BOQ GROUP

2023 HALF YEAR RESULTS

For the period ended 28 February 2023

BOQ Group 2023 Half Year Results

Bank of Queensland Limited | ABN: 32 009 656 740

ASX Appendix 4D
for the half year period ended 28 February 2023

Results for announcement to the market[1]

				$ million
Revenues from ordinary activities[2]	Up	**9%**	to	909
Profit from ordinary activities after tax attributable to members[2][3]	Down	**98%**	to	4
Profit for the year attributable to members[2][3]	Down	**98%**	to	4

Dividends	Record Date	Paid or payable on	Amounts per security
Ordinary shares (BOQ)			
Full year ordinary dividend - fully franked	**28-Oct-22**	**17-Nov-22**	**24 cents**
Interim ordinary dividend - fully franked	**11-May-23**	**1-Jun-23**	**20 cents**
CAPITAL NOTES (BOQPE)			
November 2022 BOQPE distribution - fully franked	**31-Oct-22**	**15-Nov-22**	**107.01 cents**
February 2023 BOQPE distribution - fully franked	**31-Jan-23**	**15-Feb 23**	**119.95 cents**
May 2023 BOQPE distribution - fully franked[4]	**27-Apr-23**	**15-May-23**	**123.52 cents**
CAPITAL NOTES 2 (BOQPF)			
November 2022 BOQPF distribution - fully franked	**31-Oct-22**	**15-Nov-22**	**107.89 cents**
February 2023 BOQPF distribution - fully franked	**31-Jan-23**	**15-Feb 23**	**120.83 cents**
May 2023 BOQPF distribution - fully franked[4]	**27-Apr-23**	**15-May-23**	**124.37 cents**
CAPITAL NOTES 3 (BOQPG)			
March 2023 BOQPG distribution - fully franked	**28-Feb-23**	**15-Mar-23**	**149.28 cents**
June 2023 BOQPG distribution - fully franked[4]	**30-May-23**	**15-Jun-23**	**124.54 cents**
ADDITIONAL TIER 1 CAPITAL NOTES (SERIES 1)			
November 2022 Series 1 distribution - fully franked	**20-Nov-22**	**28-Nov-22**	**$134.09**
ADDITIONAL TIER 1 CAPITAL NOTES (SERIES 2)			
September 2022 Series 2 distribution - fully franked	**28-Aug 22**	**5-Sep-22**	**$108.93**
December 2022 Series 2 distribution - fully franked	**27-Nov-22**	**5-Dec-22**	**$131.61**
March 2023 Series 2 distribution - fully franked	**26-Feb 23**	**6-Mar-23**	**$140.77**

(1) Rule 4.2A.3. Refer to Appendix 7.1 for the cross reference index for ASX Appendix 4D.
(2) On prior corresponding period (six months ended 28 February 2022). Based on statutory profit results.
(3) $1 million loss attributable to equity holders of the parent and $5 million profit attributable to other equity instruments.
(4) Expected dates and values only. The payment of any distribution is subject to the terms of the capital notes (BOQPE), capital notes 2 (BOQPF) and capital notes 3 (BOQPG).

Contents

Financial performance

For the half year ended 28 February 2023

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 measure commonly used in the banking industry to assist in presenting a meaningful view of Bank of Queensland Limited and its controlled entities' (**BOQ** or **the Group**) underlying earnings.

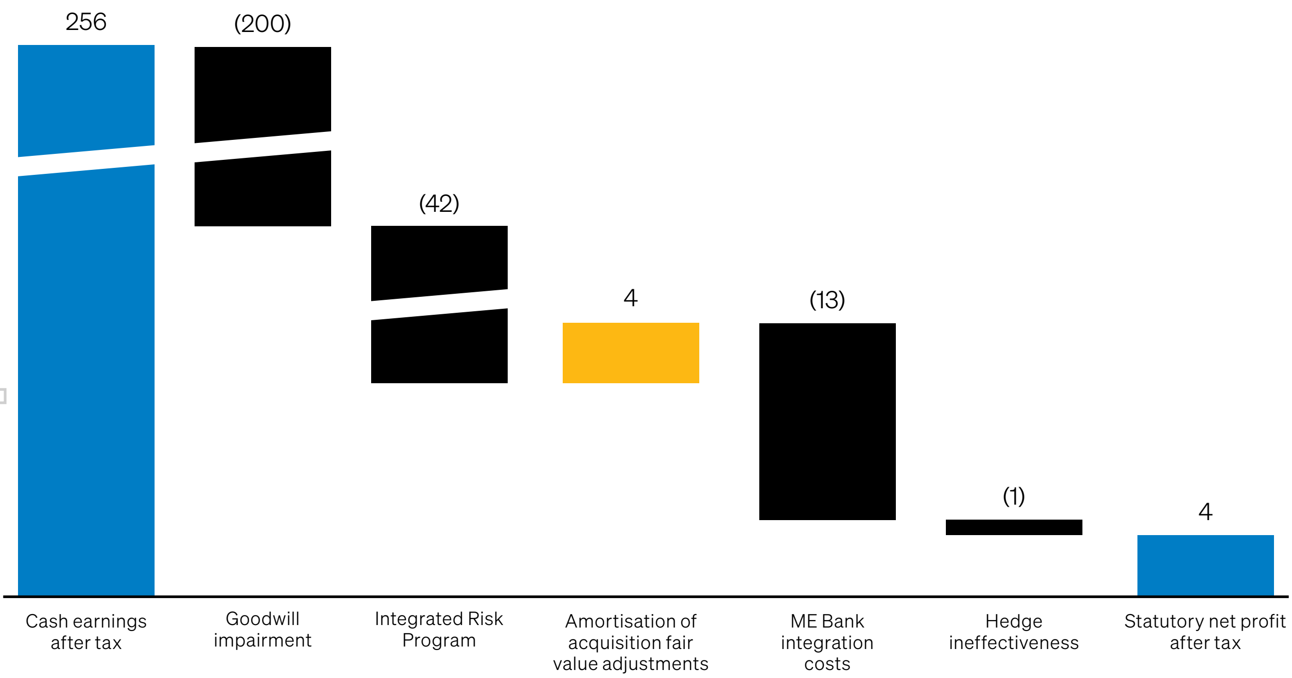
Figures disclosed in the Financial performance report are on a cash earnings basis unless stated as being on a statutory profit basis. The non-statutory measures have not been subject to an independent audit or review.

Cash earnings excludes several 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:

- Goodwill impairment - further detail has been provided on the impairment of goodwill in Note 6.5.1 Intangible assets;
- Integrated Risk Program (**IRP**) – a provision was taken to reflect a reliable estimate of costs related to an IRP;
- ME Bank integration costs – costs associated with the restructure and integration of Members Equity Bank Limited (**ME Bank** or **ME**);
- Amortisation of acquisition fair value adjustments – this arises from the acquisition of subsidiaries including ME; and
- Hedge ineffectiveness – this represents earnings volatility from hedges that are not fully effective and create a timing difference in reported profit. These hedges remain economically effective.

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



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

Financial performance

For the half year ended 28 February 2023

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 23**	Aug 22	Feb 22	Feb 23 vs Aug 22	Feb 23 vs Feb 22
Cash earnings after tax	**256**	240	268	7%	(4%)
Goodwill impairment [(1)]	**(200)**	-	-	100%	100%
Integrated Risk Program [(2)]	**(42)**	-	-	100%	100%
Amortisation of acquisition fair value adjustments	**4**	11	(4)	(64%)	large
ME Bank integration costs	**(13)**	(32)	(25)	(59%)	(48%)
Hedge ineffectiveness	**(1)**	(7)	(1)	(86%)	-
St Andrew's [(3)]	**-**	2	(26)	(100%)	(100%)
Statutory net profit after tax	**4**	214	212	(98%)	(98%)

(1) Further detail has been provided on the impairment of goodwill in Note 6.5.1 Intangible assets.

(2) In 1H23, an after-tax provision of $42 million was raised for the estimated cost of a multi-year Integrated Risk Program. Further detail has been provided in Section 6, Directors' report.

(3) The sale of St Andrew's Insurance (**St Andrew's**) to Farmcove Investment Holdings was completed on 28 October 2021.

(b) 1H23 Non-cash earnings reconciling items

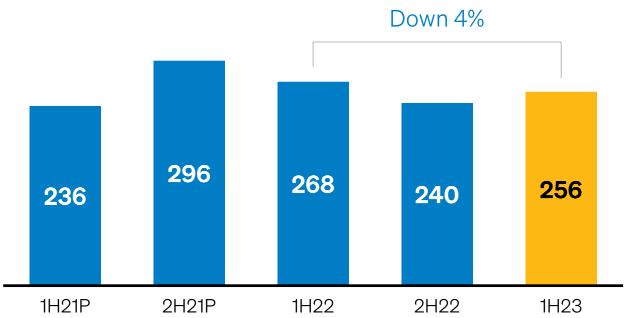
$ million	**Cash earnings Feb 23**	Goodwill impairment	Integrated Risk Program	ME Bank integration costs	Amortisation of acquisition fair value adjustments	Hedge ineffectiveness	**Statutory net profit Feb 23**
Net interest income	**832**	-	-	-	8	-	**840**
Non-interest income	**70**	-	-	-	-	(1)	**69**
Total income	**902**	-	-	-	8	(1)	**909**
Operating expenses	**(495)**	(200)	(60)	(18)	(5)	-	**(778)**
Underlying profit	**407**	(200)	(60)	(18)	3	(1)	**131**
Loan impairment expense	**(34)**	-	-	-	3	-	**(31)**
Profit before tax	**373**	(200)	(60)	(18)	6	(1)	**100**
Income tax expense	**(117)**	-	18	5	(2)	-	**(96)**
Profit after tax	**256**	(200)	(42)	(13)	4	(1)	**4**

Financial performance

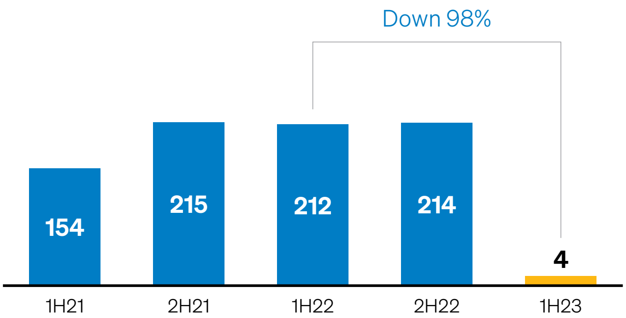
For the half year ended 28 February 2023

1.2 Financial summary

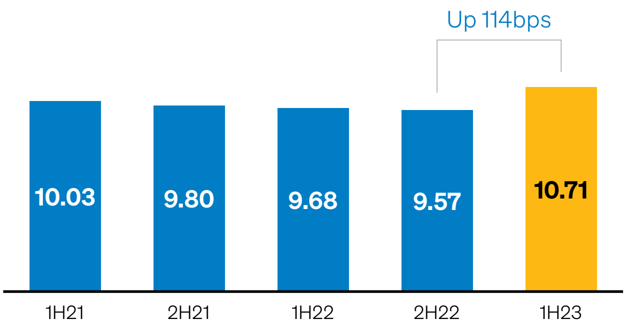
Cash earnings after tax ($ million) (1)



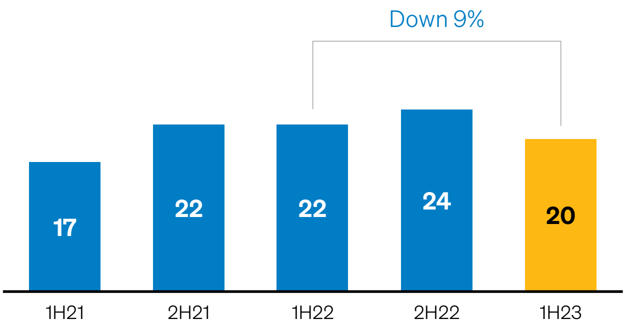
Statutory net profit after tax ($ million)



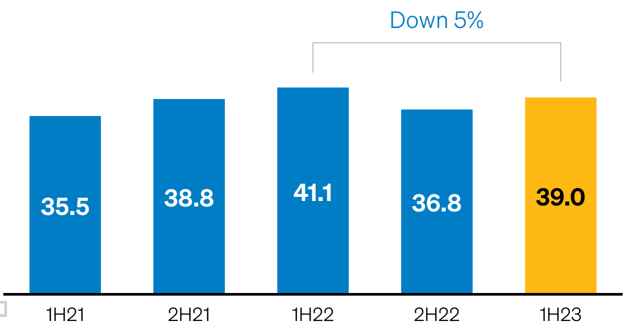
Common equity tier 1 (**CET1**) (2) (%)



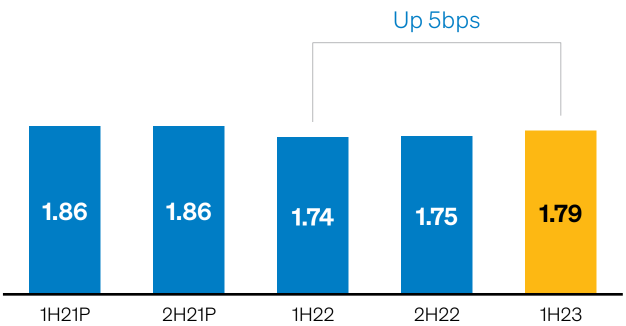
Dividends per ordinary share (cents)



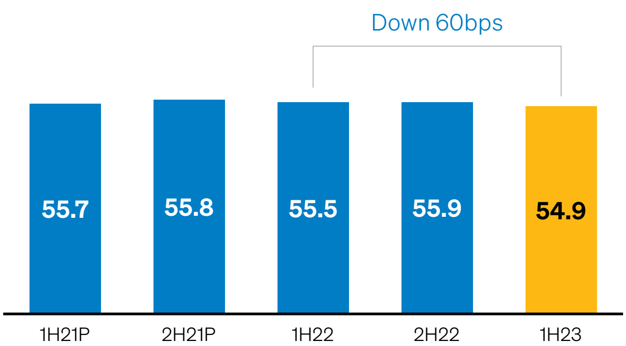
Cash basic earnings per share (**EPS**) (cents)



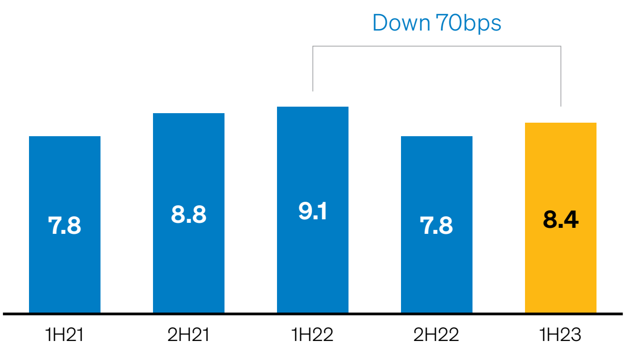
Cash net interest margin (**NIM**) (%) (1)



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



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



(1) When the period in the respective graphs ends in "P" it reflects a pro forma metric. The pro forma metric assumes that the Group structure including ME and excluding St Andrew's was in effect for the full comparative periods.

(2) During 1H23, Australian Prudential Regulation Authority's (**APRA**) new Basel III capital framework came into effect. The impact of the changes to the measurement of credit risk and operational risk contributed a 120 basis point increase to the CET1 ratio. Periods prior to 1H23 are as previously reported.

Financial performance

For the half year ended 28 February 2023

1.2 Financial summary (continued)

Net profit after tax

$256m

Cash NPAT
Down 4% on 1H22.

$4m

Statutory NPAT
Down 98% on 1H22.

Cash net profit after tax (**NPAT**) decreased by four per cent on 1H22, driven largely by a loan impairment expense of $34 million in 1H23 compared to a loan impairment expense credit of $15 million in 1H22.

Cash net interest margin

1.79%

Increase of five basis points on 1H22 benefitting from the rising interest rate environment.

Cash operating expenses

$495m

Up seven per cent on 1H22, reflecting higher inflation and increased technology costs including amortisation.

Loan impairment expense (**LIE**)

$34m

Loan impairment expense of $34 million in 1H23 compares to a loan impairment expense credit of $15 million in 1H22. The $34 million LIE was driven by an increase in collective provisions reflecting continued uncertainty around the future economic impact of inflation and interest rate pressures as well as recently observed and forecast declines in house prices.

CET1

10.71%

Increase of 114 basis points on 2H22 included a 120 basis point benefit due to Basel III and a 13 basis point impact due to the IRP provision.

Cash ROE

8.4%

Decrease of 70 basis points on 1H22, driven by lower cash earnings. This was primarily due to a credit in loan impairment expense in 1H22.

Cash earnings after tax for 1H23 of $256 million was four per cent lower than the 1H22 result. The decrease was primarily driven by a credit in loan impairment expense in 1H22. Underlying profit grew 10 per cent on 1H22, driven by nine per cent income growth, partly offset by seven per cent growth in expenses. The statutory net profit after tax of $4 million decreased by 98 per cent on 1H22, reflecting a $200 million goodwill impairment, a $42 million after tax provision for the estimated costs of the Integrated Risk Program in 1H23 and continued ME Bank integration costs.

Net interest income

Net interest income of $832 million increased $91 million or 12 per cent on 1H22. This was driven by a five basis point increase in NIM to 1.79 per cent and nine per cent growth in average interest earning assets (**AIEA**). NIM benefitted from the rising interest rate environment. The growth in AIEA was driven by higher liquid assets due to the replacement of Committed Liquidity Facility (**CLF**) and growth in gross loans and advances (**GLA**).

GLA grew four per cent on 1H22, driven by a three per cent increase in the housing portfolio, six per cent growth in commercial lending and seven per cent growth in asset finance. The housing portfolio growth on 2H22 was one per cent and reflects a decision to prioritise margin and economic return over volume growth in a competitive market.

Non-interest income

Non-interest income of $70 million decreased by $20 million or 22 per cent on 1H22. This was primarily driven by one-off revenue items in 1H22 in other income and trading income, partially offset by an accounting classification alignment of ME housing fee income in 1H23. Underlying non-interest income was marginally down due to reduced incentives and commissions received from a third-party card provider and lower gains from the sale of leasing equipment.

Operating expenses

Total operating expenses of $495 million were seven per cent higher than 1H22. This reflected higher inflation and increased technology expenses including amortisation. These were partly offset by savings from productivity and synergies. This resulted in two per cent jaws and a CTI ratio of 54.9 per cent.

Loan impairment expense

The loan impairment expense was $34 million for 1H23. This was primarily driven by a $26 million increase in the collective provision reflecting continued uncertainty around inflation and interest rate pressures as well as recently observed and forecast declines in house prices.

The specific provision expense was $8 million in 1H23. General specific provision activity was low and the expense was driven primarily by one large exposure, partially offset by recoveries.

Capital management

The CET1 ratio of 10.71 per cent was 114 basis points higher than 2H22. This was driven by a 120 basis point benefit due to the introduction of Basel III on 1 January 2023 and cash earnings net of dividend, partially offset by the impact of the IRP provision, growth in risk weighted assets and a reduction in securitised loans. At 10.71 per cent, the CET1 ratio is within the updated management target range of 10.25 – 10.75 per cent.

Shareholder returns

BOQ has determined to pay an ordinary dividend of 20 cents per share, which is 51 per cent of 1H23 cash earnings. Adjusting the 1H23 cash earnings for the one off cost of the IRP, the dividend payout ratio is 61 per cent. The Board has committed to a target dividend payout ratio of 60-75 per cent.[1]

(1) The amount of any dividend paid will be at the discretion of the Board and will depend on several factors, including a) the recognition of profits and availability of cash for distributions; b) the anticipated future earnings of the company; or c) when the forecast timeframe for capital demands of the business allows for a prudent distribution to shareholders.

Financial performance

For the half year ended 28 February 2023

1.2 Financial summary (continued)

ME update

Integration progress

The second year of the ME integration has delivered ongoing successful transitions across governance, decommissioning of duplicate systems and processes, simplifying operations and end user computing and advancing the integration of the ME brand into the new digital bank. Synergies have continued to be realised from the milestones outlined below.

Through 1H23, the Integration management office transitioned the management of the final phases of ME Bank integration activities to the relevant Group divisions.

In 1H23, ME integration achieved the following significant milestones:

- Contact centre consolidation is underway, including upgrades to the technology platform and consolidation of the national contact centre footprint;
- Near completion of the uplift and standardisation of all IT services, end user computing and enterprise application services for all ME employees;
- Ongoing consolidation of key supplier contracts;
- Consolidation of project delivery services across Retail Banking, Operations and Group Technology;
- Closure and relocation of the ME Bank offices in Sydney and Brisbane into the BOQ offices;
- Ongoing integration of key non-financial risk and compliance applications, controls and processes across 1st Line and 2nd Line risk teams; and
- Ongoing consolidation of divisional organisation structure across functions.

Integration expenses and synergies

ME Bank integration expenses were $18 million in 1H23 with a further $22 million cost expected in 2H23. These costs are primarily related to operations simplification, contact centre consolidation, technology and end user computing integration and operating model change costs.

Annualised synergies of $70 million to $80 million are on track to be delivered by the end of FY23. This includes additional annualised cost synergies of $23 million in FY23. The additional FY23 synergies will be achieved through the successful implementation of divisional operating model changes, consolidating project delivery services teams and from operations simplification.

Financial performance

For the half year ended 28 February 2023

2. Group performance analysis

2.1 Income statement and key metrics

	Half year performance				
$ million	**Feb 23**	Aug 22	Feb 22	Feb 23 vs Aug 22	Feb 23 vs Feb 22
Net interest income [1]	**832**	788	741	6%	12%
Non-interest income [1]	**70**	63	90	11%	(22%)
Total income	**902**	851	831	6%	9%
Operating expenses [1]	**(495)**	(476)	(461)	4%	7%
Underlying profit	**407**	375	370	9%	10%
Loan impairment expense [1]	**(34)**	(28)	15	21%	large
Profit before tax	**373**	347	385	7%	(3%)
Income tax expense [1]	**(117)**	(107)	(117)	9%	-
Cash earnings after tax	**256**	240	268	7%	(4%)
Statutory net profit after tax	**4**	214	212	(98%)	(98%)

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

		Half year performance				
Key metrics		**Feb 23**	Aug 22	Feb 22	Feb 23 vs Aug 22	Feb 23 vs Feb 22
SHAREHOLDER RETURNS						
Share price	($)	**7.06**	7.03	8.00	-	(12%)
Market capitalisation	($ million)	**4,607**	4,551	5,141	1%	(10%)
Dividends per ordinary share (fully franked)	(cents)	**20**	24	22	(17%)	(9%)
CASH EARNINGS BASIS						
Basic earnings per share (**EPS**)	(cents)	**39.0**	36.8	41.1	6%	(5%)
Diluted EPS	(cents)	**35.2**	33.6	37.7	5%	(7%)
Dividend payout ratio	(%)	**51.0**	64.7	52.7	large	(165bps)
STATUTORY BASIS						
Basic EPS	(cents)	**0.2**	32.9	32.3	(99%)	(99%)
Diluted EPS	(cents)	**2.7**	30.1	29.9	(91%)	(91%)
Dividend payout ratio	(%)	**large**	72.6	66.6	large	large

Financial performance

For the half year ended 28 February 2023

2.1 Income statement and key metrics (continued)

		Half year performance				
Key metrics		**Feb 23**	Aug 22	Feb 22	Feb 23 vs Aug 22	Feb 23 vs Feb 22
PROFITABILITY AND EFFICIENCY MEASURES						
CASH EARNINGS BASIS						
Net profit after tax	($ million)	**256**	240	268	7%	(4%)
Underlying profit [1]	($ million)	**407**	375	370	9%	10%
Net interest margin (**NIM**) [2]	(%)	**1.79**	1.75	1.74	4bps	5bps
Cost to income ratio (**CTI**)	(%)	**54.9**	55.9	55.5	(100bps)	(60bps)
Loan impairment expense to GLA	(bps)	**8**	7	(4)	1bp	large
Return on average equity (**ROE**)	(%)	**8.4**	7.8	9.1	60bps	(70bps)
Return on average tangible equity (**ROTE**) [3]	(%)	**10.6**	9.8	11.5	80bps	(90bps)
STATUTORY BASIS						
Net profit after tax	($ million)	**4**	214	212	(98%)	(98%)
Underlying profit [1]	($ million)	**131**	323	301	(59%)	(56%)
NIM [2]	(%)	**1.81**	1.77	1.74	4bps	7bps
CTI	(%)	**85.6**	62.0	63.9	large	large
Loan impairment expense to GLA	(bps)	**8**	3	(4)	5bps	large
ROE	(%)	**-**	7.0	7.2	large	large
ROTE [3]	(%)	**-**	8.8	9.1	large	large
ASSET QUALITY						
30 days past due (**dpd**) arrears	($ million)	**1,053**	827	885	27%	19%
90dpd arrears	($ million)	**512**	444	476	15%	8%
Impaired assets	($ million)	**133**	153	194	(13%)	(31%)
Specific provisions to impaired assets	(%)	**53**	51	46	200bps	large
Total provision and equity reserve for credit losses (**ERCL**) / GLA	(bps)	**45**	47	48	(2bps)	(3bps)
CAPITAL [4]						
CET1 ratio	(%)	**10.71**	9.57	9.68	114bps	103bps
Total capital adequacy ratio	(%)	**15.89**	13.78	13.91	211bps	198bps
Risk weighted assets (**RWA**)	($ million)	**41,020**	45,669	45,162	(10%)	(9%)

(1) Profit before loan impairment expense and tax.
(2) NIM is calculated net of offset accounts.
(3) 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).
(4) During 1H23, APRA's new capital framework came into effect. The impact of the changes to the measurement of credit risk and operational risk decreased RWAs by $5.2 billion and contributed a 120 basis point increase to the CET1 ratio. Aug 22 and Feb 22 are as previously reported.

Financial performance

For the half year ended 28 February 2023

2.2 Net interest income

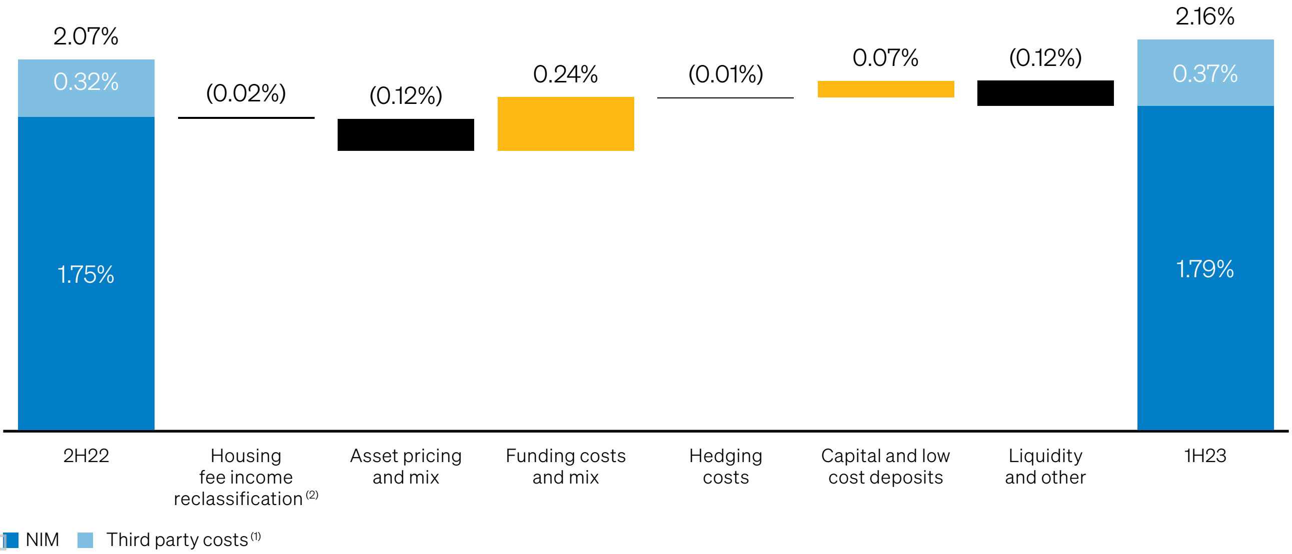
		Half year performance				
		Feb 23	Aug 22	Feb 22	Feb 23 vs Aug 22	Feb 23 vs Feb 22
Net interest income [1]	($ million)	**832**	788	741	6%	12%
Average interest earning assets	($ million)	**93,573**	89,503	86,057	5%	9%
NIM	(%)	**1.79**	1.75	1.74	4bps	5bps

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

Net interest income of $832 million increased by $91 million or 12 per cent on 1H22, driven by a five basis point increase in NIM and nine per cent growth in AIEA. AIEA increased $7.5 billion or nine per cent on 1H22 from higher liquid assets as well as growth in housing, asset finance and small and medium business (**SME**) lending. Underlying NIM was up seven basis points on 1H22, after adjusting for the reclassification of ME housing fee income from net interest income to non-interest income.

The improved NIM reflects a rising interest rate environment and the benefit of higher returns on invested and uninvested capital and low cost deposits. This was partly offset by competition for new housing and commercial loans, retention discounting on existing mortgage loans and higher liquid assets due to the replacement of the CLF and pre-funding in preparation for the maturity of the Term Funding Facility (**TFF**).

Net interest margin - August 2022 to February 2023



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

(2) Reclassification of ME housing fee income from net interest income to non-interest income.

NIM in 1H23 was 1.79 per cent, up four basis points on 2H22 at 1.75 per cent. Excluding a reclassification of housing fee income, NIM increased six basis points. The key drivers of the movement are set out below.

Asset pricing and mix (-12bps): This was driven by ongoing competition for housing and commercial lending and retention discounting in housing. These were partially offset by improved portfolio mix, as customers preferred variable rate mortgages over fixed rate mortgages and the decision to focus on higher margin business lending.

Funding costs and mix (+24bps): Benefit to margin was due to the rising interest rate environment, partly offset by increased competition for deposits and higher wholesale funding costs.

Capital and low cost deposits (+7bps): The $8.3 billion invested and uninvested capital and low cost deposit portfolios continued to benefit from the rising interest rate environment.

Liquidity and other:

- **Liquidity (-9bps):** This was driven by a build in lower yielding high-quality liquid assets (**HQLA**) balances. Increased liquid assets were required to cover the CLF replacement, on 1 January 2023, and the upcoming TFF maturity.
- **Third party costs (-3bps):** This was primarily driven by deposit margin benefits flowing through to owner-managed branches.
- **Housing fee income reclassification (-2bps):** Reclassification of ME housing fee income from net interest income to non-interest income in 1H23.

Financial performance

For the half year ended 28 February 2023

2.3 Non-interest income

	Half year performance				
$ million	**Feb 23**	Aug 22	Feb 22	Feb 23 vs Aug 22	Feb 23 vs Feb 22
Banking income	**44**	32	41	38%	7%
Other income	**26**	31	45	(16%)	(42%)
Trading income	**-**	-	4	(100%)	(100%)
Non-interest income [1]	**70**	63	90	11%	(22%)

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

Non-interest income of $70 million decreased $20 million or 22 per cent from 1H22, driven by one-off revenue items and realised gains on the sale of investment securities as previously reported in 1H22. Underlying non-interest income was down due to reduced incentives and commissions from third-party card and insurance providers, and lower account keeping fees.

Banking income increased $3 million on 1H22 due to one-off benefits from the alignment of accounting classification of ME housing fee income from net interest income to non-interest income, which was earnings neutral. These were partly offset by the one-off loss from the previously reported alignment of ME card fee income. Underlying banking income was stable with higher foreign exchange sales revenue driven by market volatility offset by lower account keeping fees as part of product simplification.

Other income decreased $19 million or 42 per cent on 1H22. The decrease was mainly driven by one-off revenue items in 1H22 relating to updated card services arrangements and an insurance termination fee. The decrease also reflects lower gains from the sale of leasing equipment.

Trading income decreased by $4 million on 1H22 due to limited trading activity in 1H23.

Financial performance

For the half year ended 28 February 2023

2.4 Operating expenses

$ million	Feb 23	Aug 22	Feb 22	Feb 23 vs Aug 22	Feb 23 vs Feb 22
	Half year performance				
Salaries and on costs	**211**	206	214	2%	(1%)
Employee share programs and other	**12**	12	12	-	-
Employee expenses	**223**	218	226	2%	(1%)
Information technology services	**102**	93	91	10%	12%
Amortisation - intangible assets	**38**	36	30	6%	27%
Depreciation - fixed assets	**3**	3	2	-	50%
Technology expenses	**143**	132	123	8%	16%
Marketing	**25**	29	19	(14%)	32%
Commission to owner-managed branches (**OMB**)	**1**	2	2	(50%)	(50%)
Communications, print and stationery	**17**	15	12	13%	42%
Processing costs	**9**	6	8	50%	13%
Other	**28**	24	28	17%	-
Operational expenses	**80**	76	69	5%	16%
Occupancy expenses	**28**	29	25	(3%)	12%
Administration expenses	**21**	21	18	-	17%
Total operating expenses (1)	**495**	476	461	4%	7%
Cash CTI ratio (%)	**54.9**	55.9	55.5	(100bps)	(60bps)
Number of employees (**FTE**)	**3,180**	3,040	3,172	5%	-

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

Summary

Total operating expenses of $495 million increased seven per cent on 1H22. This reflected higher inflation and increased technology expenses including amortisation. These were partially offset by savings from productivity and synergies.

Employee expenses

Employee expenses of $223 million decreased by $3 million or one per cent on 1H22. The decrease was driven by savings from productivity and synergies, partially offset by higher wages.

FTE of 3,180 remained broadly flat on 1H22 as productivity and synergies largely offset uplifts in customer contact, technology and risk and compliance. The uplift in customer service and investment in technology resulted in a five per cent increase in FTE on 2H22.

Technology expenses

Technology expenses of $143 million increased by $20 million or 16 per cent on 1H22. This was driven by inflation and the digital transformation, which increased information technology services and amortisation expense. Information technology service costs increased due to higher usage volumes and investment in cyber risk mitigation. Amortisation increased by $8 million or 27 per cent on 1H22, driven by investment in the digital bank and data capability.

Operational expenses

Operational expenses of $80 million increased by $11 million or 16 per cent on 1H22 due to higher marketing, communications, print and stationery costs. The increase in marketing was primarily driven by acquisition activity. Higher communications, print and stationery costs were driven by inflation and increased customer engagement in a rising interest rate environment.

Other operating expenses of $28 million remained flat on 1H22, as an increase in travel and entertainment expenses due to easing of COVID-19 restrictions was offset by savings from productivity initiatives.

Occupancy expenses

Occupancy expense of $28 million increased by $3 million or 12 per cent on 1H22 driven predominantly by a change in corporate offices in Sydney.

Administration expenses

Administration expenses of $21 million increased by $3 million or 17 per cent on 1H22 primarily driven by higher external audit fees and consulting costs relating to strategic investment activity.

Financial performance

For the half year ended 28 February 2023

2.5 Capitalised investment expenditure

Over the last two years, the digital transformation program delivered transaction accounts, savings accounts, and credit cards to Virgin Money Australia (**VMA**) and new BOQ Retail bank customers. The time taken, and costs incurred to add our brands to the digital platform has improved with each iteration.

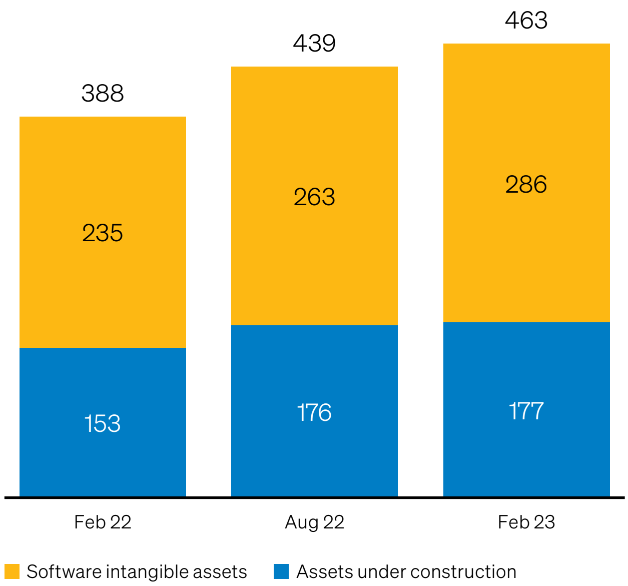
Since the launch of the VMA brand in March 2020 and myBOQ in April 2022, there are over 170,000 customers on the platform, accessing over 287,000 accounts, with a third of these opened in 1H23. The platform holds over $3.8 billion of customer deposits in transaction, savings and investment accounts across both the VMA and BOQ brands.

The focus of the current phase is to leverage the VMA/BOQ foundations to provide ME retail customers with the same enhanced customer experience. Delivery of this phase is expected in 2H23. Further progress has been made in 1H23 on a multi-brand lending origination platform which is on track to deliver cloud-based home loan capability by FY24.

During 1H23, BOQ's risk and regulatory agenda has progressed, including APRA Basel III Regulatory Reporting and the commencement of the IRP. The Group completed material Open Banking obligations and was successfully accredited as a data recipient. These compliance deliverables occurred in conjunction with customer migration to an upgraded version of our equipment leasing platform and the launch of the new online banking platform for BOQ Specialist. These projects alongside others have improved security, reduced technical risk, and improved productivity and customer experience.

Given these investments, the carrying value of intangible assets increased further as BOQ continues to deliver the digital transformation strategy with a focus on expanding easy-to-use multi-channel digital experiences to ME Bank customers.

Carrying value of IT intangible assets ($ million)



Financial performance

For the half year ended 28 February 2023

2.6 Lending

Gross loans and advances of $81.9 billion grew by $0.7 billion or two per cent on 2H22, primarily driven by increased commercial lending and asset finance volumes. Home lending was up one per cent reflecting below system growth as returns were prioritised over volume growth in a competitive market. Commercial lending grew by $0.3 billion or five per cent on 2H22 with above system growth in SME lending.

	As at				
$ million	**Feb 23**	Aug 22	Feb 22	Feb 23 vs Aug 22 [1]	Feb 23 vs Feb 22
Housing lending	**58,285**	57,277	55,245	4%	6%
Housing lending - APS 120 qualifying securitisation [2]	**5,336**	6,167	6,397	(27%)	(17%)
	63,621	63,444	61,642	1%	3%
Commercial lending	**11,220**	10,943	10,619	5%	6%
Asset finance	**6,785**	6,553	6,356	7%	7%
Consumer	**299**	310	335	(7%)	(11%)
Gross loans and advances [3]	**81,925**	81,250	78,952	2%	4%
Provisions for impairment	**(313)**	(295)	(289)	12%	8%
Net loans and advances	**81,612**	80,955	78,663	2%	4%

(1) Growth rates have been annualised.

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

(3) Gross loans and advances aligns to Note 6.3.4 Loans and advances, "gross loans and advances" after deducting "unearned finance lease income".

Growth in housing lending ($ million)

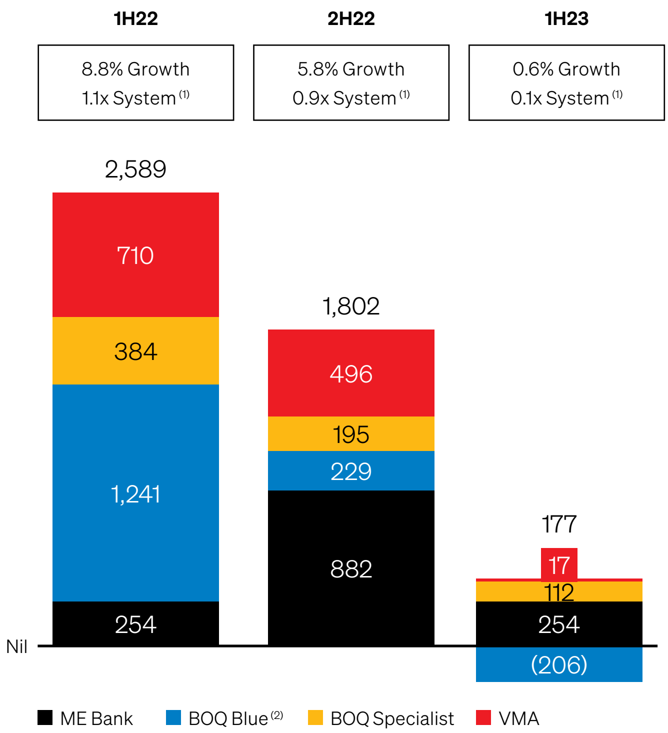
The total housing portfolio grew by $0.2 billion or one per cent on 2H22 and reflects below system lending growth. The 1H23 housing growth profile reflects a decision to prioritise margin and economic return over volume growth in a competitive market.

1H23 was characterised by an overall slowing in housing system growth, a competitive refinancing market, a heightened focus on retention and a continued shift to variable rate mortgages.

The strategic focus is on supporting customers transitioning from fixed to variable rate loans, mortgage process simplification and digitisation and improving customer experience.

All housing channels reflect the Group's decision to moderate volume growth:

- The BOQ Blue portfolio contracted by $0.2 billion or two per cent on 2H22. BOQ broker channel growth slowed to $0.2 billion, or six per cent, as settlement volumes reduced by 16 per cent. BOQ branch network contracted $0.4 billion or four per cent on 2H22 as settlement volumes reduced by 25 per cent.
- ME housing portfolio growth slowed, increasing $0.3 billion or two per cent on 2H22, with increased conversion rates due to simpler processes and quicker turnaround times.
- VMA housing portfolio was broadly flat as settlement volumes reduced by 36 per cent.
- BOQ Specialist home lending portfolio grew by $0.1 billion or three per cent on 2H22. Despite the competitive market, BOQ Specialist continued growing through strong relationships with medical and dental professionals.



(1) Source: represents latest available APRA Monthly Banking Statistics as at February 2023. Reflects the APRA definition of lending and therefore will not directly correlate to the balance sheet growth.

(2) BOQ Blue includes both the BOQ Retail and BOQ Business brands.

Financial performance

For the half year ended 28 February 2023

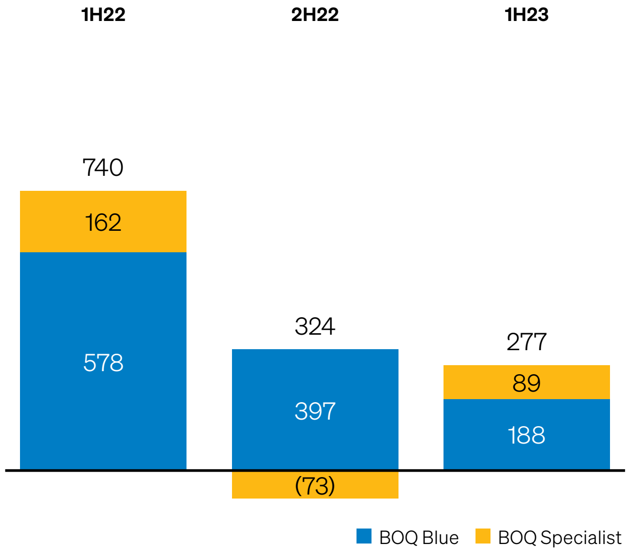
2.6 Lending (continued)

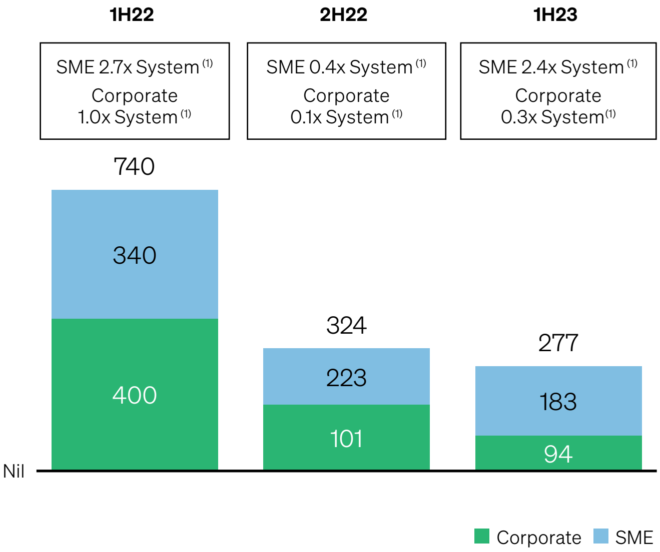
Growth in commercial lending ($ million)

The commercial lending portfolio grew by $277 million or five per cent in 1H23, driven by above system growth in lending to SME businesses.

SME lending remains a core focus area for BOQ Business, delivering above system growth in 1H23 of $183 million or seven per cent. Growth was driven by the diversified industries and healthcare sectors. The SME business strategy continues to focus on business lending process transformation and strengthening banker capability.

BOQ Business continued to provide support to its larger, corporate clients, delivering growth of $94 million or four per cent in 1H23 driven by the healthcare and agriculture sectors. This result was achieved while maintaining a strong focus on portfolio optimisation and risk-adjusted returns.



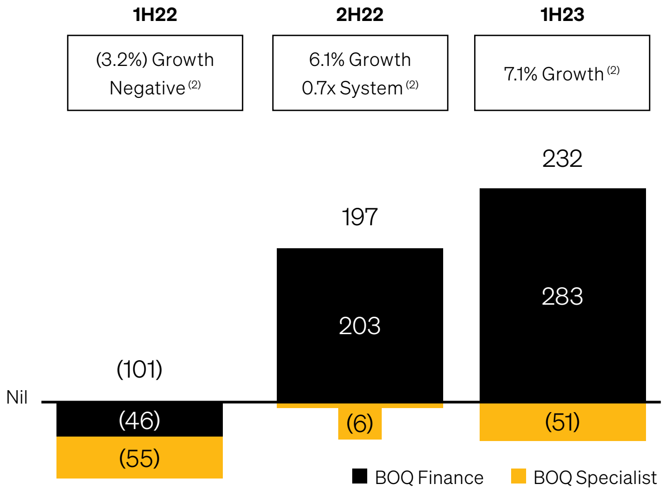


Growth in asset finance lending ($ million)

Asset finance grew by $232 million or seven per cent in 1H23, driven by the BOQ Finance portfolio.

The BOQ Finance portfolio grew $283 million or 10 per cent in 1H23. Growth was driven by the core equipment finance business, along with the structured and dealer finance businesses as the market experienced an easing of COVID-related supply-chain issues.

BOQ Specialist contracted $51 million driven by continued subdued demand across the dental and medical sectors and a continued focus on optimisation of returns.



(1) System growth represents the latest available Reserve Bank of Australia (**RBA**) data as at February 2023. RBA figures include both business lending and asset finance balance growth. The RBA definition of SME will not directly correlate to the BOQ internal definition.

(2) Asset finance system growth represents Australian Finance Industry Association (**AFIA**) system growth statistics as at reporting date. Appropriate AFIA system numbers for 1H23 are not available due to restatements of the AFIA data. "Negative system" represents growth worse than system.

Financial performance

For the half year ended 28 February 2023

2.7 Customer deposits

	As at				
$ million	**Feb 23**	Aug 22	Feb 22	Feb 23 vs Aug 22 [1]	Feb 23 vs Feb 22
Transaction accounts	**5,752**	6,400	6,214	(20%)	(7%)
Term deposits [2]	**24,361**	22,604	18,842	16%	29%
Savings and investment accounts [2]	**29,701**	26,149	27,950	27%	6%
Sub-total	**59,814**	55,153	53,006	17%	13%
Mortgage offsets [3]	**5,734**	5,750	5,278	(1%)	9%
Customer deposits	**65,548**	60,903	58,284	15%	12%
Deposit to loan ratio	**80%**	75%	74%	5%	6%

(1) Growth rates have been annualised.

(2) To align underlying product characteristics, $2.5 billion as at Aug 22 and $1.9 billion as at Feb 22 of term deposits were reclassified to savings and investment accounts. In addition, $414 million as at Aug 22 of short term wholesale funding in Section 3.2 Funding and liquidity were reclassified to customer deposits, increasing the deposit to loan ratio as at Aug 22 from 74 per cent to 75 per cent.

(3) Mortgage offset balances are netted against home loans for the purposes of customer interest payments.

Customer deposits

Customer deposits grew by $4.6 billion or 15 per cent on 2H22 reflecting the Group's strategy to increase stable sources of funding and grow the number of customers that consider BOQ their main bank. The Retail Bank remains the primary source of customer deposits.

The Group has continued to maintain a strong funding diversification with the deposit to loan ratio at 80 per cent.

Transaction accounts and mortgage offsets

Transaction accounts contracted by $0.6 billion or 20 per cent on 2H22, while mortgage offsets declined by one per cent reflecting a move from at-call products to higher yielding term deposits and savings accounts.

Term deposits

Term deposits increased by $1.8 billion or 16 per cent on 2H22. This reflects the shifting of customer preferences towards higher yielding products.

Savings and investment accounts

Savings and investment accounts increased by $3.6 billion or 27 per cent on 2H22. The myBOQ and VMA digital propositions attracted strong balance growth, offsetting contraction in legacy portfolios. BOQ also attracted new to bank funds via platform arrangements.

Financial performance

For the half year ended 28 February 2023

3. Business settings

3.1 Asset quality

		Half year performance				
		Feb 23	Aug 22	Feb 22	Feb 23 vs Aug 22	Feb 23 vs Feb 22
Loan impairment expense	($ million)	**34**	28	(15)	21%	large
Loan impairment expense / GLA [(1)]	(bps)	**8**	7	(4)	1bp	large
Impaired assets	($ million)	**133**	153	194	(13%)	(31%)
30 dpd arrears [(2)]	($ million)	**1,053**	827	885	27%	19%
90 dpd arrears [(2)]	($ million)	**512**	444	476	15%	8%
90dpd arrears / GLA [(2)]	(bps)	**62**	55	60	7bps	2bps
Total provision and ERCL coverage / GLA [(2)(3)]	(bps)	**45**	47	48	(2bps)	(3bps)

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

The loan impairment expense was $34 million for 1H23. This was primarily driven by a $26 million increase in the collective provision reflecting continued uncertainty around inflation and interest rate pressures as well as recently observed and forecast declines in house prices.

Impaired assets decreased from $153 million in 2H22 to $133 million in 1H23 due to low specific provisioning activity, driven by current favourable economic conditions throughout 2022 and strong net property value increases over the past few years.

Arrears in both the 30 day and 90 day categories increased compared to 2H22. The increase reflects the impact of supply-chain, interest rate and inflation pressures in the current economic environment as well as some normal seasonal effects.

Loan impairment expense

	Half year performance					
	Feb 23		Aug 22		Feb 22	
	Expense ($ million)	**Expense / GLA [(1)] (bps)**	Expense ($ million)	Expense / GLA [(1)] (bps)	Expense ($ million)	Expense / GLA [(1)] (bps)
Retail lending	**14**	**4**	29	10	13	4
Commercial lending	**11**	**20**	2	4	(21)	(40)
Asset finance	**9**	**26**	(3)	(9)	(7)	(22)
Total loan impairment expense	**34**	**8**	28	7	(15)	(4)

(1) Metrics have been annualised.

The $34 million loan impairment expense for 1H23 was primarily driven by increases in retail and asset finance collective provisions. The overall collective provision expense for 1H23 was $26 million reflecting economic conditions around inflation and interest rate pressures as well as recently observed and forecast declines in house prices.

The specific provision expense was $8 million in 1H23. Specific provision expense was low due to current favourable economic conditions and strong net property value increases over the past few years.

Retail loan impairment expense of $14 million for 1H23 was driven by collective provision increases as a result of the recently observed and forecast declines in house prices and rising interest rates.

Commercial loan impairment expense of $11 million for 1H23 was driven by a specific provision on a single customer.

Asset finance loan impairment expense of $9 million for 1H23 was driven by an increase in the collective provision of $8 million.

Financial performance

For the half year ended 28 February 2023

3.1 Asset quality (continued)

Impaired assets

$ million	As at Feb 23	Aug 22	Feb 22	Feb 23 vs Aug 22 [1]	Feb 23 vs Feb 22
Retail lending	**37**	61	95	(39%)	(61%)
Commercial lending	**65**	54	63	20%	3%
Asset finance	**31**	38	36	(18%)	(14%)
Total impaired assets	**133**	153	194	(13%)	(31%)
Impaired assets / GLA	**16bps**	19bps	25bps	(3bps)	(9bps)

(1) Metrics have been annualised.

BOQ impaired assets of $133 million decreased by $20 million or 13 per cent on 2H22. The decrease was across the retail and asset finance portfolios due to low specific provisioning activity, partially offset by an increase in the commercial portfolio.

Retail impaired assets decreased by $24 million or 39 per cent on 2H22. This was driven by low levels of new specific provisioning activity and a number of facilities recovering in 1H23.

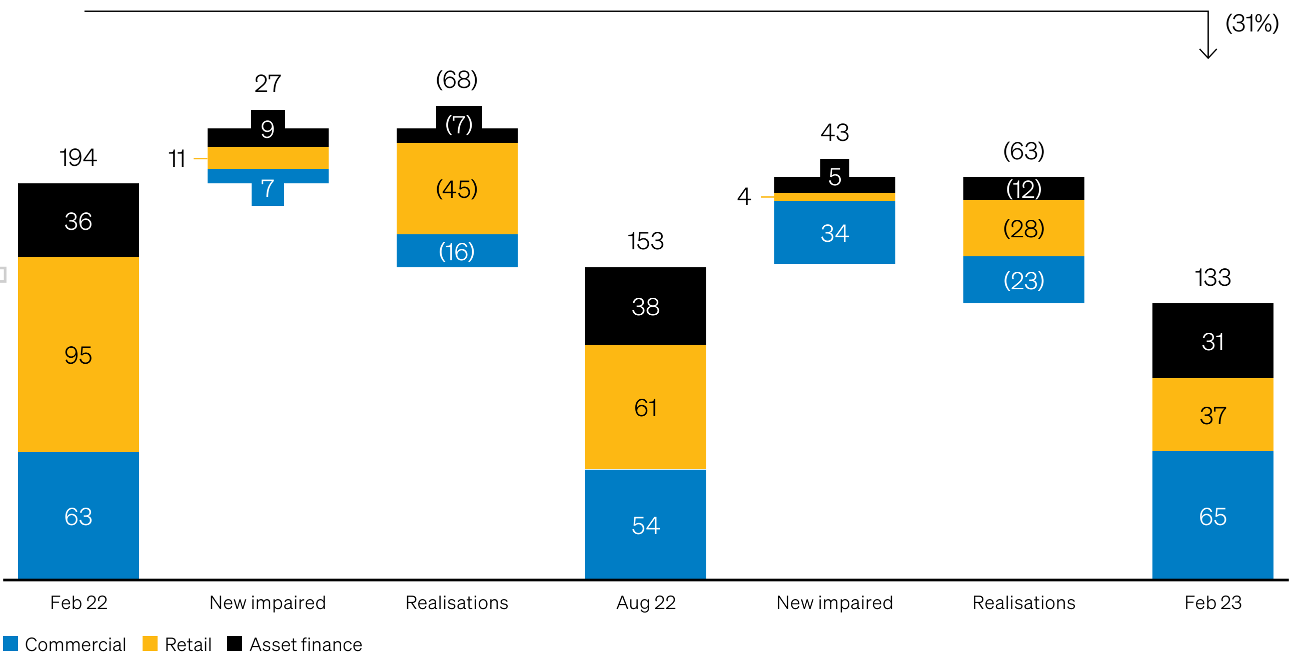
Commercial impaired assets increased by $11 million or 20 per cent on 2H22. The increase reflects newly impaired loans partially offset by realisations.

Asset finance impaired assets decreased by $7 million or 18 per cent on 2H22. This was largely attributable to the movement of $6 million from the specific to the collective provision. This movement reduced the impaired balance by $6 million.

The Group holds one exposure in the portfolio with an impaired balance greater than $5 million.

The following chart outlines the movements in impaired assets since February 2022.

Impaired assets ($ million)



Financial performance

For the half year ended 28 February 2023

3.1 Asset quality (continued)

Provision coverage

		As at				
		Feb 23	Aug 22	Feb 22	Feb 23 vs Aug 22	Feb 23 vs Feb 22
Specific provision	($ million)	**70**	78	90	(10%)	(22%)
Collective provision (**CP**)	($ million)	**243**	217	199	12%	22%
Total provision	($ million)	**313**	295	289	6%	8%
ERCL	($ million)	**40**	58	63	(31%)	(37%)
Specific provisions to impaired assets	(%)	**53**	51	46	200bps	large
Total provisions and ERCL / impaired assets [(1)]	(%)	**278**	247	195	large	large
CP and ERCL / Total RWA [(1)(2)]	(bps)	**73**	66	64	7bps	9bps
Total provisions and ERCL / GLA [(1)]	(bps)	**45**	47	48	(2bps)	(3bps)

(1) ERCL gross of tax effect.

(2) During 1H23, APRA's new Basel III capital framework came into effect. The impact of the changes to the credit risk and operational risk decreased RWA by $5.2 billion. Aug 22 and Feb 22 are as previously reported.

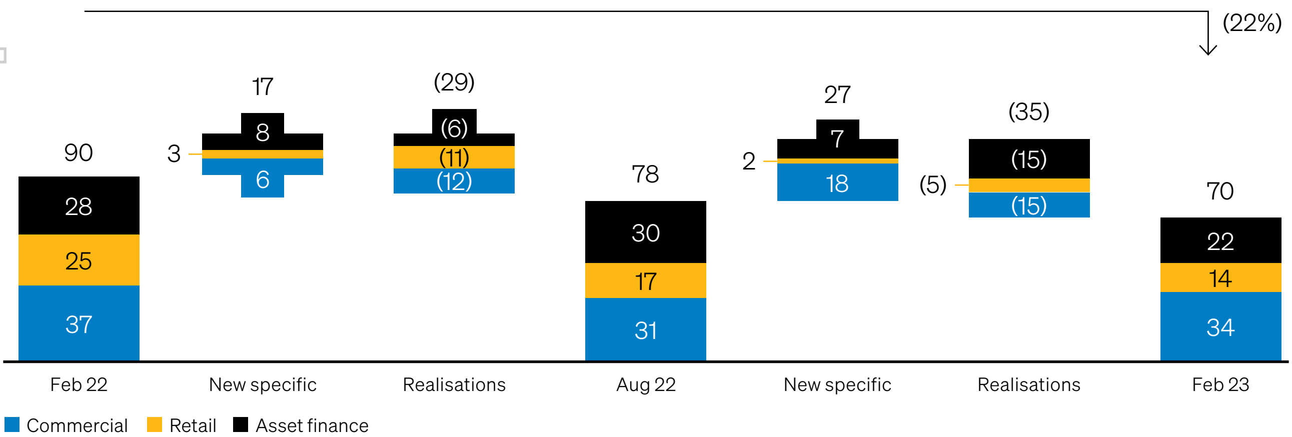
Total provisions of $313 million increased by $18 million or six per cent on 2H22. This was driven by a higher collective provision which was partially offset by a decrease in the specific provision.

Specific provisions of $70 million decreased by $8 million or 10 per cent on 2H22. Specific provisions remained subdued in 1H23 due to low arrears and strong net property value increases over the past few years. Of the $8 million reduction, $6 million was due to a movement from the specific provision to the collective provision within the asset finance portfolio.

The collective provision of $243 million increased by $26 million or 12 per cent on 2H22, primarily due to inflation and interest rate pressures as well as recently observed and forecast declines in house prices. Since 2H22, further updates to overlays have been made to ensure unique portfolio factors or industries where inflation and interest rate increases could result in additional stress are considered. Overlays are managed to ensure sufficient provisions are held. Economic forecasts have catered for the uncertain outlook, including interest rate rises and property price declines, which are offset by continued strength in employment rates. Total provisions and ERCL coverage to GLAs decreased by two basis points from 2H22 due to the decrease in specific provisions.

The following chart outlines the movements in specific provisions since February 2022.

Specific provisions ($ million)



Financial performance

For the half year ended 28 February 2023

3.1 Asset quality (continued)

Arrears

Key metrics	Feb 23 portfolio balance ($ million)	Feb 23	Aug 22	Feb 22	Feb 23 vs Aug 22	Feb 23 vs Feb 22
	The Group					
Total lending - portfolio balance ($ million)		**81,925**	81,250	78,952	1%	4%
30 dpd ($ million)		**1,053**	827	885	27%	19%
90 dpd ($ million)		**512**	444	476	15%	8%
		Proportion of portfolio				
30 dpd: GLAs		**1.29%**	1.02%	1.12%	27bps	17bps
90 dpd: GLAs		**0.62%**	0.55%	0.60%	7bps	2bps
BY PORTFOLIO						
30 dpd: GLAs (Retail) [1]	**63,920**	**1.29%**	1.03%	1.11%	26bps	18bps
90 dpd: GLAs (Retail) [1]		**0.61%**	0.57%	0.60%	4bps	1bp
30 dpd: GLAs (Commercial)	**11,220**	**1.26%**	1.01%	1.32%	25bps	(6bps)
90 dpd: GLAs (Commercial)		**0.74%**	0.61%	0.84%	13bps	(10bps)
30 dpd: GLAs (Asset finance)	**6,785**	**1.27%**	0.88%	0.85%	39bps	42bps
90 dpd: GLAs (Asset finance)		**0.57%**	0.24%	0.24%	33bps	33bps

(1) Retail arrears includes housing and consumer lending.

Retail arrears

Retail arrears increased by 26 basis points for the 30 day category and four basis points for the 90 day category since 2H22, driven by the impact of rising interest rates and seasonal effects. Arrears remain below historical levels.

Commercial arrears

Commercial arrears increased by 25 basis points in the 30 day category and by 13 basis points in the 90 day category since 2H22. The increases were primarily driven by two expired facilities which are under negotiation.

Asset finance arrears

Asset finance arrears increased by 39 basis points in the 30 day category and 33 basis points in the 90 day category since 2H22. This reflects the Group's approach to working with customers impacted by challenges facing a small number of industries. The 90 day arrears deterioration was also impacted by a movement from the specific to the collective provisions in 1H23.

Financial performance

For the half year ended 28 February 2023

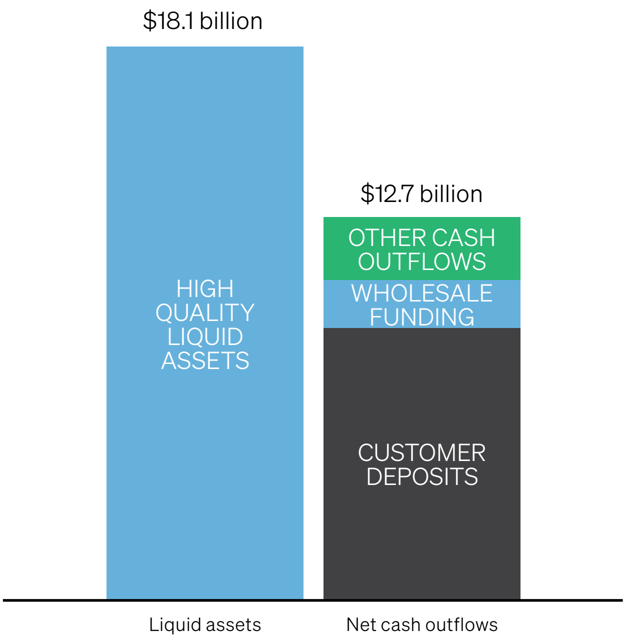
3.2 Funding and liquidity

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

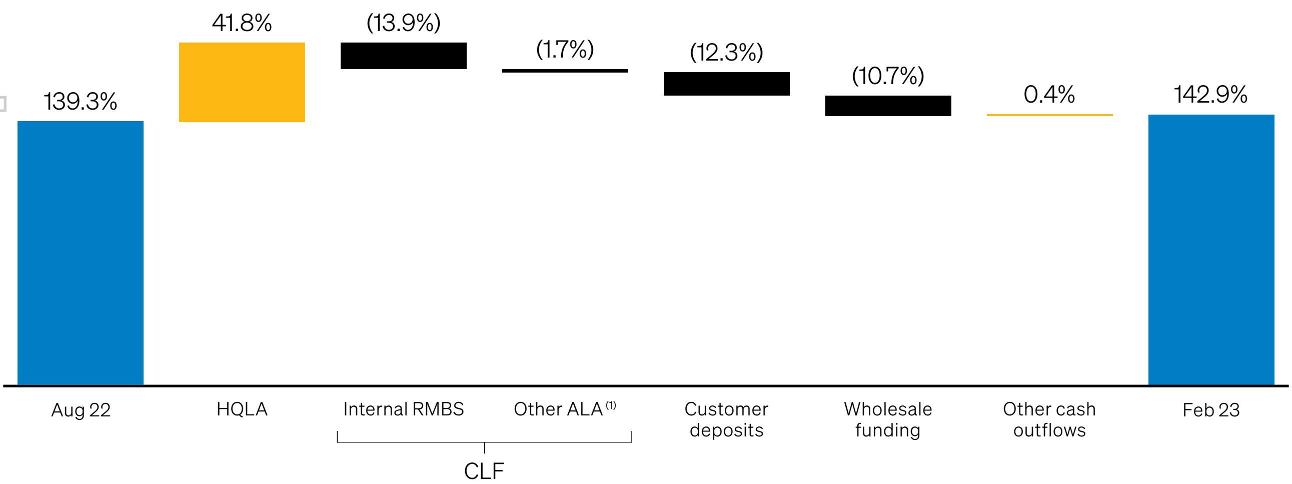
Liquidity coverage ratio (LCR)

APRA requires that authorised deposit-taking institutions (**ADIs**) maintain a minimum LCR of 100 per cent. BOQ manages its LCR on a daily basis and actively maintains a buffer above the regulatory minimum in line with BOQ's prescribed risk appetite and policy settings. BOQ's level 2 LCR at 28 February 2023 was 143 per cent, which was four per cent higher than the 2H22 LCR. The average level 2 LCR for the half was 144 per cent. Over the half, BOQ's CLF decreased by $2.4 billion to zero. Net cash outflows (**NCO**) grew by $1.7 billion, which was primarily influenced by a new contractual deposit platform arrangement. HQLA increased by $4.6 billion to compensate for the reduction in the CLF and increase in NCO.

LCR - February 2023 (143%)



LCR waterfall 31 August 2022 - 28 February 2023



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

Financial performance

For the half year ended 28 February 2023

3.2 Funding and liquidity (continued)

Net stable funding ratio (NSFR)

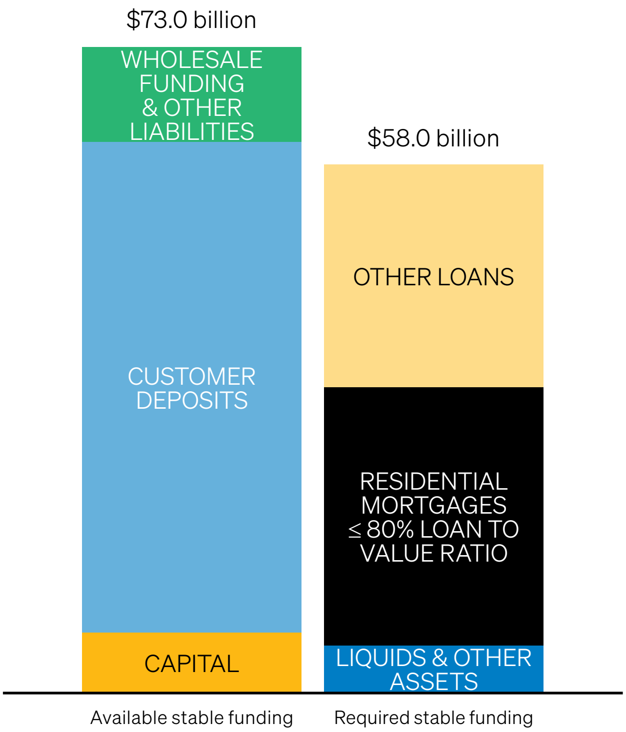
The NSFR encourages ADIs to fund their lending activities with more stable sources of funding, thereby promoting greater balance sheet resilience. BOQ manages its NSFR on a daily basis and actively maintains a buffer above the regulatory minimum of 100 per cent, in line with BOQ's prescribed risk appetite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

BOQ's level 2 NSFR at 28 February 2023 was 126 per cent, which is one per cent higher than 31 August 2022. The $2.4 billion reduction of BOQ's CLF combined with GLA growth over the half had a negative impact on the NSFR, but growth in customer deposits was more than sufficient to offset this impact. The recent ADI capital reforms implemented in January 2023 resulted in consequential amendments to APS 210, which negatively impacted the NSFR as at 28 February by 2.4 per cent.

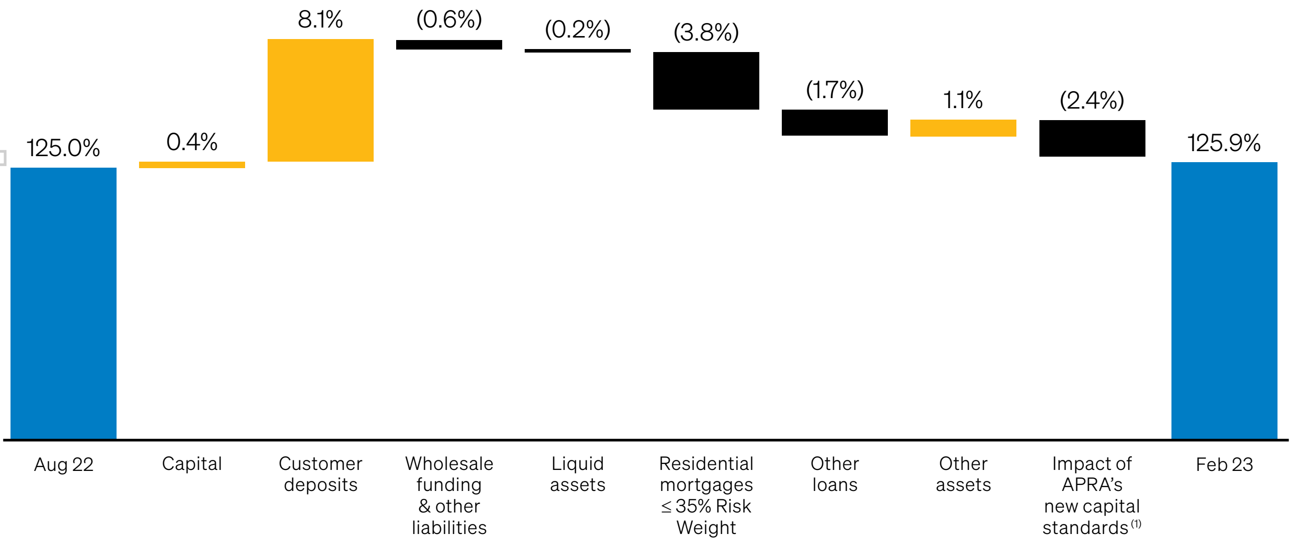
Liquid assets

BOQ maintains a portfolio of high quality, diversified liquid assets to facilitate balance sheet liquidity and meet internal and regulatory requirements. The final handback of the CLF was completed on 1 January 2023. BOQ's liquid asset portfolio supporting the LCR is now only comprised of HQLA (exchange settlement accounts, government and semi-government bonds). The portfolio still holds an immaterial amount of RMBS that is excluded from the LCR. Following the replacement of the CLF and GLA growth in 1H23, BOQ increased the HQLA holding by $4.6 billion.

NSFR - February 2023 (126%)



NSFR waterfall 31 August 2022 - 28 February 2023



(1) APRA's Basel III new capital framework, effective 1 January 2023, included amendments to APRA's Prudential Standard APS 210 *Liquidity* (**APS 210**) which negatively impacted NSFR as at 28 February 2023 by 2.4 per cent. Prior period comparatives have not been restated.

Financial performance

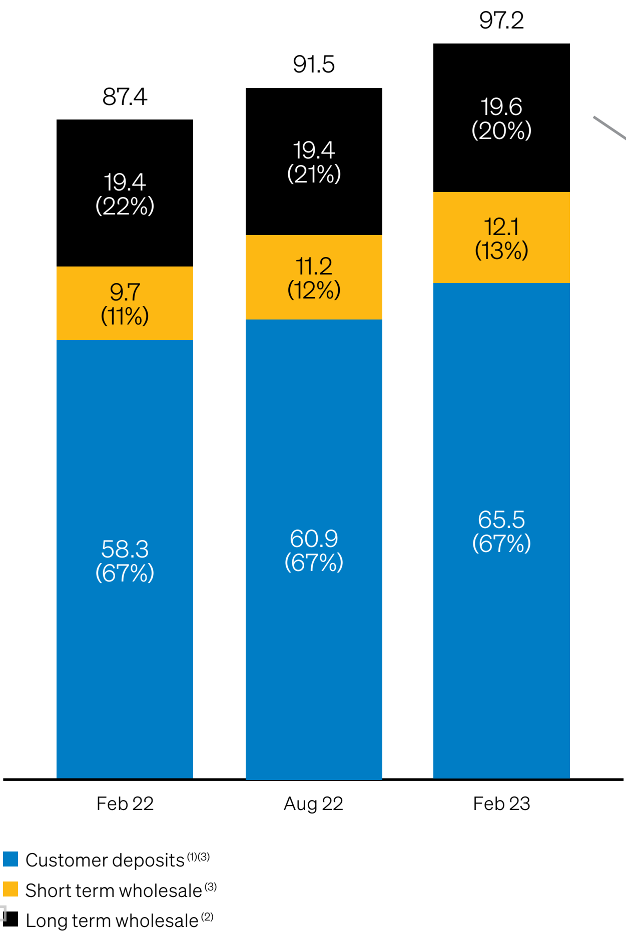
For the half year ended 28 February 2023

3.2 Funding and liquidity (continued)

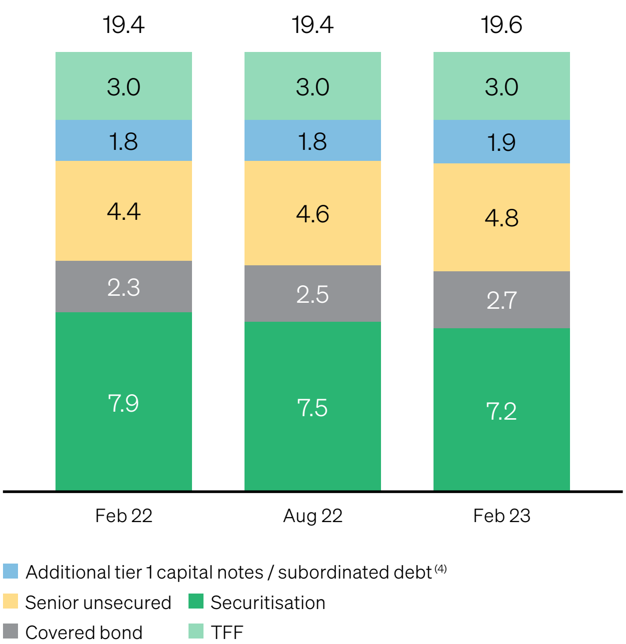
Funding

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.

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

(3) Short term wholesale funding of $414 million as at Aug 22 was reclassified to customer deposits in Section 2.7 Customer deposits.

(4) Includes $0.1 billion additional tier 1 capital notes at 28 February 2023, which are in 'other equity instruments' in the Financial statements: Consolidated statement of changes in equity.

Wholesale funding

BOQ focuses on three main strategic elements in delivering its wholesale funding objectives - capacity growth, resilience and diversity - while minimising the cost of funds and maintaining its ability to take advantage of opportunities in the most appropriate markets.

BOQ continues to optimise the mix of wholesale and retail funding, whilst also increasing stable sources of funding.

In 1H23, BOQ continued to focus on growing customer deposits through a variety of channels. Growth in customer deposits has seen the deposit to loan ratio increase from 75 per cent at 2H22 to 80 per cent in 1H23. Customer deposit inflows during 1H23 have assisted with the CLF maturity.

Financial performance

For the half year ended 28 February 2023

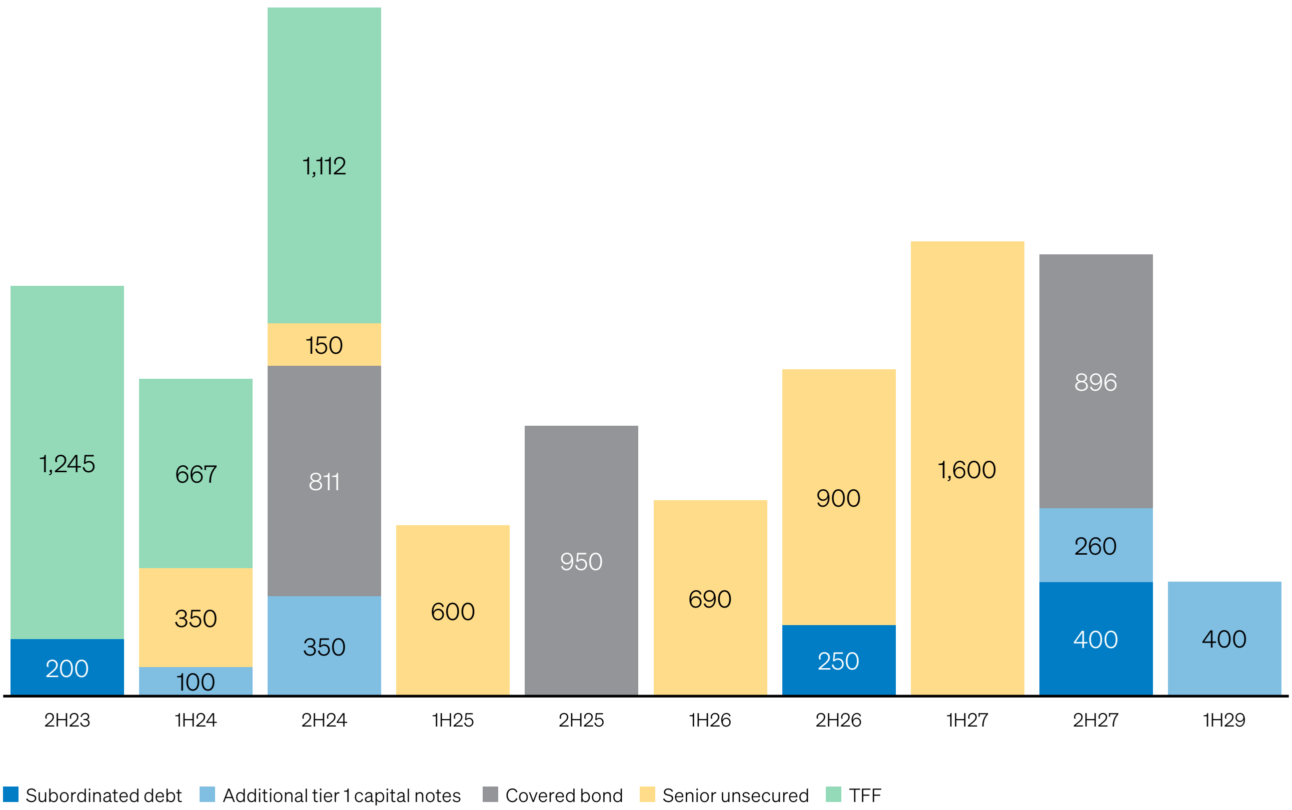
3.2 Funding and liquidity (continued)

Term funding issuance

BOQ accessed term funding markets in 1H23 using a range of long-term wholesale products with the intention of refinancing existing maturities as well as funding loan growth and complementing the inflow of customer deposits. This included a $400 million ASX listed capital notes three (ASX: BOQPG), a $350 million one year domestic senior unsecured in December 2022, and a $800 million four year domestic senior unsecured benchmark issuance in January 2023.

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

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



(1) Any transaction issued in a currency other than 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 consistent with BOQ's financial reporting year.

Financial performance

For the half year ended 28 February 2023

3.3 Capital management

The Group's capital management strategy aims to maintain adequate capital levels to protect deposit holders. The Bank's capital is measured and managed in line with Prudential Standards issued by APRA. The capital management plan is updated annually and submitted to the Board for approval. The approval process is designed to support consistency between the overall business plan and management of capital levels on an ongoing basis.

Under APRA's new Basel III capital framework, effective 1 January 2023, the Board has implemented a new management CET1 ratio target range of between 10.25 and 10.75 per cent.

Capital adequacy

	Half year performance				
$ million	**Feb 23**	Aug 22	Feb 22	Feb 23 vs Aug 22	Feb 23 vs Feb 22
QUALIFYING CAPITAL FOR LEVEL 2 ENTITIES (1)					
COMMON EQUITY TIER 1 CAPITAL					
Ordinary share capital	**5,286**	5,258	5,218	1%	1%
Reserves	**515**	781	487	(34%)	6%
Retained profits, including current period profits	**316**	300	349	5%	(9%)
CET1 capital before regulatory adjustments	**6,117**	6,339	6,054	(4%)	1%
REGULATORY ADJUSTMENTS					
Goodwill and intangibles	**(1,073)**	(1,257)	(1,197)	(15%)	(10%)
Deferred expenditure	**(427)**	(404)	(350)	6%	22%
Other deductions	**(223)**	(308)	(136)	(28%)	64%
Total CET1 regulatory adjustments	**(1,723)**	(1,969)	(1,683)	(12%)	2%
CET1 Capital	**4,394**	4,370	4,371	1%	1%
Additional Tier 1 Capital	**1,110**	910	910	22%	22%
Total Tier 1 Capital	**5,504**	5,280	5,281	4%	4%
Provisions eligible for inclusion in Tier 2 capital (2)	**177**	176	167	1%	6%
Tier 2 Capital	**836**	836	836	-	-
Total Tier 2 Capital	**1,013**	1,012	1,003	-	1%
Total Capital	**6,517**	6,292	6,284	4%	4%
Total RWA (3)	**41,020**	45,669	45,162	(10%)	(9%)
CET1 ratio (3)	**10.71%**	9.57%	9.68%	114bps	103bps
Net Tier 1 Capital ratio (3)	**13.42%**	11.56%	11.69%	186bps	173bps
Total Capital adequacy ratio (3)	**15.89%**	13.78%	13.91%	211bps	198bps

(1) APRA Prudential Standard APS 001 Definitions defines Level 2 as the Group and all of its subsidiary entities other than non-consolidated subsidiaries. The non-consolidated subsidiaries excluded from Level 2 regulatory measurements at 28 February 2023 are:

- Bank of Queensland Limited Employee Share Plans Trust;
- Home Credit Management Pty Ltd;
- Series 2013-1 REDS Trust;
- Series 2015-1 REDS Trust;
- Series 2017-1 REDS Trust;
- Series 2018-1 REDS Trust;
- Series 2019-1 REDS Trust;
- Series 2022-1 REDS MHP Trust;
- SMHL Series Securitisation Fund 2015-1;
- SMHL Series Securitisation Fund 2016-1;
- SMHL Series Securitisation Fund 2017-1;
- SMHL Series Securitisation Fund 2018-2;
- SMHL Series Securitisation Fund 2019-1;
- SMHL Series Private Placement Trust 2017-2;
- SMHL Series Private Placement Trust 2019-1;
- SMHL Series Private Placement Trust 2019-2; and
- SMHL Securitisation Trust 2020-1.

Hence, the balances in the table will not directly correlate to the Consolidated balance sheet.

(2) In accordance with APRA's Prudential Standard APS 330 'Public Disclosure' (APS 330) changes, effective 1 January 2023, updated terminology has been applied to "Provisions eligible for inclusion in Tier 2 capital" which replaced "General Reserve for Credit Losses", to align with the approach in Prudential Standard APS 220 *'Credit Risk Management'*.

(3) Feb 23 includes the impact of APRA's new Basel III capital framework. Aug 22 and Feb 22 are as previously reported.

Financial performance

For the half year ended 28 February 2023

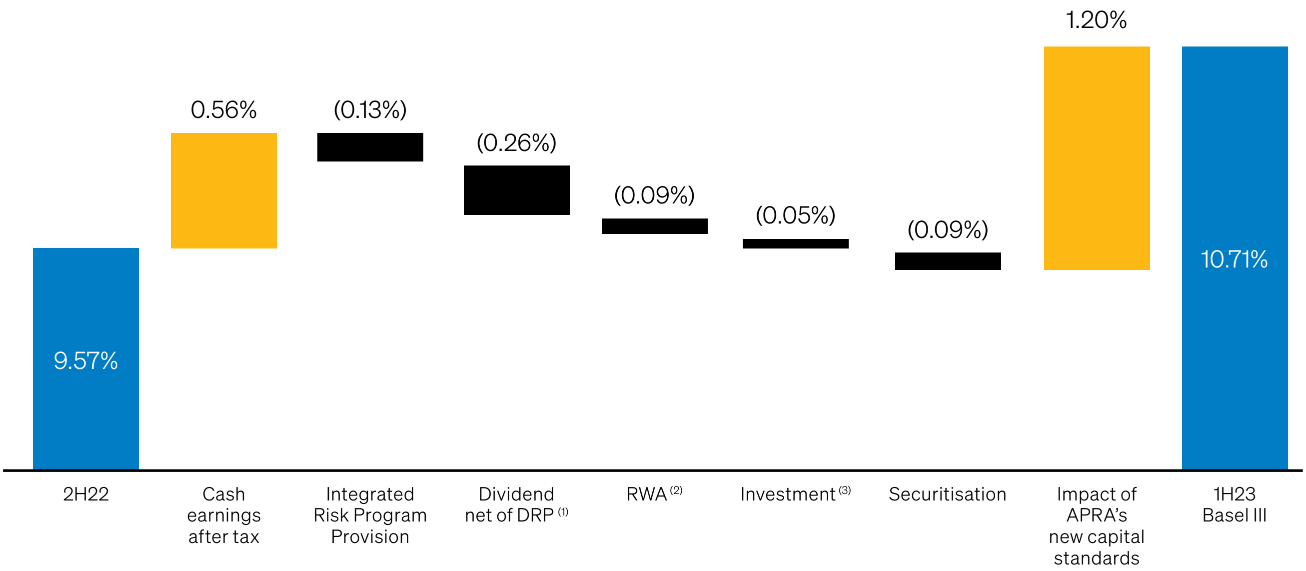
3.3 Capital management (continued)

The Group's CET1 ratio increased by 114 basis points during 1H23 from 9.57 per cent to 10.71 per cent. Excluding the impact of APRA's new Basel III capital framework (120 basis points increase), the ratio decreased by six basis points.

The movement was driven by:

- Cash earnings after tax of $256 million (56 basis points increase);
- Impact of the IRP provision of $60 million before tax ($42 million after tax) (13 basis points decrease);
- Payment of the FY22 final dividend net of dividend reinvestment plan (**DRP**) share issuance (26 basis points decrease);
- Underlying RWA growth and increased loan origination costs (nine basis points decrease). RWA growth excludes the impact of capital efficient securitisations;
- Investment in line with the strategic roadmap, net of amortisation (five basis points decrease); and
- Impact of reduction in capital relief securitised loans increasing RWAs (nine basis points decrease).

1H23 CET1 walk



(1) The DRP operated with a 1.5 per cent discount. Participation was 23.8 per cent.
(2) Includes loan origination costs.
(3) Capitalised expenses net of amortisation.

3.4 Tax expense

BOQ tax expense arising on cash earnings for 1H23 amounted to $117 million. This represented an effective tax rate of 31.4 per cent on a cash earnings basis, 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, FY21 and 1H23.

Financial performance

For the half year ended 28 February 2023

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 1.1 million customers through a network of 125 [(1)] owner-managed and 28 corporate branches, third-party intermediaries, more than 2,300 automated teller machines (**ATM**), Australian-based customer call centres, digital services, and mobile mortgage specialists.

	Half year performance				
$ million	**Feb 23**	Aug 22	Feb 22	Feb 23 vs Aug 22	Feb 23 vs Feb 22
Net interest income	**500**	483	460	4%	9%
Non-interest income	**45**	36	62	25%	(27%)
Total income	**545**	519	522	5%	4%
Operating expenses	**(349)**	(321)	(321)	9%	9%
Underlying profit	**196**	198	201	(1%)	(2%)
Loan impairment expense	**(16)**	(22)	(19)	(27%)	(16%)
Profit before tax	**180**	176	182	2%	(1%)
Income tax expense	**(57)**	(54)	(55)	6%	4%
Cash earnings after tax	**123**	122	127	1%	(3%)

Key metrics [(2)]		**Feb 23**	Aug 22	Feb 22	Feb 23 vs Aug 22	Feb 23 vs Feb 22
PERFORMANCE INDICATORS						
CTI	(%)	**64.0**	61.8	61.5	220bps	250bps
Net interest income / average GLA [(3)]	(%)	**1.93**	1.86	1.85	7bps	8bps
ASSET QUALITY						
90dpd arrears	($ million)	**372**	339	350	10%	6%
Impaired assets	($ million)	**29**	46	85	(37%)	(66%)
Loan impairment expense / GLA		**6**	8	7	(2bps)	(1bp)
BALANCE SHEET						
GLA		**56,698**	56,646	55,072	-	3%
Housing	($ million)	**56,498**	56,436	54,838	-	3%
Other retail	($ million)	**200**	210	234	(10%)	(15%)
Credit risk weighted assets [(4)]	($ million)	**18,036**	19,142	18,852	(12%)	(4%)
Customer deposits [(5)]	($ million)	**35,286**	33,319	31,442	12%	12%
Term deposits	($ million)	**12,458**	10,378	7,380	40%	69%
Mortgage offsets	($ million)	**4,417**	4,517	4,022	(4%)	10%
Savings and investment	($ million)	**14,630**	14,217	15,979	6%	(8%)
Transaction accounts	($ million)	**3,781**	4,207	4,061	(20%)	(7%)
Deposit to loan ratio	(%)	**62**	59	57	300bps	500bps

(1) Owner-managed branches of 125 includes 7 transaction centres. Aug 22 owner-managed branches were disclosed as 111 and were 118 including 7 transaction centres.
(2) Balance sheet key metrics have been annualised for Feb 23 vs Aug 22.
(3) Calculated on a cash earnings basis and net of mortgage offsets.
(4) Feb 23 includes the impact of APRA's new Basel III capital framework. Aug 22 and Feb 22 are as previously reported. Credit RWAs reflect on balance sheet exposures.
(5) Treasury managed customer deposits are included in the Group's Other operating business unit.

Financial performance

For the half year ended 28 February 2023

4.1 Retail income statement, key metrics and financial performance review (continued)

1H23 vs 1H22

Retail Bank cash earnings after tax of $123 million decreased by $4 million or three per cent on 1H22. Underlying profit growth decreased by two per cent on 1H22 as revenue growth of four per cent was more than offset by a nine per cent increase in operating expenses, reflecting the ongoing investment in transformation and front line customer service.

Net interest income

Net interest income of $500 million increased by $40 million or nine per cent on 1H22, reflecting three per cent growth in the housing portfolio and an eight basis point improvement in net interest margin. Net interest income in 1H23 includes the reclassification of ME housing fee income from net interest income to non-interest income.

Spot balance sheet movements included:

- Housing growth of $1.7 billion or three per cent on 1H22. ME Bank and VMA contributed most of the growth, while BOQ remained flat. Growth slowed in the half, reflecting a decision prioritising margin and returns in a competitive market;
- Customer deposits grew $3.8 billion or 12 per cent on 1H22, driven by growth in term deposits partially offset by a contraction in savings and transaction account balances, reflecting greater consumer demand for higher yielding products.

Net interest margin of 1.93 per cent increased by eight basis points, reflecting the benefits of a rising interest rate environment, partly offset by ongoing competitive pressures particularly retention discounting.

Non-interest income

Non-interest income of $45 million decreased by $17 million or 27 per cent on 1H22. This was mainly driven by one-off revenue items in 1H22, partly offset by the alignment of accounting classification in 1H23, which moved $9 million of ME housing fee income from net interest income to non-interest income and was earnings neutral.

Underlying non-interest income was marginally down due to reduced incentives and commissions from third-party card and insurance providers.

Operating expenses

Operating expenses of $349 million increased by $28 million or nine per cent on 1H22, driven by higher inflation, the digital transformation, marketing costs and customer support. This was partially offset by productivity initiatives and synergies realised.

Loan impairment expense

Loan impairment expense of $16 million decreased by $3 million or 16 per cent on 1H22 due to a lower collective provision charge as 1H22 included the establishment of the ME collective provision.

1H23 vs 2H22

Retail Bank cash earnings after tax of $123 million increased $1 million or one per cent on 2H22. Underlying profit growth decreased by one per cent on 2H22 as revenue growth of five per cent was more than offset by a nine per cent increase in operating expenses, reflecting the ongoing investment in transformation and front line customer service.

Net interest income

Net interest income increased by $17 million or four per cent on 2H22 as net interest margins improved by seven basis points, partly offset by a lower day count in 1H23. Net interest income in 1H23 includes the reclassification of ME housing fee income from net interest income to non-interest income.

Spot balance sheet movement included:

- Broadly flat housing growth on 2H22 representing growth below system. 1H23 housing growth reflects a decision to prioritise margin and returns in a competitive market;
- Customer deposits grew $2.0 billion or 12 per cent on 2H22, driven by growth in term deposits and savings and investment balances on the digital platform. These were partly offset by a contraction in mortgage offsets and transaction account balances, reflecting greater consumer demand for higher yielding products.

Net interest margin of 1.93 per cent increased seven basis points reflecting improved deposit margins, which benefitted from a rising interest rate environment. Ongoing competitive pressures in home lending partly offset this benefit.

Non-interest income

Non-interest income increased by $9 million or 25 per cent on 2H22. This was mainly attributable to the impact of an accounting classification alignment of ME housing fee income, which was earnings neutral.

Underlying non-interest income was marginally down due to reduced incentives and commissions from third-party card and insurance providers and reduced lending fees due to lower housing volumes.

Operating expenses

Operating expenses increased by $28 million or nine per cent on 2H22, driven by higher inflation, the digital transformation and customer support. This was partially offset by productivity initiatives and synergies realised.

Loan impairment expense

Loan impairment expense decreased by $6 million or 27 per cent on 2H22, driven by lower specific and collective provision charges, as 2H22 included further increases following the re-establishment of the ME collective provision.

Financial performance

For the half year ended 28 February 2023

4.2 BOQ Business income statement, key metrics and financial performance review

Overview

BOQ Business includes BOQ branded commercial lending and financial markets products, BOQ Finance and BOQ Specialist. 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 23**	Aug 22	Feb 22	Feb 23 vs Aug 22	Feb 23 vs Feb 22
Net interest income	**339**	313	280	8%	21%
Non-interest income	**24**	25	25	(4%)	(4%)
Total income	**363**	338	305	7%	19%
Operating expenses	**(146)**	(155)	(140)	(6%)	4%
Underlying profit	**217**	183	165	19%	32%
Loan impairment expense	**(18)**	(6)	34	200%	large
Profit before tax	**199**	177	199	12%	-
Income tax expense	**(63)**	(54)	(61)	17%	3%
Cash earnings after tax	**136**	123	138	11%	(1%)

Key metrics [(1)]		**Feb 23**	Aug 22	Feb 22	Feb 23 vs Aug 22	Feb 23 vs Feb 22
PERFORMANCE INDICATORS						
CTI	(%)	**40.2**	45.9	45.9	large	large
Net interest income / Average GLA [(2)]	(%)	**2.89**	2.70	2.55	19bps	34bps
ASSET QUALITY						
90dpd arrears	($ million)	**139**	105	126	32%	10%
Impaired assets	($ million)	**104**	106	109	(2%)	(5%)
Loan impairment expense / GLA	(bps)	**14**	5	(29)	9bps	large
BALANCE SHEET						
GLA	($ million)	**25,227**	24,604	23,880	5%	6%
Housing	($ million)	**7,123**	7,008	6,804	3%	5%
Commercial and other	($ million)	**11,319**	11,043	10,720	5%	6%
Asset finance	($ million)	**6,785**	6,553	6,356	7%	7%
Credit risk weighted assets [(3)]	($ million)	**16,555**	19,533	19,114	(31%)	(13%)
Customer deposits [(4)]	($ million)	**11,102**	11,668	11,889	(10%)	(7%)
Term deposits	($ million)	**2,138**	2,021	1,573	12%	36%
Mortgage offsets	($ million)	**1,316**	1,233	1,255	14%	5%
Savings and investment	($ million)	**5,677**	6,220	6,909	(18%)	(18%)
Transaction accounts	($ million)	**1,971**	2,194	2,152	(20%)	(8%)
Deposit to loan ratio	(%)	**44**	47	50	(300bps)	large

(1) Balance sheet key metrics have been annualised for Feb 23 vs Aug 22.

(2) Calculated on a cash earnings basis and net of mortgage offsets.

(3) Feb 23 includes the impact of APRA's new Basel III capital framework. Aug 22 and Feb 22 are as previously reported. Credit RWAs reflect on balance sheet exposures.

(4) Treasury managed customer deposits are included in the Group's Other operating business unit.

Financial performance

For the half year ended 28 February 2023

4.2 BOQ Business income statement, key metrics and financial performance review (continued)

1H23 vs 1H22

BOQ Business cash earnings after tax of $136 million decreased $2 million or one per cent on 1H22. Underlying profit growth of 32 per cent was driven by a 19 per cent increase in total income, partly offset by operating expense growth of four per cent. Loan impairment expense was $18 million in 1H23 compared to a credit of $34 million in 1H22.

Net interest income

Net interest income of $339 million increased by $59 million or 21 per cent on 1H22, reflecting six percent growth in lending assets and a 34 basis point improvement in net interest margin.

Spot balance sheet movements included:

- Commercial and other lending growth of six per cent was driven by above system growth in the strategic focus area of SME lending. Lending to large corporates was originated primarily in the healthcare and agriculture sectors, with a continued focus on return optimisation;
- Asset finance growth of seven per cent was driven primarily by the core equipment finance business, along with growth in the structured and dealer finance businesses, as supply-chain issues eased across the market;
- Housing growth of five per cent was driven by medical professionals through the BOQ Specialist channel; and
- Deposits contracted seven per cent, largely driven by an 18 per cent reduction in savings and investment balances, partly offset by increased customer demand for higher yielding term deposits.

Net interest margin of 2.89 per cent increased by 34 basis points reflecting the benefit of the rising interest rate environment, partly offset by competition.

Non-interest income

Non-interest income of $24 million decreased by $1 million or four per cent on 1H22 reflecting lower gains from the sale of leasing equipment, partly offset by higher business lending fees and foreign exchange sales which benefitted from increased market volatility.

Operating expenses

Operating expenses of $146 million increased by $6 million or four per cent on 1H22 reflecting higher inflation and investment in technology transformation, partly offset by productivity initiative benefits.

Loan impairment expense

Loan impairment expense of $18 million included a specific provision taken against a single commercial customer. Collective provisions were higher reflecting growth in the lending portfolio, continued uncertainty around inflation and interest rate pressures.

1H23 vs 2H22

Cash earnings after tax increased $13 million or 11 per cent on 2H22. A seven per cent increase in total income and a six per cent reduction in operating expenses delivered a 19 per cent uplift in underlying profit. This was partly offset by a $12 million increase in loan impairment expense.

Net interest income

Net interest income increased $26 million or eight per cent reflecting a 19 basis point improvement in net interest margin and five per cent growth in lending assets. This was partly offset by a lower day count in 1H23.

Spot balance sheet movements included:

- Commercial and other lending growth of five per cent was driven by above system growth in the strategic focus area of SME lending. Growth in lending to large corporates of four per cent reflected a continued focus on return optimisation;
- Asset finance growth of seven per cent was driven by the core equipment finance business, along with growth in the structured and dealer finance businesses as supply-chain issues eased across the market;
- Housing growth of three per cent was driven by medical professionals through the BOQ Specialist channel; and
- Deposit balances contracted $0.6 billion or 10 per cent reflecting lower savings and investment and transaction deposits, partly offset by shifting customer preferences towards higher yielding term deposits.

Net interest margin of 2.89 per cent increased by 19 basis points in 1H23 reflecting the benefit of the rising interest rate environment, partly offset by competition.

Non-interest income

Non-interest income was four per cent lower in 1H23, driven by a reduction in business lending fees, lower gains from the sale of leasing equipment and subdued interest rate swap income.

Operating expenses

Operating expenses reduced by six per cent or $9 million in 1H23, reflecting a focus on productivity, reduced levels of consultancy spend and a lower allocation of Group overheads.

Loan impairment expense

Loan impairment expense of $18 million included a specific provision taken against a single commercial customer. Collective provisions were higher reflecting growth in the lending portfolio, continued uncertainty around inflation and interest rate pressures, and a recently observed and forecast decline in house prices. 2H22 recorded low levels of both collective and specific provisioning.

Financial performance

For the half year ended 28 February 2023

4.3 Other income statement and financial performance review

Overview

The Other business unit includes Treasury and Group Head Office.

	Half year performance				
$ million	**Feb 23**	Aug 22	Feb 22	Feb 23 vs Aug 22	Feb 23 vs Feb 22
Net interest (expense) / income	**(7)**	(8)	1	(13%)	large
Non-interest income	**1**	2	3	(50%)	(67%)
Total income	**(6)**	(6)	4	-	large
Operating expenses	**-**	-	-	-	-
Underlying profit	**(6)**	(6)	4	-	large
Loan impairment expense	**-**	-	-	-	-
Profit before tax	**(6)**	(6)	4	-	large
Income tax expense	**3**	1	(1)	200%	large
Cash (loss) / profit after tax	**(3)**	(5)	3	(40%)	large

Financial performance review

Cash loss after tax of $3 million in 1H23 compares to cash profit after tax of $3 million in 1H22 reflecting increased interest expenses and a reduction in Treasury related income.

Net interest income / (expense)

Net interest expense of $7 million in 1H23 compares to net interest income of $1 million in 1H22. This was driven by the timing impact of break costs and benefits and other ongoing interest rate hedging costs.

Non-interest income / (expense)

Non-interest income of $1 million was primarily driven by Treasury related fees and gains.

4.4 Outlook

The Australian economy ended the half year reasonably well placed, with a low unemployment rate, stable growth in order books and strong terms of trade. Economic growth is moderating due to elevated inflation and rising interest rates. Further slowing is expected in the second half of the financial year. The full effects of recent events in overseas banking systems remains to be seen, although, Australia is relatively well positioned given its strong banking system.

Financial resilience settings will be important given the potential for ongoing financial market volatility particularly if central banks increase interest rates further to combat inflation.

The Group's outlook is for:

- The RBA cash rate to be at, or near, its peak level for this cycle;
- Slowing housing growth and continued heightened mortgage competition with pricing below the cost of capital;
- Slowing business credit growth, notwithstanding the resolution of many of the supply-chain issues and reduced labour shortages;
- Volatility in wholesale markets and the RBA TFF maturities continuing to drive high competition for customer deposits as well as customers switching to higher yielding deposit products;
- Continued inflationary pressures and increased regulatory, compliance and technology costs; and
- Early signs of increased housing arrears, albeit off a low base, and industry specific stress likely to escalate, with further declines in housing and commercial property values.

Financial performance

For the half year ended 28 February 2023

5. Appendix to Financial performance

5.1 Cash EPS calculations

		Half year performance				
		Feb 23	Aug 22	Feb 22	Feb 23 vs Aug 22	Feb 23 vs Feb 22
RECONCILIATION OF CASH EARNINGS FOR EPS						
Cash earnings after tax	($ million)	**256**	240	268	7%	(4%)
Returns to other equity instruments	($ million)	**(5)**	(6)	(5)	(17%)	-
FV adjustment on ME AT1 capital note	($ million)	**3**	4	-	(25%)	100%
Cash earnings available for ordinary shareholders	($ million)	**254**	238	263	7%	(3%)
Effect of capital notes 1	($ million)	**8**	6	5	33%	60%
Effect of capital notes 2	($ million)	**6**	4	3	50%	100%
Effect of capital notes 3 (1)	($ million)	**5**	-	-	100%	100%
Cash diluted earnings available for ordinary shareholders	($ million)	**273**	248	271	10%	1%
WEIGHTED AVERAGE NUMBER OF SHARES (WANOS)						
Basic WANOS - ordinary shares	(million)	**648**	644	640	1%	1%
Effect of award rights	(million)	**5**	6	4	(17%)	25%
Effect of capital notes 1	(million)	**50**	49	43	2%	16%
Effect of capital notes 2	(million)	**37**	37	32	-	16%
Effect of capital notes 3 (1)	(million)	**34**	-	-	100%	100%
Diluted WANOS for cash earnings EPS	(million)	**774**	736	719	5%	8%
EARNINGS PER SHARE						
Basic EPS - ordinary shares	(cents)	**39.0**	36.8	41.1	6%	(5%)
Diluted EPS - ordinary shares	(cents)	**35.2**	33.6	37.7	5%	(7%)

(1) The capital notes 3 were issued on 14 November 2022. Further detail has been provided in Note 6.3.5 Borrowings.

Financial performance

For the half year ended 28 February 2023

5.2 Average balance sheet and margin analysis

The following tables outline the major categories of interest earning assets and interest bearing liabilities of the Group together with the respective interest earned or paid and the average interest rate for each of 1H23, 2H22, 1H22.

	1H23			2H22			1H22		
	Average balance ($ million)	**Interest ($ million)**	**Average rate (%)**	Average balance ($ million)	Interest ($ million)	Average rate (%)	Average balance ($ million)	Interest ($ million)	Average rate (%)
INTEREST EARNING ASSETS									
Loans and advances [(1)]	**75,659**	**1,610**	**4.29**	75,159	1,141	3.01	71,966	997	2.79
Investments and other securities	**17,914**	**249**	**2.80**	14,344	59	0.82	14,091	16	0.23
Total interest earning assets	**93,573**	**1,859**	**4.01**	89,503	1,200	2.66	86,057	1,013	2.37
Non-interest earning assets									
Property, plant and equipment	**256**			270			231		
Other assets	**2,590**			2,345			1,926		
Provision for impairment	**(297)**			(301)			(380)		
Total non-interest earning assets	**2,549**			2,314			1,777		
Total assets	**96,122**			91,817			87,834		
INTEREST BEARING LIABILITIES									
Retail deposits	**58,195**	**624**	**2.16**	54,629	202	0.73	53,479	132	0.50
Wholesale deposits and borrowings [(2)]	**30,130**	**403**	**2.70**	30,067	210	1.39	27,123	140	1.04
Total interest bearing liabilities	**88,325**	**1,027**	**2.34**	84,696	412	0.96	80,602	272	0.68
Non-interest bearing liabilities	**1,371**			995			1,154		
Total liabilities	**89,696**			85,691			81,756		
Shareholders' funds	**6,426**			6,126			6,078		
Total liabilities and shareholders' funds	**96,122**			91,817			87,834		
INTEREST MARGIN AND INTEREST SPREAD									
Interest earning assets	**93,573**	**1,859**	**4.01**	89,503	1,200	2.66	86,057	1,013	2.37
Interest bearing liabilities	**88,325**	**1,027**	**2.34**	84,696	412	0.96	80,602	272	0.68
Net interest spread			**1.67**			1.70			1.69
Benefit of free funds			**0.12**			0.05			0.05
NIM - on average interest earning assets	**93,573**	**832**	**1.79**	89,503	788	1.75	86,057	741	1.74

(1) Net of average mortgage offset balances.

(2) Includes hedging costs, execution costs and dealer fees.

6. Consolidated half year financial report

For the half year ended 28 February 2023

Directors' report

The Directors present their report together with the consolidated half year 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 2023.

Directors' details

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

- Patrick Allaway, Director since May 2019, Chairman between Oct 2019 and 28 Nov 2022, Executive Chairman between 28 Nov 2022 and 27 March 2023 and Managing Director and Chief Executive Officer (CEO) since 27 March 2023
- Warwick Negus, Director since Sept 2016 and Chairman since 27 March 2023
- George Frazis, Managing Director and CEO (ceased 28 Nov 2022)
- Bruce Carter, Director since Feb 2014
- Jennifer Fagg, Director since Oct 2021
- Deborah Kiers, Director since Aug 2021
- Karen Penrose, Director since Nov 2015
- Miyuki (Mickie) Rosen, Director since March 2021.

Principal activities

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

Operating and financial review

Our Operating and Financial review is contained in pages 2 - 32 of this report.

Regulatory developments

In the half year ended 28 February 2023, a number of internal and external reviews identified a material uplift is required in BOQ's operational resilience, risk culture and governance and BOQ's Anti-Money Laundering and Counter-Terrorism Financing (**AML/CTF**) program and compliance. BOQ is engaging proactively with regulators in relation to the scope and governance of the Integrated Risk Program, with external subject matter experts engaged to assist. The Integrated Risk Program will be independently assured.

There remains a risk that BOQ will be subject to penalties, sanctions or other enforcement action in respect of these matters.

Key management and company officer changes

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

- George Frazis ceased in the role of Managing Director and CEO on 28 November 2022 and is currently serving out his notice on gardening leave, which is due to finish on 27 August 2023. BOQ Chairman Patrick Allaway took on the role of Executive Chairman on 28 November 2022 and was appointed Managing Director and CEO on 27 March 2023.

Key management and company officer changes (continued)

- Nicholas Allton, Group General Counsel and Company Secretary, departed the Group on 3 February 2023. Fiona Daly remains a Company Secretary of BOQ and assumed the role of General Counsel, reporting to the Group Chief Risk Officer.
- Rod Finch commenced as Chief Strategy & Transformation Officer on 10 April 2023.

Subsequent events

The Bank has determined an interim dividend to be paid on 1 June 2023. Further details with respect to the dividend amount per share, payment date and dividend reinvestment plan can be obtained from Note 6.2.3.

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

Management attestation

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

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

(b) present a true and fair view of the Group's financial position and performance as at and for the half year ended 28 February 2023.

Further, that in their opinion financial records for the Group have been properly maintained for the half year ended 28 February 2023.

The Directors' Declaration can be found on page 56 of this document.

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

The Lead Auditor's Independence Declaration as required under Section 307C of the *Corporations Act 2001* is set out on page 34 and forms part of the Directors' Report for the half year ended 28 February 2023.

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:

Warwick Negus

Chairman
19 April 2023

Patrick Allaway

Managing Director and CEO
19 April 2023

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

Auditor's Independence Declaration

As lead auditor for the review of Bank of Queensland Limited for the half year ended 28 February 2023, I declare that to the best of my knowledge and belief, there have been:

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

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

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

Matthew Lunn
Partner
PricewaterhouseCoopers

Sydney
19 April 2023

PricewaterhouseCoopers, ABN 52 780 433 757
One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, SYDNEY NSW 2001
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155 Parramatta NSW 2124
T: +61 2 9659 2476, F: +61 2 8266 9999, www.pwc.com.au

Consolidated income statement

For the half year ended 28 February 2023

	Note	**Feb 23 $ million**	Feb 22 $ million
Interest income		**1,831**	1,074
Effective interest income		**1,590**	1,016
Other		**241**	58
Interest expense		**(991)**	(331)
Net interest income		**840**	743
Other operating income	6.2.1	**69**	89
Net banking operating income		**909**	832
Net insurance operating income	6.2.1	**-**	1
Net operating income before impairment and operating expenses		**909**	833
Operating expenses		**(778)**	(532)
Loan impairment (expense) / benefit		**(31)**	15
Profit before income tax		**100**	316
Income tax expense	6.2.2	**(96)**	(104)
Profit for the period		**4**	212
Profit attributable to:			
Equity holders of Bank of Queensland Limited		**4**	212
Earnings per share			
Basic earnings per share - Ordinary shares (cents)		**0.2**	32.3
Diluted earnings per share - Ordinary shares (cents)		**2.7**	29.9

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 2023

	Feb 23 $ million	Feb 22 $ million
Profit for the period	**4**	212
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	**(121)**	167
Net movement transferred to profit or loss	**8**	9
Debt instruments at fair value through other comprehensive income (**FVOCI**):		
Net change in fair value	**5**	(5)
Net movement transferred to profit or loss	**(5)**	(6)
Other comprehensive income / (loss), net of income tax	**(113)**	165
Total comprehensive income for the period	**(109)**	377
Total comprehensive income attributable to:		
Equity holders of Bank of Queensland Limited	**(109)**	377

The Consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated balance sheet

As at 28 February 2023

	Note	**Feb 23 $ million**	Aug 22 $ million
ASSETS			
Cash and cash equivalents		**2,443**	2,448
Due from other financial institutions		**345**	347
Derivative financial assets	6.3.3(a)	**1,083**	1,073
Financial assets at fair value through profit or loss (**FVTPL**)	6.3.3(a)	**-**	4
Debt instruments at FVOCI	6.3.3(a)	**18,236**	13,304
Equity instruments at FVOCI	6.3.3(a)	**6**	6
Loans and advances	6.3.4	**81,330**	80,955
Other assets		**287**	250
Current tax assets		**-**	14
Property, plant and equipment		**247**	264
Assets held for sale	6.4(a)	**282**	-
Intangible assets		**1,076**	1,257
Investments in joint arrangements		**7**	8
Total assets		**105,342**	99,930
LIABILITIES			
Due to other financial institutions - at call		**1,840**	1,821
Deposits		**75,846**	70,684
Derivative financial liabilities	6.3.3(a)	**541**	630
Accounts payable and other liabilities		**911**	716
Current tax liabilities		**46**	-
Deferred tax liabilities		**57**	141
Provisions		**119**	66
Borrowings	6.3.5	**19,738**	19,187
Total liabilities		**99,098**	93,245
Net assets		**6,244**	6,685
EQUITY			
Issued capital	6.3.2(a)	**5,286**	5,258
Other equity instruments	6.3.2(b)	**102**	305
Reserves		**555**	841
Retained profits		**301**	281
Total equity		**6,244**	6,685

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 2023

HALF YEAR ENDED 28 FEBRUARY 2023	Issued capital $million	Other equity instruments $million	Employee benefits reserve $million	Share revaluation reserve $million	Equity reserve for credit losses $million	Other reserves $million	Retained profits $million	Total equity $million
Balance as at 31 August 2022	**5,258**	**305**	**46**	**(3)**	**58**	**740**	**281**	**6,685**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD								
Profit for the period	**-**	**5**	**-**	**-**	**-**	**-**	**(1)**	**4**
Transfers to profit reserve	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
OTHER COMPREHENSIVE INCOME, NET OF INCOME TAX:								
Cash flow hedges:								
Net movement taken to equity	**-**	**-**	**-**	**-**	**-**	**(121)**	**-**	**(121)**
Net movement transferred to profit or loss	**-**	**-**	**-**	**-**	**-**	**8**	**-**	**8**
Debt instruments at FVOCI:								
Net change in fair value	**-**	**-**	**-**	**-**	**-**	**5**	**-**	**5**
Net movement transferred to profit or loss	**-**	**-**	**-**	**-**	**-**	**(5)**	**-**	**(5)**
Transfers to equity reserve for credit losses	**-**	**-**	**-**	**-**	**(18)**	**-**	**18**	**-**
Total other comprehensive income / (expense)	**-**	**-**	**-**	**-**	**(18)**	**(113)**	**18**	**(113)**
Total comprehensive income / (expense) for the period	**-**	**5**	**-**	**-**	**(18)**	**(113)**	**17**	**(109)**
TRANSACTIONS WITH OWNERS, RECORDED DIRECTLY IN EQUITY / CONTRIBUTIONS BY AND DISTRIBUTIONS TO OWNERS								
Dividend reinvestment plan	**37**	**-**	**-**	**-**	**-**	**-**	**-**	**37**
Dividends to shareholders	**-**	**-**	**-**	**-**	**-**	**(155)**	**-**	**(155)**
Redemption of other equity instruments	**-**	**(200)**	**-**	**-**	**-**	**-**	**-**	**(200)**
Other equity instruments distributions	**-**	**(5)**	**-**	**-**	**-**	**-**	**-**	**(5)**
Fair value amortisation of capital notes	**-**	**(3)**	**-**	**-**	**-**	**-**	**3**	**-**
Share plan revaluation	**-**	**-**	**-**	**1**	**-**	**-**	**-**	**1**
Equity settled transactions	**-**	**-**	**(1)**	**-**	**-**	**-**	**-**	**(1)**
Treasury shares (1)	**(9)**	**-**	**-**	**-**	**-**	**-**	**-**	**(9)**
Total contributions by and distributions to owners	**28**	**(208)**	**(1)**	**1**	**-**	**(155)**	**3**	**(332)**
Balance as at 28 February 2023	**5,286**	**102**	**45**	**(2)**	**40**	**472**	**301**	**6,244**

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

The Consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity

For the half year ended 28 February 2022

	Issued capital $ million	Other equity instruments $ million	Employee benefits reserve $ million	Share revaluation reserve $ million	Equity reserve for credit losses $ million	Other reserves $ million	Retained profits $ million	Total equity $ million
HALF YEAR ENDED 28 FEBRUARY 2022								
Balance as at 31 August 2021	5,213	314	35	3	52	286	294	6,197
Change on revision of accounting policy	-	-	-	-	-	-	(25)	(25)
Restated balance as at 1 September 2021	5,213	314	35	3	52	286	269	6,172
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD								
Profit for the period	-	5	-	-	-	-	207	212
Transfers to profit reserve	-	-	-	-	-	123	(123)	-
OTHER COMPREHENSIVE INCOME, NET OF INCOME TAX:								
Cash flow hedges:								
Net movement taken to equity	-	-	-	-	-	167	-	167
Net movement transferred to profit or loss	-	-	-	-	-	9	-	9
Debt instruments at FVOCI:								
Net change in fair value	-	-	-	-	-	(5)	-	(5)
Net movement transferred to profit or loss	-	-	-	-	-	(6)	-	(6)
Transfers to equity reserve for credit losses	-	-	-	-	11	-	(11)	-
Total other comprehensive income / (expense)	-	-	-	-	11	165	(11)	165
Total comprehensive income for the period	-	5	-	-	11	288	73	377
TRANSACTIONS WITH OWNERS, RECORDED DIRECTLY IN EQUITY / CONTRIBUTIONS BY AND DISTRIBUTIONS TO OWNERS								
Dividend reinvestment plan	15	-	-	-	-	-	-	15
Dividends to shareholders	-	-	-	-	-	(141)	-	(141)
Other equity instruments distributions	-	(5)	-	-	-	-	-	(5)
Share plan revaluation	-	-	-	(3)	-	-	-	(3)
Equity settled transactions	-	-	4	-	-	-	-	4
Treasury shares [1]	(10)	-	-	-	-	-	-	(10)
Total contributions by and distributions to owners	5	(5)	4	(3)	-	(141)	-	(140)
Balance as at 28 February 2022	5,218	314	39	-	63	433	342	6,409

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

The Consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated statement of cash flows

For the half year ended 28 February 2023

	Note	Feb 23 $ million	Feb 22 $ million
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		**1,764**	1,097
Fees and other income received		**84**	104
Interest paid		**(810)**	(393)
Cash paid to suppliers and employees		**(460)**	(468)
Income tax paid		**(71)**	(107)
		507	233
Increase in operating assets:			
Loans and advances at amortised cost		**(682)**	(3,222)
Other financial assets		**(4,959)**	(638)
Increase in operating liabilities:			
Deposits		**5,141**	1,907
Net cash inflow / (outflow) from operating activities		**7**	(1,720)
CASH FLOWS FROM INVESTING ACTIVITIES			
Disposal of a subsidiary, net of cash disposed		**-**	15
Payments for property, plant and equipment		**(4)**	(26)
Proceeds from sale of property, plant and equipment		**2**	4
Payments for intangible assets		**(61)**	(93)
Proceeds from investments in joint arrangements		**1**	1
Net cash outflow from investing activities		**(62)**	(99)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings	6.3.5	**2,290**	3,455
Repayments of borrowings	6.3.5	**(1,883)**	(1,873)
Proceeds from foreign exchange instruments		**7**	-
Redemption of other equity instruments		**(200)**	-
Payments for treasury shares		**(18)**	(17)
Other equity instruments distribution paid		**(5)**	(5)
Dividends paid		**(118)**	(126)
Payment of lease liabilities		**(23)**	(21)
Net cash inflow from financing activities		**50**	1,413
Net decrease in cash and cash equivalents		**(5)**	(406)
Cash and cash equivalents at beginning of the period		**2,448**	2,563
Cash and cash equivalents at end of the period		**2,443**	2,157

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 2023

6.1 Basis of preparation

6.1.1 Reporting entity

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

The consolidated interim financial statements of the Bank as at and for the half year ended 28 February 2023 comprise the Consolidated Entity (or **the Group**), being the Bank and its controlled entities, and the Consolidated Entity's interest in equity accounted investments. The principal activity of the Group is the provision of financial services to the community.

6.1.2 Basis of accounting

The consolidated half year 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* (Cth). The consolidated half year financial report does not include all the information required for a full annual financial report, and therefore cannot be expected to provide as full an understanding of the financial position and financial performance of the Group as that given by the Annual Report. As a result, this consolidated half year financial report should be read in conjunction with the consolidated annual financial report of the Group as at and for the financial year ended 31 August 2022 and any public announcements made in the period by the Group in accordance with the continuous disclosure requirements of the *Corporations Act 2001* (Cth) and the ASX Listing Rules. The financial report for the year ended 31 August 2022 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 half year financial report is presented in Australian dollars which is the functional currency of the Group.

The consolidated half year financial report was approved by the Board of Directors on 19 April 2023.

6.1.3 Significant accounting policies

The accounting policies applied by the Group in this consolidated half year 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 2022.

Where necessary, comparative information has been restated to conform to presentation in the current period. All changes have been footnoted throughout the financial statements.

6.1.4 Use of judgements and estimates

In preparing the consolidated half year 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.

Except for goodwill impairment in Note 6.5.1 and the IRP described in Note 6.5.3, the significant judgements made by management in applying the Group's accounting policies and key sources of estimation uncertainty are consistent with those that applied to the consolidated financial statements as at and for the year ended 31 August 2022.

6.1.5 New Australian accounting standards

There are no new accounting standards or amendments to existing standards that are not yet effective, which are expected to have a material impact on the Group.

Notes to the financial statements

For the half year ended 28 February 2023

6.2 Financial performance

6.2.1 Other operating income

	Feb 23 $ million	Feb 22 $ million
INCOME FROM OPERATING ACTIVITIES		
Customer fees and charges (1)	**38**	37
Share of fee revenue to owner-managed branches	**(3)**	(3)
Commissions	**18**	21
Foreign exchange income – customer based	**9**	7
Net profit on sale of property, plant and equipment	**1**	4
Net gain/(loss) from financial instruments and derivatives at fair value	**(1)**	4
Dividend income	**-**	1
Other income	**7**	18
Total other operating income	**69**	89
INCOME FROM INSURANCE ACTIVITIES (2)		
Premiums from insurance contracts	**-**	7
Claims and policyholder liability expense from insurance contracts	**-**	(6)
Net insurance operating income	**-**	1
Total	**69**	90

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

(2) The sale of the St Andrew's Insurance Group was completed on 28 October 2021. Comparative income is shown up to the sale completion date.

6.2.2 Income tax expense

The Group's effective tax rate for the half year ended 28 February 2023 was 95.7 per cent and for the half year ended 28 February 2022 was 32.8 per cent. The significant increase above the corporate tax rate of 30 per cent in the half year ended 28 February 2023 is attributable to goodwill impairment of $200 million which is non-deductible for tax purposes. The effective tax rate excluding goodwill impairment is 31.8 per cent primarily due to an ongoing adjustment in relation to interest payable on capital notes.

Notes to the financial statements

For the half year ended 28 February 2023

6.2.3 Dividends

	Feb 23		Feb 22	
	Cents per share	**$ million**	Cents per share	$ million
ORDINARY SHARES				
Final 2022 dividend paid 17 November 2022 (2021: 18 November 2021)	**24**	**155**	22	141

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	**$ million**
Interim 2023 ordinary share dividend	**20**	**130**

The interim ordinary share dividend payment will be fully franked and paid on 1 June 2023 to owners of ordinary shares at the close of business on 11 May 2023 (record date). Shares will be quoted ex-dividend on 10 May 2023.

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 2023 interim dividend is 12 May 2023.

Notes to the financial statements

For the half year ended 28 February 2023

6.2.4 Operating segments

Segment information

The Group determines and presents operating segments based on the information that is provided internally to the Managing Director and CEO, the Bank's chief operating decision maker. During the half year period, the Managing Director and CEO ceased in the role and the chief operating decision maker role was assumed by the Executive Chairman. The Executive Chairman was subsequently appointed as the Managing Director and CEO on 27 March 2023.

The Bank's operating segments comprise the following:

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

BOQ Business - includes the BOQ branded commercial and financial markets products, BOQ Finance and BOQ Specialist businesses. The division provides tailored business banking solutions including commercial lending, equipment finance and leasing, cash flow finance, foreign exchange, interest rate hedging, transaction banking and deposit solutions for commercial customers.

Presentation

The following table presents income, profit and certain asset and liability information regarding the Group's operating segments. Inter-segment revenue and expenses and transfer pricing adjustments are reflected in the performance of each operating segment. All inter-segment profits are eliminated on consolidation. Other column includes Treasury and Group Head Office operations, as well as statutory basis adjustments not attributable to one of the segments. This is not reported internally to the Group's and the Bank's chief operating decision maker as an operating segment.

	Half year ended 28 February 2023				Half year ended 28 February 2022			
	Retail Banking $ million	**BOQ Business $ million**	**Other [8] $ million**	**Total $ million**	Retail Banking $ million	BOQ Business $ million	Other [8] $ million	Total $ million
Net interest income [1]	**500**	**339**	**(7)**	**832**	460	280	1	741
Non-interest income	**45**	**24**	**1**	**70**	62	25	3	90
Total income	**545**	**363**	**(6)**	**902**	522	305	4	831
Operating expenses	**(349)**	**(146)**	**-**	**(495)**	(321)	(140)	-	(461)
Underlying profit	**196**	**217**	**(6)**	**407**	201	165	4	370
Loan impairment (expense)/benefit	**(16)**	**(18)**	**-**	**(34)**	(19)	34	-	15
Segment cash profit / (loss) before tax	**180**	**199**	**(6)**	**373**	182	199	4	385
Income tax expense	**(57)**	**(63)**	**3**	**(117)**	(55)	(61)	(1)	(117)
Segment cash profit / (loss) after tax [2]	**123**	**136**	**(3)**	**256**	127	138	3	268
STATUTORY BASIS ADJUSTMENTS								
Goodwill impairment [3]	**(200)**	**-**	**-**	**(200)**	-	-	-	-
IRP [4]	**-**	**-**	**(42)**	**(42)**	-	-	-	-
Amortisation of acquisition fair value adjustments	**-**	**-**	**4**	**4**	-	-	(4)	(4)
ME Bank integration costs [5]	**-**	**-**	**(13)**	**(13)**	-	-	(25)	(25)
St Andrew's [6]	**-**	**-**	**-**	**-**	-	-	(26)	(26)
Hedge ineffectiveness	**-**	**-**	**(1)**	**(1)**	-	-	(1)	(1)
Statutory net profit / (loss) after tax	**(77)**	**136**	**(55)**	**4**	127	138	(53)	212
BALANCE SHEET								
Loans and advances	**56,592**	**24,738**	**-**	**81,330**	54,988	23,675	-	78,663
Deposits [7]	**35,286**	**11,102**	**29,458**	**75,846**	31,442	11,889	24,565	67,896

(1) Interest income and interest expenses are disclosed in this note on a net interest income basis. This is in line with the information provided internally to the chief operating decision maker.

(2) This excludes a number of items that introduce volatility and / or one-off distortions of the current period performance.

(3) In the half year ended 28 February 2023, the Group recognised goodwill impairment of $200 million. Refer to Note 6.5.1 for further detail.

(4) In the half year ended 28 February 2023, the Group has provided for the estimated costs of its IRP. Further detail on this program can be found in Note 6.5.3.

(5) ME Bank integration costs from ME Bank acquisition completed on 1 July 2021. Prior period costs include integration and transaction cost from ME Bank acquisition.

(6) Includes the loss on sale of the St Andrew's Group of $25 million and net earnings of the St Andrew's Group for the period ended 28 October 2021 of $1 million.

(7) Treasury managed deposits are included in Other.

(8) This is not reported internally to the Group's and the Bank's chief operating decision maker as an operating segment.

Notes to the financial statements

For the half year ended 28 February 2023

6.3 Capital and balance sheet management

6.3.1 Capital management

The BOQ Group's capital management strategy aims to maintain adequate capital levels to protect deposit holders. The Bank's capital is measured and managed in line with Prudential Standards issued by APRA. The capital management plan is updated annually and submitted to the Board for approval. The approval process is designed to support consistency between the overall business plan and management of capital levels on an ongoing basis.

Under APRA's Basel III new capital framework, effective 1 January 2023, the Board has implemented a new management Common Equity Tier 1 Capital Ratio target range of between 10.25 - 10.75 per cent.

6.3.2 Issued capital

(a) Ordinary shares

	Feb 23 No of shares	Feb 22 No of shares
MOVEMENTS DURING THE PERIOD		
Balance at the beginning of the period – fully paid	**647,357,479**	640,889,563
Dividend reinvestment plan (1)	**5,127,531**	1,736,021
Balance at the end of the period – fully paid	**652,485,010**	642,625,584
TREASURY SHARES (INCLUDED IN ORDINARY SHARES ABOVE)		
Balance at the beginning of the period	**2,243,719**	1,128,671
Net acquisitions and disposals during the period	**1,183,708**	1,476,436
Balance at the end of the period	**3,427,427**	2,605,107

(1) 24 per cent of the dividend paid on 17 November 2022 (11 per cent of the dividend paid on 18 November 2021) was reinvested by shareholders as part of the dividend reinvestment plan.

(b) Other equity instruments

	Earliest redemption date	**Feb 23 No of Capital Notes**	Feb 22 No of Capital Notes
AT1 EQUITY INSTRUMENTS			
AT1 Capital Notes (Series 1)	-	**-**	20,000
AT1 Capital Notes (Series 2)	5 December 2023	**10,000**	10,000
Total AT1 equity instruments		**10,000**	30,000

Other equity instruments of $102 million include Additional Tier 1 (**AT1**) securities assumed on the acquisition of ME Bank. The securities are perpetual, non-cumulative, subordinated and unsecured notes (**AT1 Capital Notes**).

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

AT1 Capital Notes (Series 1) were redeemed in full on 28 November 2022.

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

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

Notes to the financial statements

For the half year ended 28 February 2023

6.3.3 Financial instruments

(a) Fair value hierarchy

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

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

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

	Feb 23			
	Level 1 $ million	**Level 2 $ million**	**Level 3 $ million**	**Total $ million**
FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE				
Derivative financial assets	**-**	**1,083**	**-**	**1,083**
Financial assets at FVTPL [(1)]	**-**	**-**	**-**	**-**
Debt instruments at FVOCI [(2)]	**5,721**	**12,515**	**-**	**18,236**
Equity Instruments at FVOCI	**-**	**-**	**6**	**6**
Total assets measured at fair value	**5,721**	**13,598**	**6**	**19,325**
Derivative financial liabilities	**-**	**(541)**	**-**	**(541)**
Net financial instruments at fair value	**5,721**	**13,057**	**6**	**18,784**

(1) During the half, the Group disposed of the unlisted equity instrument making up the financial assets at FVTPL portfolio.
(2) During the half, high quality liquid assets (**HQLA**) were increased to prepare for the TFF replacement and to enable the removal of the committed liquidity facility.

	Aug 22			
	Level 1 $ million	Level 2 $ million	Level 3 $ million	Total $ million
FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE				
Derivative financial assets	-	1,073	-	1,073
Financial assets at FVTPL	-	-	4	4
Debt instruments at FVOCI	6,335	6,969	-	13,304
Equity instruments at FVOCI	-	-	6	6
Total assets measured at fair value	6,335	8,042	10	14,387
Derivative financial liabilities	-	(630)	-	(630)
Net financial instruments at fair value	6,335	7,412	10	13,757

There was no movement between levels during the period.

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

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques which maximise the use of observable market data where it is available and rely as little as possible on the entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

Specific valuation techniques used to value financial instruments include:

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

Notes to the financial statements

For the half year ended 28 February 2023

6.3.3 Financial instruments (continued)

(c) 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 23 $ million	Aug 22 $ million	**Feb 23 $ million**	Aug 22 $ million
ASSETS [1]				
Loans and advances	**81,330**	80,955	**80,515**	79,961
	81,330	80,955	**80,515**	79,961
LIABILITIES CARRIED AT AMORTISED COST				
Deposits	**(75,846)**	(70,684)	**(75,955)**	(70,818)
Borrowings including subordinated notes	**(19,738)**	(19,187)	**(19,807)**	(19,275)
	(95,584)	(89,871)	**(95,762)**	(90,093)

(1) Debt instruments at amortised cost are not shown in this table as they are held at the Bank level only.

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

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

6.3.4 Loans and advances

	Feb 23 $ million	Aug 22 $ million
Gross loans and advances	**82,026**	81,333
Less:		
Unearned finance lease income	**(101)**	(83)
Specific provision for impairment	**(70)**	(78)
Collective provision for impairment	**(243)**	(217)
Net loans and advances (including assets reclassified as held for sale)	**81,612**	80,955
Less: Net loans and advances reclassified as held for sale [1]	**(282)**	-
Total loans and advances	**81,330**	80,955

(1) Refer to Note 6.4(a) for further detail.

Expected Credit Losses (ECL)

The following table discloses the breakdown of the Group's ECL by component for the half year ended 28 February 2023:

	Collective Provision				
	Stage 1 – 12 month ECL $ million	**Stage 2 – Lifetime ECL $ million**	**Stage 3 – Lifetime ECL $ million**	**Stage 3 – Specific provision $ million**	**Total $ million**
Balance as at 1 September 2022	**65**	**76**	**76**	**78**	**295**
Transfers during the period to:					
Stage 1	**37**	**(25)**	**(11)**	**(1)**	**-**
Stage 2	**(3)**	**9**	**(5)**	**(1)**	**-**
Stage 3	**-**	**(6)**	**8**	**(2)**	**-**
New / increased provisions	**39**	**51**	**35**	**23**	**148**
Write-back of provisions no longer required	**(58)**	**(24)**	**(21)**	**(13)**	**(116)**
Amounts written off, previously provided for	**-**	**-**	**-**	**(14)**	**(14)**
Balance as at 28 February 2023	**80**	**81**	**82**	**70**	**313**

Notes to the financial statements

For the half year ended 28 February 2023

6.3.4 Loans and advances (continued)

	Collective Provision				
	Stage 1 – 12 month ECL $ million	Stage 2 – Lifetime ECL $ million	Stage 3 – Lifetime ECL $ million	Stage 3 – Specific provision $ million	Total $ million
Balance as at 1 March 2022	60	64	75	90	289
Transfers during the period to:					
Stage 1	8	(2)	(3)	(3)	-
Stage 2	(1)	3	(3)	1	-
Stage 3	-	(1)	(2)	3	-
New / increased provisions	12	18	18	8	56
Write-back of provisions no longer required	(14)	(6)	(9)	(9)	(38)
Amounts written off, previously provided for	-	-	-	(12)	(12)
Balance as at 31 August 2022	65	76	76	78	295

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 2023:

	Stage 1 – 12 month ECL $ million	**Stage 2 – Lifetime ECL $ million**	**Stage 3 – Lifetime ECL $ million**	**Stage 3 – Specific provision $ million**	**Stage 3 - POCI Loans $ million**	**Total (1) $ million**
Gross carrying amount as at 1 September 2022	**76,071**	**4,194**	**598**	**162**	**225**	**81,250**
Transfers during the period to:						
Stage 1	**1,231**	**(1,183)**	**(40)**	**(8)**	**-**	**-**
Stage 2	**(2,290)**	**2,390**	**(98)**	**(2)**	**-**	**-**
Stage 3	**(130)**	**(159)**	**262**	**27**	**-**	**-**
New loans and advances originated or purchased	**9,888**	**38**	**6**	**-**	**-**	**9,932**
Loans and advances derecognised during the period including write-offs	**(8,380)**	**(708)**	**(93)**	**(46)**	**(30)**	**(9,257)**
Balance at the end of the period	**76,390**	**4,572**	**635**	**133**	**195**	**81,925**
Provision for impairment	**(80)**	**(81)**	**(82)**	**(70)**	**-**	**(313)**
Net carrying amount as at 28 February 2023	**76,310**	**4,491**	**553**	**63**	**195**	**81,612**

	Stage 1 – 12 month ECL $ million	Stage 2 – Lifetime ECL $ million	Stage 3 – Lifetime ECL $ million	Stage 3 – Specific provision $ million	Stage 3 - POCI Loans $ million	Total (1) $ million
Gross carrying amount as at 1 March 2022	73,801	4,147	538	199	267	78,952
Transfers during the period to:						
Stage 1	240	(223)	(11)	(6)	-	-
Stage 2	(498)	546	(50)	2	-	-
Stage 3	(144)	(38)	169	13	-	-
New loans and advances originated or purchased	11,198	292	25	4	-	11,519
Loans and advances derecognised during the period including write-offs	(8,526)	(530)	(73)	(50)	(42)	(9,221)
Balance at the end of the period	76,071	4,194	598	162	225	81,250
Provision for impairment	(65)	(76)	(76)	(78)	-	(295)
Net carrying amount as at 31 August 2022	76,006	4,118	522	84	225	80,955

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

Purchased or originated credit-impaired (**POCI**) loans are financial assets that are purchased or originated as being credit impaired. The ECL for POCI assets is measured at an amount equal to the lifetime ECL. However, the amount recognised as a loss allowance for these assets is not the total amount of lifetime ECLs, but instead the changes in lifetime ECLs since initial recognition of the asset.

The loss allowance associated with the POCI loans amounted to a reduction of $3 million for the half year ended 28 February 2023 and was taken directly to the balance of the gross carrying value of loans and advances. No new POCI loans were recognised in the half year ended 28 February 2023.

Notes to the financial statements

For the half year ended 28 February 2023

6.3.4 Loans and advances (continued)

ECL model methodology, estimates and assumptions

The Group's reported ECL of $313 million was determined by taking into account the facts, circumstances and forecasts of future economic conditions and supportable information available at the reporting date. The fundamental credit model mechanics and methodology underpinning the Group's calculation of ECL have broadly remained consistent with prior periods, including economic and model overlays reflecting the uncertainty at that time.

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

The scenarios, including their underlying indicators, are developed using a combination of publicly available data and internal forecasts to form the initial baseline. The scenarios are refined through consultation with internal specialists and benchmarking to external data from reputable sources, which includes forecasts published from a range of market economists and official data sources, including major central banks.

Economic outlook factors that are taken into consideration include, but are not limited to, unemployment, interest rates, gross domestic product, commercial and residential property price indices, and require an evaluation of both the current and forecast direction of the macro-economic cycle.

Incorporating forward looking information, including macro-economic forecasts, increases the degree of judgement required to assess how changes in these data points will affect ECLs. The methodologies and assumptions, including any forecasts of future economic conditions, are reviewed regularly.

- **Base case scenario:** This scenario reflects BOQ's forward looking economic assumptions where inflation remains high from supply-chain effects causing a peak in interest rate in the first year. Base case assumptions are supported by RBA forecasts where available. Unemployment remains low for the short term, with modest increases occurring in later years as a result of overall higher cash rates having a slowing effect on the broader economy. Lower GDP growth is seen in late 2023 and 2024 due to the interest rate effects before moderately increasing in later years. Property price declines in the first year align with the peak in interest rates before recovery in later years.
- **Upside scenario:** This scenario represents a slight improvement on the economic conditions from the Base case.
- **Downside scenario:** This scenario represents stagflation effects, with higher interest rates, a falling GDP and rising unemployment for the first two years. Compared to the base case scenario, interest rate rises are not able to constrain inflation as early and therefore reach a higher peak. Other economic variables experience more stressed outcomes as a result.
- **Severe downside scenario:** This scenario also represents stagflationary economic outcomes and accounts for the potential impact of lower likelihood but higher severity macroeconomic conditions.

Notes to the financial statements

For the half year ended 28 February 2023

6.3.4 Loans and advances (continued)

ECL model methodology, estimates and assumptions (continued)

The table below provides a summary of macro-economic assumptions used in the Base and Downside scenarios as at 28 February 2023:

	Base			Downside		
Macro-economic assumption (1)	**2023**	2024	2025	**2023**	2024	2025
GDP (**YoY**)	**1.50**	1.50	1.75	**(0.75)**	-	0.50
Unemployment	**3.75**	4.25	4.50	**5.75**	7.50	7.75
Residential Property Prices (**YoY**)	**(15.00)**	2.50	5.00	**(19.50)**	(8.25)	(1.50)
Commercial Property Prices (**YoY**)	**(10.00)**	(5.00)	-	**(16.25)**	(10.25)	(5.00)
Cash Rate	**3.95**	3.20	3.20	**4.75**	4.00	4.00

(1) The forecasts in the table reflect calendar year end numbers.

In determining the reported ECL of $313 million, the Group has taken into account the facts, circumstances and forecasts of future economic conditions and supportable information available at the reporting date. Provisioning assumption updates have been made during 1H23 which include a complete review of overlays and adjustments, which are held for external factors not captured in the core models, including specific industry or portfolio stresses and uncertainties related to model precision, as well as a review of scenarios and scenario weightings to cater for economic uncertainties. Key drivers of management overlays remain related to emerging risks associated with construction, commercial property, inflationary/supply-chain pressures and potential stress in fixed rate loans within the home loans portfolio caused by interest rate rises.

The final 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 table below shows weightings applied to derive the probability weighted ECL, utilising the most up to date macro-economic information available as at reporting date.

	Upside		Base		Downside		Severe	
	Feb 23	Aug 22	**Feb 23**	Aug 22	**Feb 23**	Aug 22	**Feb 23**	Aug 22
Weighting	**5%**	5%	**50%**	50%	**30%**	30%	**15%**	15%

Sensitivity of provisions for impairment

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

	Consolidated Feb 23 $ million	Consolidated Aug 22 $ million
Reported probability weighted ECL	**313**	295
100% Upside scenario	**223**	214
100% Base case scenario	**242**	225
100% Downside scenario	**355**	331
100% Severe Downside scenario	**496**	482

Sensitivity of provisions for impairment to SICR assessments

If 1% of Stage 1 credit exposures as at 28 February 2023 was included in Stage 2, provisions for impairment would increase by approximately $14 million for the Group (31 August 2022: $15 million) based on using coverage ratios by stage to the movement in the gross exposure by stage.

Notes to the financial statements

For the half year ended 28 February 2023

6.3.5 Borrowings

The Consolidated Entity recorded the following movements on borrowings:

	Securitisation liabilities (1) $ million	Covered bonds liabilities (2) $ million	Debt issues (3) $ million	Euro-commercial paper program $ million	Term funding facility (4) $ million	Subordinated notes $ million	Capital Notes (5) $ million	Total $ million
HALF YEAR ENDED 28 FEBRUARY 2023								
Balance at the beginning of the period	**7,540**	**2,544**	**4,545**	**80**	**3,026**	**848**	**604**	**19,187**
Proceeds from issues / new funding	**500**	**-**	**1,164**	**234**	**-**	**-**	**400**	**2,298**
Repayments	**(873)**	**-**	**(927)**	**(83)**	**-**	**-**	**-**	**(1,883)**
Deferred establishment costs	**(2)**	**-**	**-**	**-**	**-**	**-**	**(6)**	**(8)**
Amortisation of deferred costs (6)	**3**	**1**	**-**		**-**	**-**	**-**	**4**
Foreign exchange translation (6)	**-**	**133**	**1**	**6**	**-**	**-**	**-**	**140**
Balance at the end of the period	**7,168**	**2,678**	**4,783**	**237**	**3,026**	**848**	**998**	**19,738**

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

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

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

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

(4) The TFF provides funding at a fixed interest rate of 25 basis points, for a maximum of three years from March 2020 and is accounted for as borrowings. From 4 November 2020, the interest rate of new borrowings was lowered to 10 basis points. The funding is a below market interest loan from a Government entity and accordingly, classified as a Government Grant. The Group reflects a net interest expense in the Income Statement. There are no terms and conditions associated with the TFF other than pledging eligible collateral that meet the RBA's eligibility criteria. At 28 February 2023, the Group has pledged $3.7 billion of self-securitised residential mortgage-backed securities as collateral.

(5) **Capital Notes**
On 28 December 2017, the Bank issued 3,500,000 Capital Notes at a price of $100 per note. Capital Notes are perpetual and convertible notes issued by BOQ, with preferred, discretionary, non-cumulative distributions. They are not guaranteed or secured. As at 28 February 2023, 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 are additional tier 1 capital and form part of the Group's capital adequacy.
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 2023, 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. Capital Notes 2 are additional tier 1 capital and form part of the Group's capital adequacy.
Capital Notes 3
The Capital Notes 3 were issued on 14 November 2022 at a price of $100 per note. Capital Notes 3 are non-cumulative, perpetual, convertible, unguaranteed and unsecured notes with discretionary distributions, issued by BOQ. As at 28 February 2023, 4,000,000 Capital Notes 3 were outstanding. Capital Notes 3 must convert into ordinary shares on 16 June 2031 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 3 based on the volume weighted average price of ordinary shares during a specified period. Capital Notes 3 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 3 on 15 December 2028, 15 March 2029 and 15 June 2029 or following a regulatory or tax event. BOQ may also elect to convert all Capital Notes 3 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 3 will rank for payment of capital ahead of ordinary shares, equally with Capital Notes 1 (issued 28 December 2017), Capital Notes 2 (issued 30 November 2020) and other equal ranking instruments, but behind the claims of all senior ranking creditors, including depositors and unsubordinated and subordinated creditors. Capital Notes 3 are additional tier 1 capital and form part of the Group's capital adequacy.

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

Notes to the financial statements

For the half year ended 28 February 2023

6.4 Controlled entities

(a) Operations classified as held for sale

During the half year ended 28 February 2023, the Bank has made a decision to sell a portfolio of assets held by BOQ Finance (NZ) Limited and the New Zealand branch of BOQ Equipment Finance Limited. The assets include commercial loans, finance and operating leases written in New Zealand. This decision represents simplification of the Bank's lending portfolio removing the compliance burden with servicing a small lending portfolio in another jurisdiction.

As at the date of this report, the Bank has not entered into a contract for sale but continues to actively market the portfolio and the sale is expected to be completed in the next 12 months.

The sale of the New Zealand assets will impact the BOQ Business segment.

The carrying value of loans and leases held for sale as at 28 February 2023 amounted to $282 million.

(b) Entities established during the half year period

The following entities were established during the half year ended 28 February 2023:

- Series 2022-1PP REDS EHP Trust was opened on 22 December 2022.

Notes to the financial statements

For the half year ended 28 February 2023

6.5 Other notes

6.5.1 Intangible assets

Goodwill

Recognition and measurement

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units (CGUs) for the purpose of impairment testing. The allocation is made to those CGUs that are expected to benefit from the business combination in which the goodwill arose. The units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments - Retail Banking and BOQ Business (refer Note 6.2.4).

Impairment testing of the Cash-Generating Units containing goodwill

As the Group's market capitalisation was below the Group's net asset value at 28 February 2023, the Group assessed the carrying value of CGUs containing goodwill as at 28 February 2023. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and a premium to reflect the risks specific to the CGUs.

As a result of this assessment, the Retail Banking CGU's recoverable amount indicated a shortfall relative to carrying amount. Accordingly, an impairment loss of $200 million has been recognised at 28 February 2023.

Value-in-use

The carrying amount of each CGU is compared to its recoverable amount. For the interim 2023 and annual 2022 reporting periods, the recoverable amount of the CGUs was determined based on value in use calculations which require the use of assumptions.

Value in use is determined by discounting the future cash flows generated from the continued operation of the CGU. These cash flow projections were updated during the half to reflect the most recent Board approved Strategic Plan. The key assumptions represent management's assessments of future trends in retail and business banking and are based on both external and internal sources. The following key assumptions were used in the value in use models:

- Post-tax cash flow projections based on a five year financial forecast which is developed annually and approved by management and the Board. A long term growth rate is applied to extrapolate cash flows beyond the initial five-year period for each CGU. These forecasts utilise information about current and future economic conditions, observable historical performance and management expectations of future business performance.
- Post-tax discount rate applied to the cash flow projections reflecting the specific risks and conditions relating to the relevant CGUs.

Value-in-use (continued)

- Common Equity Tier 1 Holdback Rate refers to the level of capital held as a percentage of total risk-weighted assets, in line with the midpoint of management's target CET1 range.
- Long term growth rate is used to extrapolate cash flows beyond the forecast period and reflects the upper end of the RBA's target long-term inflation rate band.

The following table sets out the key assumptions used for both Retail Bank and BOQ Business:

	Feb 23	Aug 22
Post-tax discount rate	**10.19%**	9.60%
Common Equity Tier 1 Holdback Rate [1]	**10.50%**	9.65%
Long term growth rate	**3.00%**	3.00%

(1) Increase in CET1 Holdback rate has been aligned to the midpoint of management's CET1 target range, following Basel III implementation.

The directors and management have considered and assessed reasonably possible changes for other key assumptions.

The calculated headroom for each CGU (before any impairment), under the value in use model described above is:

	Feb 23 $ million	Aug 22 $ million
Retail Banking	**(200)**	49
BOQ Business	**140**	7

The goodwill applicable to each CGU before and after impairment charges is shown below:

	Balance as at 31 Aug 2022 $ million	**Impairment expense $ million**	**Balance as at 28 Feb 2023 $ million**	**Headroom after impairment as at 28 Feb 2023 $ million**
Retail Banking	370	(200)	**170**	-
BOQ Business	397	-	**397**	140
Total	767	(200)	**567**	140

Sensitivity Analysis

For BOQ Business CGU, a reasonably possible change in the discount rate of +0.375% would erode headroom to nil. There are no reasonably possible changes in other assumptions that would result in an impairment of this CGU.

Notes to the financial statements

For the half year ended 28 February 2023

6.5.2 Related parties

The terms of arrangements for all related parties are consistent with those disclosed in the 31 August 2022 Annual Report, with the exception of the accounts detailed below.

George Frazis ceased to be a key management personnel (**KMP**) on 28 November 2022.

During the period ended 28 February 2023, the Group performed a review of KMP disclosures, and noted the omission of loan accounts relating to one KMP, which have been presented below for the period up until 31 August 2022:

Loans and advances

• Balance as at 1 June 2022	$2,907,398
• Balance as at 31 August 2022	$2,893,619
• Total loan repayments for the period [(1)]	$28,338
• Total loan / overdraft interest for the period [(1)]	$14,469
• Total Fees on loans / overdrafts for the period [(1)]	$90

(1) Amounts are included from 1 June 2022 to 31 August 2022 for the period the Director / Executive was classified as a member of the KMP.

The terms and conditions of the transactions entered into with KMP and their related parties were no more favourable than those available, or which might reasonably be expected to be available on similar transactions to non-related entities, on an arm's length basis.

6.5.3 Provisions and contingent liabilities

Legal claims, remediation, compensation claims and regulatory enforcement

Throughout the period BOQ has regularly engaged with its principal regulators, APRA, AUSTRAC and ASIC.

Provision for Integrated Risk Program

Internal and external reviews identified that a material uplift is required in respect of BOQ's operational resilience, risk culture and AML/CTF program and compliance.

In order to address the matters identified in these reviews (as well as reviews referred to in our 2022 Annual Report), the Group has committed to undertake a three-year Integrated Risk Program (**IRP**) in respect of BOQ's operational resilience, risk culture and AML/ CTF program and compliance. The Group has been engaging proactively with its regulators during the period and since the reporting date, in relation to the scope and governance of the IRP, with external subject matter experts engaged to assist. The IRP will be independently assured.

A provision of $60 million has been recognised for the best estimate of the additional expenditure required to meet the commitment. The provision excludes the costs of activities under the IRP that are expected to be performed by existing resources of the Group, ongoing operating costs and costs related to improvements beyond the matters identified.

A number of risks and uncertainties exist for which assumptions have been made in estimating the provision required, including

- Scope of the IRP: The provision has been based on matters currently identified that require uplift. It is possible that additional matters are identified as a result of further analysis or required by regulators that could increase the scope and cost of the program.

6.5.3 Provisions and contingent liabilities (continued)

Provision for integrated risk program (continued)

- Nature and extent of work required to address the matters identified: It has been necessary to estimate the work required to deliver on requirements based on plans at different levels of development. Allowance has been made for this uncertainty informing the estimate, however it is possible that as work proceeds the scope and cost of the program required is different to the estimate.

- Resources required to deliver the work required: As outlined above, provision has been made for the additional expenditure to the Group necessary to deliver the required uplift such as external support, contractors and independent assurance providers. This has required estimation of the extent and cost of additional resources required based on an assumption of the Group's capacity to deliver a significant proportion of the activities with its existing and planned internal resources.

The Bank's compliance with the Consumer Data Rights (CDR) regime - Open Banking

While BOQ (excluding ME Bank) did not initially meet the Phase 1, 2 or 3 compliance dates, on 30 June 2022 BOQ confirmed to the Australian Competition and Consumer Commission (**ACCC**) that all three phases had been successfully delivered.

There were a number of further compliance requirements under the CDR regime that were due throughout 2022. These included requirements to deliver joint account functionality by 1 October 2022, as well as secondary user capability and non-individual accounts by 1 November 2022.

While BOQ largely delivered these requirements for most of its customers, there is a delay with delivery for some of its customers, for example, in relation to some BOQ complex non-individual accounts.

BOQ has a Rectification Schedule in place with the ACCC, which sets out the status of its implementation of CDR requirements. The Rectification Schedule is publicly available.

As disclosed in the 31 August 2022 Annual Report, on 23 June 2022, the ACCC issued BOQ with an infringement notice in relation to non-compliance with the CDR rules. The notice includes a monetary penalty of $133,200. It is uncertain what other actions (if any) will result following the delay in meeting other CDR requirements as set out in the Rectification Schedule.

Notes to the financial statements

For the half year ended 28 February 2023

6.5.3 Provisions and contingent liabilities (continued)

Potential for regulatory enforcement, claims, remediation and compensation claims

There is a risk that regulatory engagements, including those with APRA and AUSTRAC in relation to the matters discussed previously, and other developments may lead to the imposition of fines, sanctions or other enforcement action in relation to the Group's compliance with relevant laws and regulations. There is also the risk that the Group incurs increased costs in people, processes and systems in order to meet regulators' requirements or expectations.

As at the date of this report, no regulator has imposed an infringement notice, civil penalty, fine or other penalty in relation to the Group's compliance with relevant laws or regulations, other than for matters previously disclosed.

The Group also undertakes ongoing compliance activities, including to review the products, services and advice it provides to its customers (including interest and fees charged) and the way in which these are provided. Some of these reviews identify instances of non-compliance with relevant obligations, and/or have also resulted in the Group establishing remediation programs. Where required, the Group consults with the respective regulator in relation to these matters. There is also a risk that where a breach has occurred, regulators may also impose fines and/or sanctions. The outcomes and total costs associated with such reviews and possible exposures remain uncertain and cannot be reliably estimated.

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

St Andrew's

As part of the St Andrew's sale completed on 28 October 2021, BOQ provided a capped indemnity of $8.5 million to the buyer, Farmcove Investment Holdings, for the period ending 28 October 2024. No claims on the indemnity have been made up to the date of this report.

6.5.4 Events subsequent to balance date

The Bank has determined an interim dividend to be paid on 1 June 2023. Further details with respect to the dividend amount per share, payment date and dividend reinvestment plan can be obtained from Note 6.2.3.

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

Directors' declaration

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

(a) the consolidated financial statements and accompanying notes for the half year ended 28 February 2023, as set out on pages 35 to 55 are in accordance with 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 2023 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:

Warwick Negus

Chairman
19 April 2023

Patrick Allaway

Managing Director and CEO
19 April 2023

Independent auditor's report

pwc

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

Report on the half year financial report

Conclusion

We have reviewed the half year financial report of Bank of Queensland Limited (the Company) and the entities it controlled during the half year (together the Group), which comprises the Consolidated balance sheet as at 28 February 2023, the Consolidated statement of comprehensive income, Consolidated statement of changes in equity, Consolidated statement of cash flows and Consolidated income statement for the half year ended on that date, significant accounting policies and explanatory notes and the Directors' declaration.

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

1. giving a true and fair view of the Group's financial position as at 28 February 2023 and of its performance for the half year ended on that date; and

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

Basis for conclusion

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

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

Responsibilities of the Directors for the half year financial report

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

PricewaterhouseCoopers, ABN 52 780 433 757
One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, SYDNEY NSW 2001
T: +61 2 8266 0000, F: +61 2 8266 9999

Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155 Parramatta NSW 2124
T: +61 2 9659 2476, F: +61 2 8266 9999

Independent auditor's report

pwc

Auditor's responsibilities for the review of the half year financial report

Our responsibility is to express a conclusion on the half year 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 half year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 28 February 2023 and of its performance for the half year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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

PricewaterhouseCoopers

PricewaterhouseCoopers

Matthew Lunn
Partner

Sydney
19 April 2023

7. Appendices

7.1 ASX Appendix 4D

Cross reference index	Page
Details of reporting period and previous period (Rule 4.2A.3 Item No. 1)	Inside front cover
Results for announcement to the market (Rule 4.2A.3 Item No. 2)	Inside front cover
Net tangible assets per security (Rule 4.2A.3 Item No. 3)	Page 59
Details of entities over which control has been gained or lost (Rule 4.2A.3 Item No. 4)	Page 54
Dividends and dividend dates (Rule 4.2A.3 Item No. 5)	Inside front cover and page 43
Dividend reinvestment plan (Rule 4.2A.3 Item No. 6)	Page 43
Details of associates and joint venture entities (Rule 4.2A.3 Item No. 7)	Page 59
Foreign entities (Rule 4.2A.3 Item No. 8)	Not applicable
Independent audit report subject to modified opinion (Rule 4.2A.3 Item No. 9)	Not applicable

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

	As at		
Net tangible assets per security (Rule 4.2A.3 Item No. 3)	**Feb 23**	Aug 22	Feb 22
Net tangible assets per ordinary shares ($) (2)	**7.76**	7.91	7.62

(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 2022.

(2) Represents net assets excluding intangible assets, preference shares and other equity instruments divided by ordinary shares on issue at the end of the year. Right-of-use-assets of $173 million have been included in the net tangible asset calculation.

Glossary

TERM	DESCRIPTION
Alternative liquid assets (**ALA**)	Alternative liquid assets are alternative treatments for holdings in the stock of HQLA. These treatments are made available in jurisdictions where there is insufficient supply of HQLA (or both HQLA and HQLA2) in the domestic currency to meet the aggregate demand of banks with significant exposures in the domestic currency in the LCR framework. Within Australia, a locally-incorporated ADI subject to LCR requirements is able to establish a CLF with the Reserve Bank of Australia, sufficient in size to cover any shortfall in Australian dollars between the ADI's holdings of HQLA and net cash outflows.
Anti-bribery and corruption (**AB&C**)	Laws put in place for the prohibition of bribery and corruption.
Anti-money laundering (**AML**)	Policies and Procedures put in place by Financial Institutions to prevent criminals from disguising illegally obtained funds as legitimate income.
APRA prudential standard (**APS**)	Prudential standards issued by APRA which are applicable to ADIs.
Asset backed securities (**ABS**)	A financial security which is pledged by a pool of assets such as but not limited to loans, leases and credit card debt.
AT1 Capital Notes	AT1 Capital Notes are perpetual, non-cumulative, subordinated and unsecured notes assumed on the acquisition of ME Bank.
Australian Accounting Standards Board (**AASB**)	The AASB produces a series of technical pronouncements that set out the measurement and recognition requirements when accounting for particular types of transactions and events, along with the preparation and presentation requirements of an entity's financial statements.
Australian Finance Industry Association (**AFIA**)	AFIA is the national association for the equipment leasing and financing industry. Formerly Australian Equipment Lessors Association.
Australian Prudential Regulation Authority (**APRA**)	APRA is the prudential regulator of the Australian financial services industry. APRA is an independent statutory authority that supervises institutions across banking, insurance and superannuation and promotes financial system stability in Australia.
Australian Securities & Investments Commission (**ASIC**)	ASIC is Australia's corporate, markets and financial services regulator.
Australian Securities Exchange (**ASX**)	Australian Securities Exchange or ASX Limited (ABN 98 008 624 691) and the market activities operated by ASX Limited.
Australian Transactions Reports and Analysis Centre (**AUSTRAC**)	Australian Government agency responsible for preventing, detecting and responding to criminal abuse of the financial system.
Authorised deposit-taking institution (**ADI**)	A corporation which is authorised under the *Banking Act 1959* and includes banks, building societies and credit unions.
Available stable funding (**ASF**)	ASF is the portion of capital and liabilities expected to be reliable over the time horizon considered by the NSFR, which extends to one year.
Average interest earning assets	Average balance over the period for a bank's assets that accrue interest income.
Banking relief package (**BRP**)	A form of Government assistance that gives eligible clients the option of deferring loan repayments for a period of time.
Bank of Queensland Limited (**the Bank** or **BOQ**)	The Bank is a for-profit entity primarily involved in providing retail banking, business banking and leasing finance products to its customers.
Basel II and III	A global regulatory framework to improve the regulation, supervision and risk management within the banking system developed by the Basel Committee on Banking Supervision.
Basis points (**bps**)	One per cent of one per cent (0.01 per cent).
Bonus interest savings account (**BISA**)	BOQ's Bonus Interest Savings Account is a savings account with a variable base interest rate and a bonus interest rate calculated on a tiered basis.
BOQ Blue	BOQ Blue refers to the original BOQ brand and excludes brands such as Virgin Money, ME Bank, BOQ Specialist and BOQ Finance. It is predominantly represented as transactions and products serviced through our branch network, business bank relationship managers and Financial Markets.
Capital notes (**BOQPE**), Capital notes 2 (**BOQPF**) & Capital notes 3 (**BOQPG**)	Capital Notes are perpetual, convertible, unguaranteed and unsecured notes issued by BOQ, with preferred, discretionary, non-cumulative distributions. Capital Notes may convert into common shares in certain circumstances as described in the offer documentation of the notes.
Cash earnings	Cash Earnings is a non-accounting standards measure commonly used in the banking industry to assist in presenting a clear view of underlying earnings.
Committed liquidity facility (**CLF**)	The RBA provides a CLF to ADIs as part of Australia's implementation of the Basel III liquidity standards. The facility is designed to ensure that participating ADIs have enough access to liquidity to respond to an acute stress scenario, as specified under APS 210 *Liquidity*. CLF assets include senior unsecured bank debt, covered bonds, asset backed securities and residential mortgage-backed securities that are eligible for repurchase with the RBA.

Glossary

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

Glossary

TERM	DESCRIPTION
Liquid assets	All unencumbered RBA repurchase eligible liquid assets. Liquid assets are comprised of HQLA (cash, Australian Semi-Government and Commonwealth Government securities) and alternative liquid assets covered under the CLF provided by the Reserve Bank of Australia, until 1 January 2023.
Liquidity coverage ratio (**LCR**)	The LCR requires sufficient HQLA and alternative liquid assets, including those covered by the CLF until 1 January 2023, 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 per centage of the total exposure at the time of default.
Members Equity Bank Limited (**ME Bank** or **ME**)	ME Bank is a for profit entity that operated in the retail segment of the domestic market offering primarily home loan products and everyday transaction and online savings accounts. On 28 February 2022, ME Bank surrendered its ADI licence and ME Bank's assets and liabilities were transferred to BOQ.
Mortgage net promoter score (**NPS**)	The net promoter score is an index that measures the willingness of customers to recommend a company's products or services to others. It is used as a proxy for gauging the customer's overall satisfaction with a company's product or service and the customer's loyalty to the brand.
MyBOQ	BOQ digital bank platform, launched in March 2022, including transaction and savings accounts.
Net interest margin (**NIM**)	Net interest income divided by average interest-earning assets.
Net stable funding ratio (**NSFR**)	The NSFR is defined as the amount of ASF relative to the amount of required stable funding. APRA requires ADIs to maintain an NSFR of at least 100 per cent. ASF is defined as the portion of capital and liabilities expected to be reliable over the time horizon considered by the NSFR, which extends to one year. The amount of such stable funding required of a specific institution is a function of the liquidity characteristics and residual maturities of the various assets held by that institution as well as those of its off-balance sheet exposures.
Net tangible assets (**NTA**) per ordinary shares	Net assets excluding intangible assets, preference shares and other equity instruments divided by ordinary shares on issue at the end of the year. Right-of-use assets are included in net tangible assets per share.
Non-interest earning assets	The Bank's assets that do not accrue interest income.
Novel coronavirus disease (**COVID-19**)	The novel coronavirus disease that was declared as a global pandemic on 11 March 2020.
Owner-managed branch (**OMB**)	A branch which is run by a franchisee.
Probability of default (**PD**)	An estimate of the likelihood of a default over a given time horizon.
REDS	Term to describe the BOQ securitisation programmes.
Reserve Bank of Australia (**RBA**)	Australia's central bank and drives its functions and powers from the *Reserve Bank Act 1959*.
Residential mortgage-backed securities (**RMBS**)	BOQ's securitisation program which enables the trustee to issue debt securities backed by assets originated by the Group such as mortgages.
Return on average equity (**ROE**)	Net profit less other equity instruments' distributions divided by average shareholder equity, excluding other equity instruments.
Return on average tangible equity (**ROTE**)	Net profit less other equity instruments' distributions divided by average shareholder equity, excluding other equity instruments, goodwill and identifiable intangible assets.
Risk weighted assets (**RWA**)	A quantitative measure of various risks including credit, operational, market and securitisation as defined by APS.
SMHL	Term to describe the securitisation programmes assumed on ME Bank acquisition.
Term funding facility (**TFF**)	Funding Facility for authorised deposit-taking institutions established by the RBA to support the Australian economy.
Total capital adequacy ratio	Total capital divided by total RWA calculated in accordance with relevant APS.
Treasury shares	Shares that the Bank has issued but are held by a trust included within the Bank's consolidated results. Treasury shares are not considered shares outstanding and are not included in 'per share' calculations.
Virgin Money Australia (**VMA** or **Virgin Money**)	Virgin Money Australia is a business operated by BOQ, encompassing Virgin Money Australia Pty Ltd and its subsidiaries, as well as Virgin Money Australia products sold by the Bank. The VMA products offered by the Group include home loans, transaction and savings accounts and the provision of other financial services (e.g. credit cards, insurance and superannuation) on behalf of business partners.
Weighted average number of shares (**WANOS**)	Calculated in accordance with AASB 133 *Earnings per share.*

BOQ
GROUP