banking to Retail Banking reflecting customer segmentation changes. Prior periods have been restated for comparative purposes.
(6) BOQ Specialist Asset finance products have been reclassified from Commercial lending to Asset finance for all periods presented.
(7) Treasury managed deposits are included in the Bank's Other operating segment.

BOQ GROUP - 2021 HALF YEAR RESULTS

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

BUSINESS REVIEW

BOQ Business has continued to support customers through the current difficult economic climate by transitioning customers on COVID-19 relief arrangements back to normal repayments. Since 31 August 2020, the level of SME loans on deferral has reduced from $2.5 billion to less than $0.1 billion at 28 February 2021.

The business continued to execute on its niche segment strategy of providing a tailored relationship offering to customers achieving total asset growth of $263 million or two per cent (annualised) on 2H20 and strong deposit growth of $611 million or 13 per cent (annualised). Growth in the commercial lending and asset finance portfolios was achieved, despite challenging market conditions.

The BOQ branded commercial loan portfolio grew $30 million in 1H21 and other banking solutions such as trade finance and foreign exchange contributed to the diversification of the portfolio and stronger non-interest income.

The small business strategy remains a key focus however balances in the portfolio contracted slightly, in line with system. Initiatives commenced during the half to improve systems and processes for small business lending and improve customer retention and new customer experience.

BOQ Specialist continued to achieve above system growth in the home lending portfolio. The commercial lending portfolio grew four per cent annualised, whilst asset financing contracted $49 million reflecting the slower return to investment from dentistry and medical practices.

The mortgage offering provides a pipeline of customers with potential commercial lending needs in the future. BOQ Specialist focusses on very clearly defined niches and has developed deep client relationships offering tailored consumer and commercial products and services to assist professionals.

BOQ Finance grew its asset finance book $68 million in a contracting market due to increasing settlements in Equipment Finance. The strongest growth industries were construction, transport and agriculture. Investment in systems continued in order to consolidate various platforms across the business.

FINANCIAL PERFORMANCE REVIEW

BOQ Business cash earnings after tax decreased by $7 million or seven per cent on 1H20 primarily due to higher loan impairment expense. However, the result did increase significantly on 2H20, which was impacted by the collective provision overlay for the potential impacts of COVID-19.

Net interest income

Net interest income was largely in line with 1H20. This was driven by strong deposit growth in a low interest rate environment and modest asset growth of two per cent (annualised). Overall margin decreased by one basis point on 1H20 as $809 million of the deposit growth was in lower margin transaction and offset accounts. This was partly offset by improved asset margins due to lower cost of funds.

Non-interest income

Non-interest income increased by $4 million or 19 per cent on 1H20. The increase was mainly driven by increased merchant terminal revenue from small business customers, Financial Markets customer transactions, the reinstatement of some fees paused during COVID-19 and one-off income from a new card services arrangement with a third party supplier.

Operating expenses

Operating expenses increased by $4 million or three per cent on 1H20. This was driven by investment in strategic technology projects including an investment in small business initiatives. This is targeting an improved customer experience and efficiency in the operational aspects of fulfilment.

The increase also reflected additional resources to support customers impacted by COVID-19, partly offset by lower discretionary expenditure such as marketing, travel and entertainment.

Loan impairment expense

Loan impairment expense increased by $10 million on 1H20 or 50 per cent. This was primarily driven by an increase in collective provision, which reflected ongoing economic uncertainty due to the impact of COVID-19. Specific provisioning activity was largely unchanged on 1H20 with an increase due to lower property values in some regional areas, offset by lower provisions in Asset finance and Agribusiness. The reduction in loan impairment expense on 2H20 was primarily due to the collective provision overlay for the potential impacts of COVID-19.

BOQ GROUP - 2021 HALF YEAR RESULTS

4.3 OTHER SEGMENT INCOME STATEMENT AND FINANCIAL PERFORMANCE REVIEW

OVERVIEW

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

	Half Year Performance				
$ million	**Feb-21**	Aug-20	Feb-20	Feb-21 vs Aug-20	Feb-21 vs Feb-20
Net interest income / (expense)	6	8	(2)	(25%)	(400%)
Non-interest income	5	6	8	(17%)	(38%)
Total income	11	14	6	(21%)	83%
Operating expenses	(7)	(8)	(11)	(13%)	(36%)
Underlying profit / (loss)	4	6	(5)	(33%)	(180%)
Loan impairment expense	-	-	-	-	-
Profit / (loss) before tax	4	6	(5)	(33%)	(180%)
Income tax expense	(1)	(3)	2	(67%)	(150%)
Cash profit / (loss) after tax	3	3	(3)	-	(200%)

FINANCIAL PERFORMANCE REVIEW

Cash profit after tax increased $6 million from an expense of $3 million in 1H20.

Net interest income / (expense)
Net interest income increased $8 million from an expense of $2 million in 1H20. This primarily reflected higher income from break fees.

Non-interest income
Non-interest income largely comprises St Andrew's insurance revenue and trading income. Non-interest income decreased by $3 million or 38 per cent on 1H20. This was mainly driven by insurance income following the decision by St Andrew's to materially close to new business in 1H20.

Operating expenses
Operating expenses decreased $4 million or 36 per cent on 1H20. This primarily reflected a decrease in St Andrew's expenses following its closure to new business in 1H20.

4.4 OUTLOOK

The economic outlook now appears more positive with ongoing indications that Australia is relatively well placed with less likelihood of downside scenarios on unemployment and house prices than originally forecast due to the continued government stimulus and the vaccine rollout. Growth is improving. Higher unemployment than this time last year and record low interest rates continue to be headwinds for earnings.

House prices are again rising in response to low interest rates. The house price outlook and broader Australian economic recovery is dependent on the success of the vaccine rollout. The Government's response from both a health and economic perspective will also be important. Also critical will be how consumer and business confidence respond to the evolving economic and health outlook. BOQ remains well positioned to manage a range of economic scenarios through prudent provisioning and ongoing management of capital and expenses.

5. CONSOLIDATED INTERIM FINANCIAL REPORT

For the half year ended 28 February 2021

DIRECTORS' REPORT

The Directors present their report together with the consolidated interim financial report of Bank of Queensland Limited (**the Bank** or **BOQ**), being the Bank and its controlled entities, for the half year ended 28 February 2021 together with the independent auditor's review report.

DIRECTORS' DETAILS

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

Name	Period of directorship
Patrick Allaway	Director since May 2019 / Chairman since October 2019
George Frazis	Managing Director & Chief Executive Officer (**CEO**) since September 2019
Kathleen Bailey-Lord	Director since May 2019
Bruce Carter	Director since February 2014
John Lorimer	Director since January 2016
Warwick Negus	Director since September 2016
Karen Penrose	Director since November 2015
Mickie Rosen	Director since March 2021
Michelle Tredenick	Director since February 2011 (retired December 2020)

PRINCIPAL ACTIVITIES

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

OPERATING AND FINANCIAL REVIEW

Our Operating and Financial review is contained in pages 2 – 28 of this report.

RISK AND REGULATORY DEVELOPMENTS

Changing Regulatory Environment

Legislative action resulting from the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry continues to have significant regulatory and compliance cost implications for the industry and the Bank in the years ahead. Some of the changes had been delayed by COVID-19 during 2020 and are now coming into force across 2021 and 2022.

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

- Update to the regulation on Customer Complaints management;
- Anti-Hawking legislation to cease sale of insurance alongside a product sale;
- Open Banking scheme to reflect Consumer Data Rights legislation;
- Product Design and Distribution Obligations to target marketing of bank products; and
- Enhanced Breach Reporting obligations which will tighten up what is reported to regulators.

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

DIRECTORS' REPORT

For the half year ended 28 February 2021

RISK AND REGULATORY DEVELOPMENTS (CONTINUED)

Anti-Money Laundering and Counter Terrorism Financing Act 2006 Compliance

Recognising that banks play a vital role in identifying, disrupting and preventing financial crime from occurring within the banking and finance sector and to protect Australia's financial system from criminal exploitation, the Bank continues to build its financial crime capability through technology, people, partnerships and strong Anti-Money Laundering (**AML**) / Counter Terrorism Financing (**CTF**), Anti-Bribery and Corruption (**AB&C**), and Sanctions evasion frameworks.

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

The Bank has a long history of working co-operatively with regulators and law enforcement agencies to prevent financial crime. The Bank is committed to meeting AML/CTF regulatory requirements and will continue to monitor compliance with AML/CTF legislation in conjunction with the Australian Transaction Reports and Analysis Centre (**AUSTRAC**). The Bank continues to engage and meet regularly with AUSTRAC in relation to the Bank's AML/CTF program.

Other regulatory developments are consistent with those disclosed in the 31 August 2020 Annual Report.

MANAGEMENT CHANGES

On 11 January 2021, Danielle Keighery commenced as Chief Customer Officer.

On 31 January 2021, Lyn McGrath retired as Group Executive, Retail Banking.

On 1 February 2021, Nicholas Allton was appointed to the role of Group General Counsel and Company Secretary.

Martine Jager will commence as Group Executive, Retail Banking on 27 April 2021.

SUBSEQUENT EVENTS

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

On 22 February 2021, BOQ announced it had entered into an agreement to acquire 100 per cent of ME Bank for cash consideration of $1.325 billion. On 15 March 2021, BOQ completed a $1.35 billion equity raising, comprising both a retail and institutional element (together, the **Equity Raising**). The Equity Raising resulted in the issue of 184 million new ordinary shares, representing 40.4 per cent of BOQ's existing securities on issue. The New Shares issued under the Equity Raising rank equally with existing BOQ shares as at their date of issue. Equity raised in March 2021 is not reflected in the statement of financial position as at the reporting date but is reflected in EPS metrics in the Consolidated Income Statement, in line with AASB 133 *Earnings per share*.

The Bank has determined to pay an interim dividend of 17 cents per ordinary share totalling $109 million, to be paid on 26 May 2021. Further details with respect to the dividend amount per share, payment date and dividend reinvestment plan can be obtained from Note 5.2.3.

DIRECTORS' REPORT

For the half year ended 28 February 2021

MANAGEMENT ATTESTATION

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

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

(ii) present a true and fair view of the Group's financial position and performance as at and for the half year ended 28 February 2021.

Further, that in their opinion financial records for the Group have been properly maintained for the half year ended 28 February 2021.

The Directors' Declaration can be found on page 55 of this document.

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

The lead auditor's independence declaration is set out on page 32 and forms part of the Directors' Report for the half year ended 28 February 2021.

ROUNDING OF AMOUNTS

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

Signed in accordance with a resolution of the Directors:

Patrick Allaway
Chairman
14 April 2021

George Frazis
Managing Director & CEO
14 April 2021

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

To the Directors of Bank of Queensland Limited

I declare that, to the best of my knowledge and belief, in relation to the review of Bank of Queensland Limited for the half-year ended 28 February 2021 there have been:

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

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

KPMG

KPMG

Shaun Kendrigan
Partner

Sydney
14 April 2021

CONSOLIDATED INCOME STATEMENT

For the half year ended 28 February 2021

	Note	Feb-21 $m	Feb-20 $m
Interest income:		793	932
Effective interest income		739	867
Other		54	65
Interest expense		(281)	(449)
Net interest income		512	483
Other operating income	5.2.1	61	56
Net banking operating income		573	539
Net insurance operating income	5.2.1	4	6
Net operating income before impairment and operating expenses		577	545
Expenses (1)		(330)	(379)
Impairment on loans and advances (1)		(24)	(28)
Profit before income tax		223	138
Income tax expense	5.2.2	(69)	(45)
Profit for the period		154	93
Profit attributable to:			
Equity holders of Bank of Queensland Limited		154	93
Earnings per share (2)			
Basic earnings per share – Ordinary shares (cents)		31.8	20.4
Diluted earnings per share – Ordinary shares (cents)		29.6	19.4

(1) The February 2020 financial results includes a $2 million restatement of employee costs from Impairment on loans and advances to Expenses.

(2) The basic and diluted earnings per share for February 2021 and February 2020 have been adjusted for the effects of the Group's capital raise that occurred in March 2021. (Refer to Note 5.5.5).

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the half year ended 28 February 2021

	Feb-21 $m	Feb-20 $m
Profit for the period	154	93
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	48	16
Net movement transferred to profit or loss	10	10
Debt instruments at fair value through other comprehensive income (**FVOCI**):		
Net change in fair value	34	-
Net movement transferred to profit or loss	(6)	(5)
Other comprehensive income, net of income tax	86	21
Total comprehensive income for the period	240	114
Total comprehensive income attributable to:		
Equity holders of Bank of Queensland Limited	240	114

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

CONSOLIDATED BALANCE SHEET

As at 28 February 2021

	Note	Feb-21 $m	Aug-20 $m
ASSETS			
Cash and cash equivalents		1,136	1,353
Due from other financial institutions		695	860
Derivative financial assets	5.3.3 (B)	128	154
Financial assets at fair value through profit or loss (**FVTPL**)	5.3.3 (B)	1,364	1,854
Debt instruments at FVOCI	5.3.3 (B)	5,220	4,530
Equity instruments at FVOCI	5.3.3 (B)	6	6
Loans and advances	5.3.3 (A); 5.3.4	47,734	46,674
Other assets		162	148
Current tax assets		–	2
Property, plant and equipment		135	148
Assets held for sale	5.4.1	44	–
Deferred tax assets		73	122
Intangible assets		927	908
Investments in joint arrangements and associates		13	13
Total assets		57,637	56,772
LIABILITIES			
Due to other financial institutions – accounts payable at call		266	296
Deposits	5.3.3 (A)	41,063	39,593
Derivative financial liabilities	5.3.3 (B)	659	803
Accounts payable and other liabilities		406	458
Current tax liabilities		3	–
Liabilities held for sale	5.4.1	19	–
Provisions		48	47
Insurance policy liabilities [1]		–	5
Borrowings	5.3.3 (A)	10,753	11,339
Total liabilities		53,217	52,541
Net assets		4,420	4,231
EQUITY			
Issued capital		3,870	3,869
Reserves		335	184
Retained profits		215	178
Total equity		4,420	4,231

(1) Insurance policy liabilities have been reclassified as Held for Sale following the announced sale of St Andrew's (refer to Note 5.4.1).

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the half year ended 28 February 2021

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

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

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the half year ended 28 February 2021

	Issued capital $m	Employee benefits reserve $m	Equity reserve for credit losses $m	Other reserves $m	Retained profits $m	Total equity $m
HALF YEAR ENDED 29 FEBRUARY 2020						
Balance as at 1 September 2019	3,497	26	62	125	149	3,859
Change on adoption of new accounting standards [1]	–	–	–	–	(6)	(6)
Restated balance at beginning of the year	3,497	26	62	125	143	3,853
Total comprehensive income for the period						
Profit for the period	–	–	–	–	93	93
Transfers to profit reserve	–	–	–	69	(69)	–
Other comprehensive income, net of income tax:						
Cash flow hedges:						
Net movement taken to equity	–	–	–	16	–	16
Net movement transferred to profit or loss	–	–	–	10	–	10
Debt instruments at FVOCI:						
Net change in fair value	–	–	–	–	–	–
Net movement transferred to profit or loss	–	–	–	(5)	–	(5)
Equity instruments at FVOCI:						
Net change in fair value	–	–	–	–	–	–
Transfers from equity reserve for credit losses	–	–	2	–	(2)	–
Total other comprehensive income	–	–	2	21	(2)	21
Total comprehensive income for the period	–	–	2	90	22	114
Transactions with owners, recorded directly in equity / contributions by and distributions to owners						
Issues of ordinary shares [2]	4	–	–	–	–	4
Dividend reinvestment plan	31	–	–	–	–	31
Dividends to shareholders	–	–	–	(126)	–	(126)
Institutional share placement [3]	250	–	–	–	–	250
Costs of capital issue	(4)	–	–	–	–	(4)
Share purchase plan [4]	90	–	–	–	–	90
Treasury shares revaluation	–	–	–	(1)	–	(1)
Total contributions by and distributions to owners	371	–	–	(127)	–	244
Balance as at 29 February 2020	3,868	26	64	88	165	4,211

(1) The February 2020 financial results reflected the adoption of AASB 16 from 1 September 2019.
(2) On 29 November 2019, 440,000 ordinary shares were issued at $8.33 to the trustee of the Bank of Queensland Limited Employee Share Plans Trust to satisfy the exercise of award rights and issue of shares under the Award Rights Plan, and the issue of shares under the BOQ Restricted Share Plan and the BOQ Employee Share Plan.
(3) On 26 November 2019, the Bank completed a capital raising by way of institutional share placement of new fully paid ordinary shares at an issue price of $7.78 per share. The shares were issued on 29 November 2019.
(4) On 30 December 2019, the Bank completed the share purchase plan of new fully paid ordinary shares at an issue price of $7.27 per share. The shares were issued on 2 January 2020.

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the half year ended 28 February 2021

	Note	Feb-21 $m	Feb-20 $m
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		771	890
Fees and other income received		77	62
Interest paid		(286)	(426)
Cash paid to suppliers and employees		(293)	(298)
Income tax paid		(41)	(44)
		228	184
(Increase) / decrease in operating assets:			
Loans and advances at amortised cost		(1,077)	(804)
Other financial assets		(147)	1,026
Increase / (decrease) in operating liabilities:			
Deposits		1,402	(198)
Net cash inflow from operating activities		406	208
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for property, plant and equipment		(1)	(5)
Proceeds from sale of property, plant and equipment		2	2
Payments for intangible assets		(38)	(52)
Net cash outflow from investing activities		(37)	(55)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings	5.3.5	680	1,001
Repayments of borrowings	5.3.5	(1,188)	(1,515)
Proceeds from issue of ordinary shares		–	336
Payments for treasury shares		(7)	–
Dividends paid		(48)	(95)
Payment of lease liabilities		(20)	(20)
Net cash outflow from financing activities		(583)	(293)
Net decrease in cash and cash equivalents		(214)	(140)
Cash and cash equivalents at beginning of the period		1,353	1,274
Cash and cash equivalents at end of the period		1,139	1,134
Cash and cash equivalents included in assets held for sale	5.4.1	(3)	–
Cash and cash equivalents as presented in the Balance Sheet		1,136	1,134

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

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 28 February 2021

5.1. BASIS OF PREPARATION

5.1.1. REPORTING ENTITY

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

The consolidated interim financial statements of the Bank as at and for the half year ended 28 February 2021 comprise the Consolidated Entity (or **the Group**), being the Bank and its controlled entities, and the Consolidated Entity's interest in equity accounted investments. The principal activity of the Group is the provision of financial services to the community.

5.1.2. BASIS OF ACCOUNTING

The consolidated interim financial report is a general purpose interim financial report which has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. The consolidated interim financial report does not include all the information required for a full annual financial report, and should be read in conjunction with the consolidated annual financial report of the Group as at and for the financial year ended 31 August 2020, which is available upon request from the Bank's registered office at Level 6, 100 Skyring Terrace, Newstead QLD 4006 or at ***http://www.boq.com.au***.

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

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

The consolidated interim financial report was approved by the Board of Directors on 14 April 2021.

5.1.3. SIGNIFICANT ACCOUNTING POLICIES

Except as described below, the accounting policies applied by the Group in this consolidated interim financial report are the same as those applied by the Group in its consolidated financial report as at and for the year ended 31 August 2020.

CHANGES IN ACCOUNTING POLICIES

The Group has adopted the following new standards and amendments to standards issued by the Australian Accounting Standards Board (**AASB**), including any consequential amendments to other standards, with a date of initial application of 1 September 2020. These changes in accounting policies are also expected to be reflected in the Group's financial statements as at and for the year ending 31 August 2021 with no material impact on the Group.

- AASB 2018-6 *Amendments to Australian Accounting Standards – Definition of a Business*;
- AASB 2018-7 *Amendments to Australian Accounting Standards – Definition of Material*;
- AASB 2019-3 *Amendments to Australian Accounting Standards – Standards – Interest Rate Benchmark Reform*;
- AASB 2019-5 *Amendments to Australian Accounting Standards – Standards – Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia*;
- AASB 2020-4 *Amendments to Australian Accounting Standards - COVID-19 - Related Rent Concessions*; and
- AASB 2019-1 *Amendments to Australian Accounting Standards – References to the Conceptual Framework*.

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 28 February 2021

5.1.4. USE OF JUDGEMENTS AND ESTIMATES

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

The significant judgements made by management in applying the Group's accounting policies and key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 August 2020, except the following:

PAY AND ENTITLEMENTS REVIEW

The financial reporting of provisions involves a significant degree of judgement in relation to identifying whether a present obligation exists and also in estimating the probability, timing, nature and quantum of the outflows that may arise from past events. In 2020 BOQ commenced a review of payments to employees covering Superannuation guarantee compliance and whether correct payments have been made to employees under successive BOQ Enterprise Agreements, being 2010, 2014 and 2018. Financial modelling has reconstructed BOQ's payroll obligations and the resultant provision of $17 million, covering Enterprise Agreement remediation, on-costs and interest and associated professional costs is based on management's assessment of the facts and circumstances existing as at the reporting date. It is reasonably possible that the final outcomes may differ to those reported, the impact of which will be reflected in future reporting periods.

5.1.5. COVID-19 FINANCIAL REPORTING CONSIDERATIONS

With the ongoing economic uncertainties from COVID-19, BOQ has continued to monitor its financial reporting procedures and practices in line with those applied in the Annual Report for the financial year ended 31 August 2020. While the effects of COVID-19 do not change the areas requiring significant estimation and judgement in the preparation of financial statements, they continue to result in estimation uncertainty and application of judgement within those identified areas.

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

PROVISIONS FOR IMPAIRMENT

The COVID-19 pandemic, together with measures implemented to contain the virus, continue to have a significant impact on the Australian economy. COVID-19 related impacts to GDP, property prices and unemployment have been less severe than anticipated by BOQ in the year ended 31 August 2020 but this could change as government stimulus and loan payment deferrals have ended on 31 March 2021. There is also the risk of further outbreaks of new strains of the infection which could delay the economic recovery further. Accordingly, significant estimation uncertainty with respect to the provision for impairment on loans and advances remains, as forecast macroeconomic conditions are a key factor in determining the expected credit loss (**ECL**) on these assets. Refer to Note 5.3.4.

BORROWINGS

In September 2020, the Term Funding Facility (**TFF**) was expanded with the introduction of a new supplementary allowance available from October 2020 and the draw down period of the additional allowance extended to June 2021. At the November 2020 monetary policy meeting the Reserve Bank of Australia (**RBA**) reduced the interest rate on the supplementary and additional allowance to 10 basis points per annum, keeping it in-line with the cash rate target. As at 28 February 2021, $1.24 billion of the total facility has been drawn, representing 60 per cent of BOQ's current TFF allowance of $2.07 billion. Refer to Note 5.3.5.

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 28 February 2021

5.2. FINANCIAL PERFORMANCE

5.2.1. OTHER OPERATING INCOME

	Feb-21 $m	Feb-20 $m
INCOME FROM OPERATING ACTIVITIES		
Customer fees and charges [1]	30	32
Share of fee revenue paid to owner-managed branches	(3)	(3)
Commissions	15	19
Foreign exchange income – customer based	6	6
Net profit on sale of property, plant and equipment	2	1
Net gain / (loss) from financial instruments and derivatives at fair value	1	(2)
Other income	10	3
Total other operating income	61	56
INCOME FROM INSURANCE ACTIVITIES		
Premiums from insurance contracts	21	26
Claims and policyholder liability expense from insurance contracts	(17)	(20)
Net insurance operating income	4	6
Total	65	62

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

5.2.2.INCOME TAX EXPENSE

The Group's effective tax rate for the half year ended 28 February 2021 was 31.0 per cent and for the half year ended 29 February 2020 was 32.6 per cent. This is above the corporate tax rate of 30 per cent, which is primarily attributable to the non-deductibility of interest payable on capital notes (refer to note 5.3.5 for details).

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 28 February 2021

5.2.3. DIVIDENDS

	Feb-21		Feb-20	
	Cents per share	$m	Cents per share	$m
ORDINARY SHARES				
Final 2020 dividend paid 25 November 2020 (2019: 27 November 2019)	12	55	31	126

All dividends paid on ordinary shares have been fully franked.

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

	Cents per share	$m
Interim 2021 ordinary share dividend [(1)]	17	109

(1) The interim dividend amount per share is based on the ending balance for issued capital as at 28 February 2021 and the shares issued from the capital raise which was completed subsequent to 28 February 2021 (No: of shares from capital raise 184,037,176, refer to note 5.5.5 for detail).

The interim ordinary share dividend payment will be fully franked and paid on 26 May 2021 to owners of ordinary shares at the close of business on 6 May 2021 (record date). Shares will be quoted ex-dividend on 5 May 2021.

DIVIDEND REINVESTMENT PLAN

The dividend reinvestment plan (**DRP**) provides ordinary shareholders with the opportunity to reinvest all or part of their entitlement to a dividend into new ordinary shares. The price for shares issued or transferred under the DRP is the Market Price less such discount (if any) as the directors may determine from time to time and notify to the ASX (rounded to the nearest cent).

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

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

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

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

The last date for election to participate in the DRP for the 2021 interim dividend is 7 May 2021.

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 28 February 2021

5.2.4. OPERATING SEGMENTS

The Group determines and presents operating segments based on the information that is provided internally to the Managing Director & CEO, the Bank's chief operating decision maker. Segment results that are reported to the Managing Director & CEO include items directly attributable to a segment, as well as those that can be allocated on a reasonable basis.

The Bank's operating segments comprise the following:

Retail Banking – retail banking solutions to customers managed through our Owner-managed and Corporate branch network, third party intermediaries 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. The St Andrew's Insurance Group is classified as held for sale in the current half year (refer to note 5.4.1 for details).

	Half year ended 28 February 2021			
	Retail Banking $m	BOQ Business $m	Other $m	Segment total $m
Net interest income [1]	236	270	6	512
Non-interest income	27	25	5	57
Total income	263	295	11	569
Operating expenses	(167)	(132)	(7)	(306)
Underlying profit	96	163	4	263
Loan impairment expense	6	(30)	-	(24)
Segment cash profit before tax	102	133	4	239
Income tax expense	(32)	(41)	(1)	(74)
Segment cash profit after tax [2]	70	92	3	165
STATUTORY BASIS ADJUSTMENTS:				
Amortisation of acquisition fair value adjustments	-	-	(1)	(1)
Hedge ineffectiveness	-	-	(1)	(1)
Integration / transaction costs	-	-	(3)	(3)
Employee pay and entitlements review	-	-	(6)	(6)
Statutory net profit / (loss) after tax	70	92	(8)	154

(1) Interest income and interest expenses are disclosed in this note on a net interest income basis. This is in line with the information provided internally to the Managing Director & CEO.
(2) This excludes a number of items that introduce volatility and / or one-off distortions of the current period performance.

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

All inter-segment profits are eliminated on consolidation.

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 28 February 2021

5.2.4. OPERATING SEGMENTS (CONTINUED)

	Half year ended 29 February 2020 [1]			
	Retail Banking $m	BOQ Business $m	Other $m	Segment total $m
Net interest income [2]	214	271	(2)	483
Non-interest income	29	21	8	58
Total income	243	292	6	541
Operating expenses [3]	(155)	(128)	(11)	(294)
Underlying profit	88	164	(5)	247
Loan impairment expense [3]	(8)	(20)	-	(28)
Segment cash profit before tax	80	144	(5)	219
Income tax expense	(25)	(45)	2	(68)
Segment cash profit / (loss) after tax [4]	55	99	(3)	151
STATUTORY BASIS ADJUSTMENTS:				
Amortisation of acquisition fair value adjustments	-	-	(2)	(2)
Hedge ineffectiveness	-	-	(3)	(3)
Intangible asset review [5]	-	-	(32)	(32)
Restructure	-	-	(15)	(15)
Legacy and regulatory / compliance	-	-	(6)	(6)
Statutory net profit / (loss) after tax	55	99	(61)	93

(1) The February 2020 financial results reflect the adoption of AASB 16 on 1 September 2019.
(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 $2 million restatement of employee costs from Impairment on loans and advances to Expenses.
(4) This excludes a number of items that introduce volatility and / or one-off distortions of the current period performance.
(5) Intangible asset review includes a non-recurring adjustment due to a change in the minimum threshold for the capitalisation of intangible assets and the accelerated amortisation and impairment of intangible assets.

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 28 February 2021

5.3. CAPITAL AND BALANCE SHEET MANAGEMENT

5.3.1. CAPITAL MANAGEMENT

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

The Board has set the CET1 capital target range to be between 9.0 and 9.5 per cent of risk weighted assets and the total capital range to be between 11.75 and 13.5 per cent of risk weighted assets. At 10.03 per cent, BOQ has a significant buffer above the upper end of the target range. The proceeds from the capital raise related to the acquisition of ME Bank are not included in the CET1 ratio as at 28 February 2021.

Qualifying capital for Level 2 entities [(1)]	Feb-21 $m	Aug-20 $m
Common Equity Tier 1 Capital		
Paid-up ordinary share capital	3,870	3,871
Reserves	298	134
Retained profits, including current half profits	199	163
Total Common Equity Tier 1 Capital	4,367	4,168
Regulatory adjustments		
Goodwill and intangibles	(927)	(908)
Deferred expenditure	(201)	(187)
Other deductions	(18)	16
Total regulatory adjustments	(1,146)	(1,079)
Net Common Equity Tier 1 Capital	3,221	3,089
Additional Tier 1 Capital	610	350
Net Tier 1 Capital	3,831	3,439
Tier 2 Capital		
Tier 2 Capital	350	350
General reserve for credit losses	263	230
Net Tier 2 Capital	613	580
Capital base	4,444	4,019
Risk weighted assets	32,126	31,576
Common Equity Tier 1 Capital	10.03%	9.78%
Net Tier 1 Capital ratio	11.92%	10.89%
Total Capital Adequacy ratio	13.83%	12.73%

(1) APRA Prudential Standard *APS 001* defines Level 2 as the Bank and all of its subsidiary entities other than non-consolidated subsidiaries. The non-consolidated subsidiaries excluded from Level 2 regulatory measurement at 28 February 2021 are:

- Bank of Queensland Limited Employee Share Plans Trust;
- Home Credit Management Pty Ltd;
- St Andrew's Australia Services Pty Ltd;
- St Andrew's Life Insurance Pty Ltd;
- St Andrew's Insurance (Australia) Pty Limited;
- Series 2012-1E REDS Trust;
- Series 2013-1 REDS Trust;
- Series 2015-1 REDS Trust;
- Series 2017-1 REDS Trust;
- Series 2018-1 REDS Trust; and
- Series 2019-1 REDS Trust.

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 28 February 2021

5.3.2. ISSUED CAPITAL

	Feb-21 Number	Feb-20 Number
MOVEMENTS DURING THE PERIOD		
Balance at the beginning of the period – fully paid	454,335,413	405,784,809
Dividend reinvestment plan [(1)]	1,015,377	3,642,826
Issue of ordinary shares [(2)]	130,000	440,000
Institutional share placement [(3)]	-	32,133,677
Share purchase plan [(4)]	-	12,334,101
Balance at the end of the period – fully paid [(5)]	455,480,790	454,335,413
Treasury shares (included in ordinary shares above)		
Balance at the beginning of the period	633,187	644,034
Net acquisitions and disposals during the period	771,603	84,026
Balance at the end of the period	1,404,790	728,060

(1) 13 per cent of the dividend paid on 25 November 2020 and 25 per cent of the dividend paid on 27 November 2019 was reinvested by shareholders as part of the dividend reinvestment plan.

(2) On 9 November 2020, 130,000 ordinary shares were issued at $6.37 to the trustee of the Bank of Queensland Limited Employee Share Plans Trust to satisfy the issue of shares under the BOQ Employee Gift Plan. On 29 November 2019, 440,000 ordinary shares were issued at $8.33 to the trustee of the Bank of Queensland Limited Employee Share Plans Trust to satisfy the exercise of award rights and issue of shares under the Award Rights Plan, and the issue of shares under the BOQ Restricted Share Plan and the BOQ Employee Share Plan.

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

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

(5) The ending balance for issued capital excludes the capital raise which was completed subsequent to 28 February 2021. Refer to note 5.5.5 for detail.

5.3.3. FINANCIAL INSTRUMENTS

(A) COMPARISON OF FAIR VALUE TO CARRYING AMOUNTS

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

	Carrying value		Fair value	
	Feb-21 $m	Aug-20 $m	Feb-21 $m	Aug-20 $m
ASSETS				
Loans and advances	47,734	46,674	47,831	46,891
	47,734	46,674	47,831	46,891
LIABILITIES				
Deposits	(41,063)	(39,593)	(41,074)	(39,599)
Borrowings	(10,753)	(11,339)	(10,770)	(11,330)
	(51,816)	(50,932)	(51,844)	(50,929)

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 28 February 2021

5.3.3. FINANCIAL INSTRUMENTS (CONTINUED)

(B) FAIR VALUE HIERARCHY

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

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

The fair value hierarchy classification of instruments in note 5.3.3 (A) are as follows:

- Loans and advances – Level 3; and
- Deposits and borrowings – Level 2.

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

	Feb-21			
	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial instruments measured at fair value				
Derivative financial assets	–	128	–	128
Financial assets at FVTPL	19	1,345	–	1,364
Debt instruments at FVOCI	4,788	432	–	5,220
Equity instruments at FVOCI	–	–	6	6
	4,807	1,905	6	6,718
Derivative financial liabilities	–	(659)	–	(659)
	4,807	1,246	6	6,059

	Aug-20			
	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

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

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 28 February 2021

5.3.3. FINANCIAL INSTRUMENTS (CONTINUED)

(C) VALUATION TECHNIQUES USED TO DERIVE LEVEL 2 AND LEVEL 3 FAIR VALUES

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

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

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

5.3.4. LOANS AND ADVANCES

	Feb-21 $m	Aug-20 $m
Gross loans and advances	48,192	47,135
Less:		
Unearned leasing finance income	(84)	(92)
Specific provision for impairment	(103)	(94)
Collective provision for impairment	(271)	(275)
Total loans and advances	47,734	46,674

At reporting date, the gross carrying value of loans and advances that are subject to a COVID-19 relief package was $0.18 billion (FY20 $6.2 billion), comprised of $0.1 billion in Residential property loans (FY20 $3.7 billion) and $0.08 billion in Commercial loans (FY20 $2.5 billion). COVID-19 relief package deferrals and other Government COVID-19 related stimulus will end on 31 March 2021.

PROVISION FOR IMPAIRMENT

The following table discloses the reconciliation of the ECL model for the half year ended 28 February 2021:

	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 2020	95	115	65	94	369
Transfers during the period to:					
Stage 1	18	(10)	(1)	(7)	-
Stage 2	(5)	6	(1)	-	-
Stage 3	-	(2)	-	2	-
New / increased provisions	69	34	13	35	151
Write-back of provisions no longer required	(42)	(38)	(45)	(4)	(129)
Amounts written off, previously provided for	-	-	-	(15)	(15)
Unwind discount	-	-	-	(2)	(2)
Balance as at 28 February 2021	135	105	31	103	374

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 28 February 2021

5.3.4. LOANS AND ADVANCES (CONTINUED)

	Collective Provision				
	Stage 1 – 12 month ECL $m	Stage 2 – Lifetime ECL $m	Stage 3 – Lifetime ECL $m	Stage 3 – Specific provision $m	Total $m
Balance as at 1 March 2020	86	38	26	85	235
Transfers during the period to:					
Stage 1	(2)	1	–	1	–
Stage 2	(1)	–	1	–	–
Stage 3	–	1	–	(1)	–
New / increased provisions	21	74	38	17	150
Write-back of provisions no longer required	(9)	1	–	4	(4)
Amounts written off, previously provided for	–	–	–	(10)	(10)
Unwind discount	–	–	–	(2)	(2)
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 during the half year ended 28 February 2021:

	Stage 1 – 12 month ECL $m	Stage 2 – Lifetime ECL $m	Stage 3 – Lifetime ECL $m	Stage 3 – Specific provision $m	Total $m
Gross carrying amount as at 1 September 2020	42,831	3,605	408	199	47,043
Transfers during the period to:					
Stage 1	1,155	(1,110)	(44)	(1)	–
Stage 2	(1,419)	1,485	(40)	(26)	–
Stage 3	(72)	(73)	86	59	–
New loans and advances originated or purchased	7,078	11	3	–	7,092
Loans and advances derecognised during the period including write-offs	(5,529)	(392)	(86)	(20)	(6,027)
Balance at the end of the period	44,044	3,526	327	211	48,108
Provision for impairment	(135)	(105)	(31)	(103)	(374)
Net carrying amount as at 28 February 2021	43,909	3,421	296	108	47,734

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 28 February 2021

5.3.4. LOANS AND ADVANCES (CONTINUED)

	Stage 1 – 12 month ECL $m	Stage 2 – Lifetime ECL $m	Stage 3 – Lifetime ECL $m	Stage 3 – Specific provision $m	Total $m
Gross carrying amount as at 1 March 2020	44,187	2,285	331	195	46,998
Transfers during the period to:					
Stage 1	93	(92)	(3)	2	-
Stage 2	(1,361)	1,365	(4)	-	-
Stage 3	(108)	(9)	101	16	-
New loans and advances originated or purchased	5,181	296	29	1	5,507
Loans and advances derecognised during the period including write-offs	(5,161)	(240)	(46)	(15)	(5,462)
Balance at the end of the period	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

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

	Feb-21 $m	Aug-20 $m	Feb-20[1] $m
Increase / (decrease) in collective provision for impairment	**(4)**	125	2
Increase in specific provision for impairment	**12**	11	3
Bad debts written off net of recoveries	**16**	11	23
Impairment expense on loans and advances	**24**	147	28

(1) The February 2020 financial results includes a $2 million restatement of Employee costs from Impairment on loans and advances to Expenses.

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 28 February 2021

5.3.4. LOANS AND ADVANCES (CONTINUED)

IMPACT OF COVID-19 ON ECL

In response to the COVID-19 global pandemic, BOQ continues to offer support to its customers through a range of industry-wide financial assistance measures including temporary loan repayment deferrals. Notwithstanding these measures, together with government stimulus, there remains significant estimation uncertainty in relation to the measurement of BOQ's ECL for loans and advances.

In determining the reported ECL of $374 million the Group has taken into account the facts, circumstances and forecasts of future economic conditions and supportable information available at the reporting date. The fundamental credit model mechanics and methodology underpinning BOQ's calculation of ECL have broadly remained consistent with prior periods, including economic and model overlays reflecting the considerable uncertainty at that time. However, observed credit deterioration, and its resultant impact on Probability of Default (**PD**) and Loss Given Default (**LGD**), incorporated in the most recent data set has translated some of the model overlay into the modelled outcome. To further account for the remaining forward looking uncertainty within the modelled outcome additional management overlays have been reflected to maintain a sufficient level of collective provision.

ECL reflects an unbiased and probability-weighted amount, determined by the evaluation of a range of possible forward looking economic outcomes, rather than being based on a best or worst case scenario. The macro-economic outlook, as reflected in the base case scenario, has improved since the outbreak of COVID-19 including lower unemployment and improved residential property prices. However, the potential for further downside risk remains, including economic deterioration from additional lockdowns and the reduction of government support. While the probability weighting of each scenario has not changed since FY20, there have been updates to the underlying assumptions in the base case scenario utilising the most up to date macro-economic information available as at reporting date. Assumptions in the downside and severe scenarios have been held constant with prior periods. The table below shows the updated macro-economic assumptions used in the base case scenario, which reflects the Group's view of the most likely economic scenario at a point in time.

	Base (Calendar year)	
Macro-economic assumption	2021 (%)	2022 (%)
GDP (annual change)	2.90	2.80
Unemployment rate	7.00	6.30
Residential property prices (annual change)	3.25	4.00
Commercial property prices (annual change)	(2.75)	0.25

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 28 February 2021

5.3.5. BORROWINGS

The Consolidated Entity recorded the following movements on borrowings:

	Securitisation liabilities[1] $m	Covered bonds liabilities[2] $m	Debt issues[3] $m	Term funding facility[4] $m	Subordinated notes $m	Capital notes[6] $m	Total $m
HALF YEAR ENDED 28 FEBRUARY 2021							
Balance at the beginning of the period	3,429	2,367	4,027	820	350	346	11,339
Proceeds from issues	-	-	-	420	-	260	680
Repayments	(563)	-	(625)	-	-	-	(1,188)
Deferred establishment costs	-	-	-	-	-	(5)	(5)
Amortisation of deferred costs[7]	1	1	1	-	-	1	4
Foreign exchange translation[7]	-	(71)	(6)	-	-	-	(77)
Balance at the end of the period	2,867	2,297	3,397	1,240	350	602	10,753

	Securitisation liabilities[1] $m	Covered bonds liabilities[2] $m	Debt issues[3] $m	Subordinated notes $m	Capital notes[5][6] $m	Total $m
HALF YEAR ENDED 29 FEBRUARY 2020						
Balance at the beginning of the period	4,617	1,649	4,876	349	495	11,986
Proceeds from issues	366	-	635	-	-	1,001
Repayments	(831)	-	(684)	-	-	(1,515)
Deferred establishment costs	-	-	(1)	-	-	(1)
Amortisation of deferred costs[7]	2	1	1	-	-	4
Foreign exchange translation[7]	-	35	4	-	-	39
Balance at the end of the period	4,154	1,685	4,831	349	495	11,514

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

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

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

(4) The TFF provides funding at a fixed interest rate of 25 basis points, for a maximum of 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 RBA's eligibility criteria. At 28 February 2021, the Group has pledged $1.54 billion of self-securitised residential mortgage-backed securities as collateral.

(5) Wholesale Capital Notes
On 26 May 2020, BOQ redeemed in full the total 15,000 Wholesale Capital Notes (**WCNs**), which were issued by the Bank on 26 May 2015, after receiving written approval by APRA. The WCNs were redeemed at their Face Value of $10,000 per note.

(6) Capital Notes
On 28 December 2017, the Bank issued 3,500,000 Capital Notes at a price of $100 per note. Capital Notes are perpetual and convertible notes issued by BOQ, with preferred, discretionary, non-cumulative distributions. They are not guaranteed or secured. As at 28 February 2021, 3,500,000 Capital Notes were outstanding. Capital Notes must convert into ordinary shares on 15 August 2026 if certain mandatory conversion conditions are satisfied, unless they are converted or redeemed earlier. Where the mandatory conversion conditions are satisfied, a holder will receive a number of ordinary shares per Capital Note based on the volume weighted average price of ordinary shares during a specified period. The Capital Notes must also convert to ordinary shares of the Bank with the occurrence of a loss absorption event or an acquisition event. BOQ may elect to convert, redeem or resell Capital Notes on 15 August 2024 or following a regulatory or tax event. BOQ may also elect to convert all Capital Notes following a potential acquisition event. These options are subject to APRA's prior written approval and certain conditions being satisfied. In a winding up of the Bank, Capital Notes will rank for payment of capital ahead of ordinary shares, equally with Capital Notes 2 and other equal ranking instruments, but behind the claims of all senior ranking creditors, including depositors and unsubordinated and subordinated creditors.

Capital Notes 2

On 30 November 2020, the Bank issued 2,600,000 Capital Notes 2 at a price of $100 per note. Capital Notes 2 are perpetual and convertible notes issued by BOQ, with preferred, discretionary, non-cumulative distributions. They are not guaranteed or secured. As at 28 February 2021, 2,600,000 Capital Notes 2 were outstanding. Capital Notes 2 must convert into ordinary shares on 15 May 2029 if certain mandatory conversion conditions are satisfied, unless they are converted or redeemed earlier. Where the mandatory conversion conditions are satisfied, a holder will receive a number of ordinary shares per Capital Note 2 based on the volume weighted average price of ordinary shares during a specified period. Capital Notes 2 must also convert to ordinary shares of the Bank with the occurrence of a loss absorption event or an acquisition event. BOQ may elect to convert, redeem or resell Capital Notes 2 on 14 May 2027 or following a regulatory or tax event. BOQ may also elect to convert all Capital Notes 2 following a potential acquisition event. These options are subject to APRA's prior written approval and certain conditions being satisfied. In a winding up of the Bank, Capital Notes 2 will rank for payment of capital ahead of ordinary shares, equally with Capital Notes (issued 28 December 2017) and other equal ranking instruments, but behind the claims of all senior ranking creditors, including depositors and unsubordinated and subordinated creditors.

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

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 28 February 2021

5.4. CONTROLLED ENTITIES

5.4.1. OPERATIONS CLASSIFIED AS HELD FOR SALE

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 (the **St Andrew's Insurance Group**) for proceeds of approximately $23 million. The transaction is expected to be completed before the end of the 2021 financial year and is subject to certain conditions including regulatory approvals. As at 28 February 2021, the Consolidated Entity met the relevant criteria for reporting the St Andrew's Insurance Group as held for sale under AASB 5 *Non-current assets held for sale and discontinued operations* (**AASB 5**). However, as all of the assets of the disposal group are excluded from the measurement requirements of AASB 5 an impairment loss has not been recognised. As such, the indicative loss on sale after tax of $27 to $30 million will be reflected upon completion and will be impacted by completion adjustments, transaction costs and final taxation impacts.

The sale of the St Andrew's Group will impact the operating segment, Other. Financial information in relation to the St Andrew's Group assets and liabilities held for sale for the period to 28 February 2021 is set out below:

	2021[1] $m
Cash and cash equivalents	3
Due from other financial institutions – term deposits	33
Assets arising through reinsurance contracts	5
Other assets	3
Total assets	44
Insurance policy liabilities	7
Other liabilities	12
Total liabilities	19
Net assets	25

(1) Intragroup balances have been eliminated, however, will impact on the final loss on sale at completion.

5.5. OTHER NOTES

5.5.1. INTANGIBLE ASSETS

No impairment of goodwill has been recognised for the half year ended 28 February 2021.

5.5.2. EMPLOYEE BENEFITS

Effective 1 September 2020, the Group made changes to the way it delivers variable remuneration, including the discontinuation of the Performance Award Rights (**PARs**) plan and the introduction of Performance Shares and Premium Priced Options. Performance Shares are delivered in rights that convert to restricted shares at the end of the financial year based on the Board's assessment of performance against the Group Scorecard, risk and conduct. Once converted, the restricted shares vest after a further one, two and three years. The fair value of Performance Shares is the share price discounted by the assumed dividend yield. Premium Priced Options vest at the end of years four and five with an exercise price set at 120 per cent of the share price based on a volume weighted average price over the five trading days following the Annual General Meeting (**AGM**). The Premium Priced Options have been valued using a four step approach that uses a simulation approach to project future share prices and then the Binomial model to value the options on vesting.

The Managing Director and CEO and his direct reports no longer participate in Short-term Incentives (**STI**) and now receive their variable remuneration in Performance Shares and Premium Priced Options. During the half year ended 28 February 2021, 481,009 Performance Shares with a fair value of $3.6 million and 5,344,337 Premium Priced Options with a fair value of $3 million were granted to eligible employees.

Variable remuneration for other employees is delivered via a combination of Performance Shares and Premium Priced Options, STI and Premium Priced Options, STI and Deferred Award Rights (**DARs**) or STI only, depending on role and level. A portion of any STI award that exceeds the Board-approved threshold will be deferred into Restricted Shares to vest after one and two years.

5.5.3. RELATED PARTIES

The terms of arrangements for all related parties are consistent with those disclosed in the 31 August 2020 Annual Report.

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 28 February 2021

5.5.4. CONTINGENT LIABILITIES

As part of the St Andrew's sale agreement, BOQ will provide a capped indemnity of $8.5 million to the buyer, Farmcove Investment Holdings, for certain pre-completion matters.

5.5.5. EVENTS SUBSEQUENT TO BALANCE DATE

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

On 22 February 2021, BOQ announced it had entered into an agreement to acquire 100 per cent of ME Bank for cash consideration of $1.325 billion. On 15 March 2021, BOQ completed a $1.35 billion equity raising, comprising both a retail and institutional element (together, the **Equity Raising**). The Equity Raising resulted in the issue of 184 million new ordinary shares, representing 40.4 per cent of BOQ's existing securities on issue. The New Shares issued under the Equity Raising rank equally with existing BOQ shares as at their date of issue. Equity raised in March 2021 is not reflected in the statement of financial position as at the reporting date but is reflected in EPS metrics in the Consolidated Income Statement, in line with AASB 133 *Earnings per share*.

The Bank has determined an interim dividend to be paid on 26 May 2021. Further details with respect to the dividend amount per share, payment date and dividend reinvestment plan can be obtained from Note 5.2.3.

DIRECTORS' DECLARATION

For the half year ended 28 February 2021

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

(a) the consolidated financial statements and accompanying notes, set out on pages 33 to 54 are in accordance with sections 302 to 306 of the *Corporations Act 2001* (Cth), including that they:

(i) give a true and fair view of the financial position of the Consolidated Entity as at 28 February 2021 and of its performance, for the half year ended on that date;

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

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

Signed in accordance with a resolution of the Directors:

Patrick Allaway
Chairman
14 April 2021

George Frazis
Managing Director & CEO
14 April 2021

INDEPENDENT AUDITOR'S REVIEW REPORT

To the shareholders of Bank of Queensland Limited

Report on the Consolidated Interim Financial Report

Conclusion

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

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

- giving a true and fair view of the ***Consolidated Entity's*** financial position as at 28 February 2021 and of its financial performance for the ***half-year*** ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

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

- Consolidated Balance sheet as at 28 February 2021;
- Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows for the Half-year ended on that date;
- Notes 5.1.1 to 5.5.5 comprising a summary of significant accounting policies and other explanatory information; and
- The Directors' Declaration.

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

Basis for Conclusion

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

We are independent of the Consolidated Entity in accordance with the auditor independence requirements of 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 Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

KPMG

INDEPENDENT AUDITOR'S REVIEW REPORT

Responsibilities of the Directors for the Consolidated Interim Financial Report

The Directors of the Company are responsible for:

- the preparation of the Consolidated Interim Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001;* and
- such internal control as the Directors determine is necessary to enable the preparation of the Consolidated Interim Financial Report that is free from material misstatement, whether due to fraud or error.

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

Our responsibility is to express a conclusion on the Consolidated Interim Financial Report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the Consolidated Interim Financial Report does not comply with the *Corporations Act 2001* including giving a true and fair view of the Consolidated Entity's financial position as at 28 February 2021 and its performance for the Half-Year ended on that date, and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

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

Kpmg

KPMG

Shaun Kendrigan
Partner

Sydney
14 April 2021

BOQ GROUP - 2021 HALF YEAR RESULTS

6. APPENDICES

6.1 ASX APPENDIX 4D

CROSS REFERENCE INDEX	PAGE
Details of reporting period and previous period (Rule 4.2A.3 Item No. 1)	Inside front cover
Results for announcement to the market (Rule 4.2A.3 Item No. 2)	Inside front cover
Net tangible assets per security (Rule 4.2A.3 Item No. 3)	58
Details of entities over which control has been gained or lost (Rule 4.2A.3 Item No. 4)	53
Dividends and dividend dates (Rule 4.2A.3 Item No. 5)	Inside front cover and 42
Dividend reinvestment plan (Rule 4.2A.3 Item No. 6)	42
Details of associated and joint venture entities (Rule 4.2A.3 Item No. 7)	58
Foreign entities (Rule 4.2A.3 Item No. 8)	Not applicable
Independent audit report subject to modified opinion (Rule 4.2A.3 Item No. 9)	Not applicable

DETAILS OF ASSOCIATED AND JOINT VENTURE ENTITIES (RULE 4.2A.3 ITEM NO. 7)	OWNERSHIP INTEREST HELD (%)
Joint arrangements [(1)]	
Ocean Springs Pty Ltd (Brighton)	9.31
Dalyellup Beach Pty Ltd (Dalyellup)	17.08
East Busselton Estate Pty Ltd (Provence)	25.00
Coastview Nominees Pty Ltd (Margaret River)	5.81
Provence 2 Pty Ltd (Provence 2)	25.00

(1) The principal activity of the joint venture entities is land subdivision, development and sale. These investments were acquired as part of the Home Building Society acquisition in 2007. No change in ownership interest held since 31 August 2020.

	As at		
Net tangible assets per security (Rule 4.2A.3 Item No. 3)	Feb-21	Aug-20	Feb-20
Net tangible assets per ordinary shares ($) [(1)]	7.67	7.31	7.26

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

GLOSSARY

TERM	DESCRIPTION
Anti-Bribery and Corruption (**AB&C**)	Laws put in place for the prohibition of bribery and corruption.
Anti-Money Laundering (**AML**)	Policies and Procedures put in place by Financial Institutions to prevent criminals from disguising illegally obtained funds as legitimate income.
APRA Prudential Standard (**APS**)	Prudential standards issued by APRA which are applicable to ADIs.
Asset backed securities (**ABS**)	A financial security which is pledged by a pool of assets such as but not limited to loans, leases and credit card debt.
Australian Accounting Standards Board (**AASB**)	The AASB produces a series of technical pronouncements that set out the measurement and recognition requirements when accounting for particular types of transactions and events, along with the preparation and presentation requirements of an entity's financial statements.
Australian Finance Industry Association (**AFIA**)	AFIA is the national association for the equipment leasing and financing industry. Formerly Australian Equipment Lessors Association.
Australian Prudential Regulation Authority (**APRA**)	APRA is the prudential regulator of the Australian financial services industry. APRA is an independent statutory authority that supervises institutions across banking, insurance and superannuation and promotes financial system stability in Australia.
Australian Securities & Investments Commission (**ASIC**)	ASIC is Australia's corporate, markets and financial services regulator.
Australian Securities Exchange (**ASX**)	Australian Securities Exchange or ASX Limited (ABN 98 008 624 691) and the market activities operated by ASX Limited.
Australian Transactions Reports and Analysis Centre (**AUSTRAC**)	Australian Government agency responsible for preventing, detecting and responding to criminal abuse of the financial system.
Authorised deposit-taking institution (**ADI**)	A corporation which is authorised under the *Banking Act 1959* and includes banks, building societies and credit unions.
Available stable funding (**ASF**)	ASF is the portion of capital and liabilities expected to be reliable over the time horizon considered by the NSFR, which extends to one year.
Average interest earning assets	Average balance over the period for a bank's assets that accrue interest income.
Banking Relief Package (**BRP**)	A form of Government assistance that gives eligible clients the option of deferring loan repayments for a period of time.
Bank of Queensland Limited (**the Bank** or **BOQ**)	The Bank is a for-profit entity primarily involved in providing retail banking, business banking and leasing finance products to its customers.
Basel II and III	A global regulatory framework to improve the regulation, supervision and risk management within the banking system developed by the Basel Committee on Banking Supervision.
Basis Points (**bps**)	One per cent of one per cent (0.01 per cent).
BOQ Blue	BOQ Blue refers to the original BOQ brand and excludes new brands such as Virgin Money, BOQ Specialist and BOQ Finance. It is predominantly represented as transactions and products serviced through our branch network, business bank relationship managers and financial markets.
Capital Notes (**BOQPE**) & Capital Notes 2 (**BOQPF**)	Capital Notes are perpetual, convertible, unguaranteed and unsecured notes issued by BOQ, with preferred, discretionary, non-cumulative distributions. Capital Notes may convert into common shares in certain circumstances as described in the offer documentation of the notes.
Cash earnings	Cash Earnings is a non-accounting standards measure commonly used in the banking industry to assist in presenting a clear view of underlying earnings.
Committed Liquidity Facility (**CLF**)	The RBA provides a CLF to LCR ADIs as part of Australia's implementation of the Basel III liquidity standards. The facility is designed to ensure that participating ADIs have enough access to liquidity to respond to an acute stress scenario, as specified under APS 210 *Liquidity*. CLF assets include senior unsecured bank debt, covered bonds, asset backed securities and residential mortgage-backed securities that are eligible for repurchase with the RBA.
Common Equity Tier 1 (**CET1**)	Capital that is recognised as the highest quality component of capital under APS.
Common Equity Tier 1 ratio (**CET1 ratio**)	CET1 capital divided by total RWA calculated in accordance with relevant APS.
Consolidated Entity (**the Group**)	BOQ and its subsidiaries.
Corporations Act 2001	The *Corporations Act 2001* (Cth).
Cost to income ratio (**CTI**)	Operating expenses divided by net operating income.
Counter Terrorism Financing (**CTF**)	Compliance procedures put in place by Financial Institutions to ensure money is not used for funding terrorist activity.
Covered bond guarantor	Perpetual Corporate Trust Limited ABN 99 000 341 533, incorporated with limited liability in the Commonwealth of Australia and having its registered office at Level 18, 123 Pitt Street, Sydney, NSW 2000, as trustee of the BOQ Covered Bond Trust (the Trustee).
Days Past Due (**dpd**)	A loan or lease payment that has not been made by a customer by the due date.
Dividend payout ratio	Dividends paid on ordinary shares divided by earnings.
Dividend reinvestment plan (**DRP**)	A plan which provides shareholders with the opportunity to convert all or part of their entitlement to a dividend into new shares.
Earnings per share (**EPS**)	Measure of earnings attributed to each equivalent ordinary share over a twelve month period. This is calculated by dividing the company's earnings by the weighted average number of shares on issue in accordance with AASB 133 *Earnings per share*.

GLOSSARY

TERM	DESCRIPTION
Effective tax rate	Income tax expense divided by profit before tax.
Expected Credit Loss (**ECL**)	Estimated credit losses using a forward looking impairment methodology accounted for in accordance with AASB 9 *Financial Instruments*.
Fair value through other comprehensive income (**FVOCI**)	Measurement and classification of financial assets under AASB 9 *Financial Instruments*. 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.
Gross Domestic Product (**GDP**)	Total monetary value of all goods and services produced in a country.
High Quality Liquid Asset (**HQLA1**)	Comprises of the Bank's notes and coins and marketable securities representing claims on or guaranteed by the Australian Government or Semi-Government authorities.
Impaired assets	Exposures that have deteriorated to the point where full collection of principal and interest is in doubt.
Interest bearing liabilities	The Bank's liabilities that accrue interest expense.
International Financial Reporting Standards (**IFRS**)	IFRS and interpretations issued by the International Accounting Standards Board.
Issued capital	Value of securities allotted in a company to its shareholders.
Liquid assets	All unencumbered RBA repurchase eligible liquid assets. Liquid assets are comprised of HQLA1 (cash, Australian Semi-Government and Commonwealth Government securities) and alternative liquid assets covered under the CLF provided by the Reserve Bank of Australia.
Liquidity Coverage Ratio (**LCR**)	The LCR requires sufficient HQLA1 and alternative liquid assets, covered by the CLF, to meet net cash outflows over a 30 day period, under a regulator defined liquidity stress scenario.
Loss Given Default (**LGD**)	Loss of money by a bank when a customer defaults on a loan represented as a percentage of the total exposure at the time of default.
Net interest margin (**NIM**)	Net interest income divided by average interest-earning assets.
Net Stable Funding Ratio (**NSFR**)	The NSFR is defined as the amount of ASF relative to the amount of required stable funding. APRA requires ADIs to maintain an NSFR of at least 100 per cent. ASF is defined as the portion of capital and liabilities expected to be reliable over the time horizon considered by the NSFR, which extends to one year. The amount of such stable funding required of a specific institution is a function of the liquidity characteristics and residual maturities of the various assets held by that institution as well as those of its off-balance sheet exposures.
Net Tangible Assets (**NTA**)	Net tangible assets are calculated as the total assets of a company minus any intangible assets such as goodwill, less all liabilities and the par value of preferred stock.
Non-interest earning assets	The Bank's assets that do not accrue interest income.
Novel coronavirus disease (**COVID-19**)	The Novel Coronavirus disease that was declared as a global pandemic on 11 March 2020.
Owner-managed branch (**OMB**)	A branch which is run by a franchisee.
Probability of Default (**PD**)	An estimate of the likelihood of a default over a given time horizon.
REDS	Term to describe the BOQ securitisation programmes.
Reserve Bank of Australia (**RBA**)	Australia's central bank and drives its functions and powers from the Reserve Bank Act 1959.
Residential Mortgage-Backed Securities (**RMBS**)	BOQ's securitisation program which enables the trustee to issue debt securities backed by assets originated by the Group such as mortgages.
Return on Average Equity (**ROE**)	Net profit attributable to the owners of the Bank divided by average ordinary equity.
Return on Average Tangible Equity (**ROTE**)	Net profit attributable to the owners of the Bank divided by average ordinary equity less goodwill and identifiable intangible assets.
Risk weighted assets (**RWA**)	A quantitative measure of various risks including credit, operational, market and securitisation as defined by APS.
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 Number of Shares (**WANOS**)	Calculated in accordance with AASB 133 *Earnings per share.*
Wholesale Capital Notes (**WCNs**)	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