BOQ

ANNUAL REPORT 2016

YEAR ENDED 31 AUGUST 2016

BOQ

CONTENTS

FIND OUT MORE ABOUT HOW WE'RE DELIVERING OUR STRATEGY AT BOQ.COM.AU/ANNUAL_REPORTS/2016

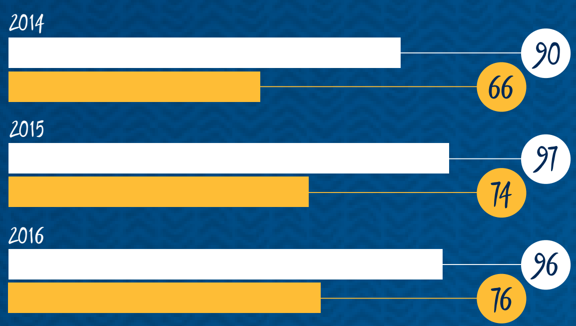
A GOOD RESULT IN A CHANGING OPERATING ENVIRONMENT

PROFIT RESULTS
($) MILLIONS

CASH EARNINGS
↑ $360M
UP 1% SINCE FY15

STATUTORY NET PROFIT
↑ $338M
UP 6% SINCE FY15

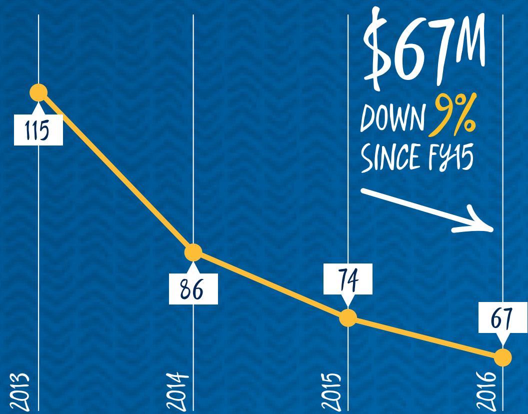
EARNINGS & DIVIDENDS
(CENTS PER SHARE)



BASIC CASH EARNINGS PER SHARE
↓ $96C
DOWN 2% SINCE FY15

DIVIDENDS PER SHARE
↑ $76C
UP 3% SINCE FY15

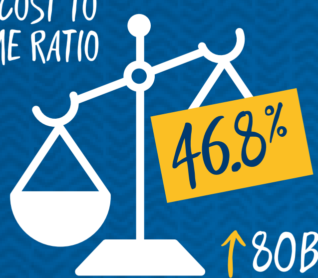
LOAN IMPAIRMENT EXPENSE
($) MILLIONS



$67M
DOWN 9%
SINCE FY15

NET INTEREST MARGIN
1.94%
↓ 3BPS

CASH COST TO INCOME RATIO



↑ 80BPS

RETURN ON EQUITY
10.3%
↓ 40BPS

DELIVERING OUR STRATEGY

CUSTOMER IN CHARGE

VIRGIN MONEY AUSTRALIA
REWARD ME
HOME LOAN LAUNCHED

THERE'S ALWAYS A BETTER WAY

30%
OF MORTGAGE APPLICATIONS COVERED BY OUR NEW DIGITAL LENDING SYSTEM

GROW THE RIGHT WAY

$500M
GROWTH (↑16%) IN LENDING TO NICHE BUSINESS SEGMENTS IN FY16

LOVED LIKE NO OTHER

144
LAUNCHED OUR 144 CULTURE UNITING OUR FOCUS ON
1 MISSION
4 STRATEGIC PILLARS
4 VALUES

SEE WHAT OUR CHAIRMAN & CEO HAVE TO SAY AT
BOQ.COM.AU/ANNUAL_REPORTS/2016

CHAIRMAN AND MANAGING DIRECTOR & CEO'S LETTER

Dear Shareholder,

BOQ has delivered an increased profit for a fourth successive year. This is a particularly good result in a challenging market, with net profit after tax increasing to $360 million and statutory profit after tax growing to $338 million. Given these results, the Board has declared a final dividend of 38 cents per share, taking the full year dividend to a record 76 cents per share.

2016 has been a difficult year for the banking sector. Global economic uncertainty has driven market volatility, and domestically the economy continues to shift from its traditional reliance on mining investment. The low interest rate environment and competition for both lending and deposit growth has created margin pressure on both the asset and liability sides of the balance sheet. Additionally, uncertainty remains around the next phase of banking industry regulation.

These market conditions reinforce the need for BOQ to continue to deliver its strategy. 2016 was a positive year for the bank as we broadened our distribution channels, focussed on niche customer segments, improved our process capabilities and continued to create a culture that is a source of competitive advantage.

Most importantly, we've continued to implement our strategy without compromising credit quality and we've stayed ahead of the regulatory curve with conservative lending policies and capital ratios.

We believe we've achieved the right balance between growth, asset quality and profitability to build a portfolio that performs throughout the business cycle. We would like to thank the collective efforts of everyone across the BOQ Group that has made this result possible.

2016 has also seen some major governance changes at Board level. During the year we farewelled long-standing director Carmel Gray who has provided wise counsel over nearly a decade of service on the Board. We also farewelled director Neil Berkett whose extensive experience across the finance, digital media and telecommunications sectors provided the Board with important insight following the acquisition of Virgin Money Australia. We thank Carmel and Neil for their invaluable service and wish them all the best for the future.

We were also delighted to welcome some new faces to the Board. Karen Penrose joined in November, John Lorimer in January and more recently Warwick Negus, joined in September. Karen has 30 years' business experience in the finance and corporate sectors, offering specialist knowledge in finance and capital markets, risk management and compliance. John has more than 20 years in financial services and brings significant expertise in retail financial services, governance, regulation and risk management. Warwick's extensive financial services industries background adds more than 20 years' experience in investment banking and domestic and international funds management. We believe, these additions give the Board the right skills and experience to meet the needs of a rapidly changing market, and so we warmly welcome Karen, John and Warwick to the Board.

Finally, we'd also like to thank all of our shareholders for your strong ongoing support during 2016. This has enabled us to build a strong and profitable business that is delivering record earnings whilst maintaining a high quality loan portfolio and is positioning BOQ well for the future.

Roger Davis Chairman	Jon Sutton Managing Director & CEO

2016
DIRECTORS' REPORT

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 AUGUST 2016

The Directors' present their report together with the financial report of Bank of Queensland Limited ('the Bank') and of the Consolidated Entity, being the Bank and its controlled entities for the year ended 31 August 2016 and the independent auditor's report thereon.

DIRECTORS' DETAILS

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

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

Name, qualifications and independence status	Experience, special responsibilities and other Directorships
Karen Penrose B Comm, CPA, GAICD Non-Executive Independent Director	Ms Penrose was appointed a Director of the Bank on 26 November 2015. Ms Penrose has over 30 years' business experience across the finance, property and resources industries, including 20 years in banking with Commonwealth Bank of Australia and HSBC Bank Australia. Ms Penrose is also a Non-Executive Director of Vicinity Centres Limited, Spark Infrastructure Group, AWE Limited, Future General Global Investment Company Limited (pro bono role) and UrbanGrowth NSW. Ms Penrose is a member of each of the Audit and Human Resources & Remuneration Committees.
Margaret Seale BA, FAICD Non-Executive Independent Director	Margaret (Margie) Seale was appointed a Director of the Bank on 21 January 2014. Ms Seale has more than 25 years' experience in Senior Executive roles in Australia and overseas in the global publishing, health and consumer goods industries, and in the transition of traditional business models to adapt and thrive in a digital environment. Most recently she was Managing Director of Random House Australia (with managerial responsibility for Random House New Zealand) and President, Asia Development for Random House Inc., the global company. She remained on the Board of Penguin Random House as a Non-Executive Director and then as Chair until September 2016. Amongst other roles prior to those at Random House, she held national sales and national marketing roles with Oroton and Pan Macmillan respectively. She is a Non-Executive Director of Telstra Corporation Limited, Ramsay Health Care Limited, and Scentre Group Limited. She has also served on the boards of the Australian Publishers' Association, The Powerhouse Museum and Chief Executive Women. Ms Seale is a member of each of the Information Technology and Human Resources & Remuneration Committees.
Michelle Tredenick B Sc, FAICD, F Fin Non-Executive Independent Director	Ms Tredenick has served on the Board of BOQ since February 2011. Michelle is an experienced company director and corporate advisor with over 30 years' experience in leading Australian businesses. She is currently a Director of Canstar Pty Ltd, Cricket Australia and is Chairman of IAG NRMA Corporate Superannuation Trustee Board. She is a member of the Senate of the University of Queensland as well as sitting on the board of the Ethics Centre. She also has her own consulting business advising Boards and CEOs on strategy and technology and the successful management of large investment and transformation programs. Her Executive career included roles on the Group Executive teams of a number of Australia's largest companies including NAB, MLC and Suncorp. Her experience spans time as CIO with all of these companies as well as Head of Strategy and Marketing and divisional profit and loss roles in Corporate Superannuation, Insurance and Funds Management. Ms Tredenick is Chair of the Information Technology Committee, and is a member of each of the Human Resources & Remuneration, Risk and Nomination & Governance Committees.
David Willis B Com, ACA, ICA, AICD Non-Executive Independent Director	Mr Willis was appointed a Director of the Bank in February 2010. Mr Willis has over 33 years' experience in financial services in the Asia Pacific, the UK and the USA. He is a qualified Accountant in Australia and New Zealand and has had 25 years' experience working with Australian and foreign banks. Mr Willis is a Director of CBH (A Grain Cooperative in Western Australia) and Interflour Holdings, SE Asian flour milling company. Mr Willis chairs a Sydney based Charity "The Horizons Program". Mr Willis is Chair of the Human Resources & Remuneration Committee, and is a member of the Risk and the Nomination & Governance Committees. He is also a Non-Executive Director of the Bank's insurance subsidiary, St Andrew's.

Carmel Gray
Retired as a Director on 26 November 2015.

Neil Berkett
Retired as a Director on 31 May 2016.

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

COMPANY SECRETARY

Michelle Thomsen
LLB/ B Comm

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

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 AUGUST 2016

DIRECTORS' MEETINGS

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

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

A - Number of meetings attended

B - Number of meetings held during the time the Director was a member of the Board / Committee during the year

(1) Roger Davis is a formal member of the Audit Committee and the Risk Committee and the Chair of the Nomination & Governance Committee. Mr Davis attends all other meetings of the Board's sub-committees, however he is not considered a formal member of these. Mr Sutton attends meetings of a number of the Board's sub-committees, however he is not considered a formal member of these.

(2) Neil Berkett retired as a Director on 31 May 2016 and as such the details of meetings held and attended are for the period of time in which he was a Director during the financial year.

(3) Carmel Gray retired as a Director on 26 November 2015 and as such the details of meetings held and attended are for the period of time in which she was a Director during the financial year.

(4) John Lorimer was appointed as a Director on 29 January 2016 and as such the details of meetings held and attended are for the period of time in which he was a Director during the financial year.

(5) Karen Penrose was appointed as a Director on 26 November 2015 and as such the details of meetings held and attended are for the period of time in which she was a Director during the financial year.

(6) David Willis is also a member of the Audit & Risk Committee for St Andrew's.

2016 CORPORATE GOVERNANCE STATEMENT IS ONLINE

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

Information about BOQ's Board and management, corporate governance policies and practices and Enterprise Risk Management Framework can be found in the 2016 Corporate Governance Statement available at:
http://www.boq.com.au/aboutus_corporate_governance.htm

APS 330 CAPITAL INSTRUMENTS DISCLOSURE

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

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

CONTENTS - OPERATING AND FINANCIAL REVIEW | **Page**

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 AUGUST 2016

OPERATING AND FINANCIAL REVIEW

1. HIGHLIGHTS & STRATEGY

1.1 DISCLOSURE CONSIDERATIONS

FUTURE PERFORMANCE

This document contains certain 'forward looking statements' about BOQ's business and operations, market conditions, results of operations, and financial condition, capital adequacy and risk management practices which reflect BOQ's views held as at the date of this document.

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

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

ROUNDING

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

NOTE ON STATUTORY PROFIT AND CASH EARNINGS

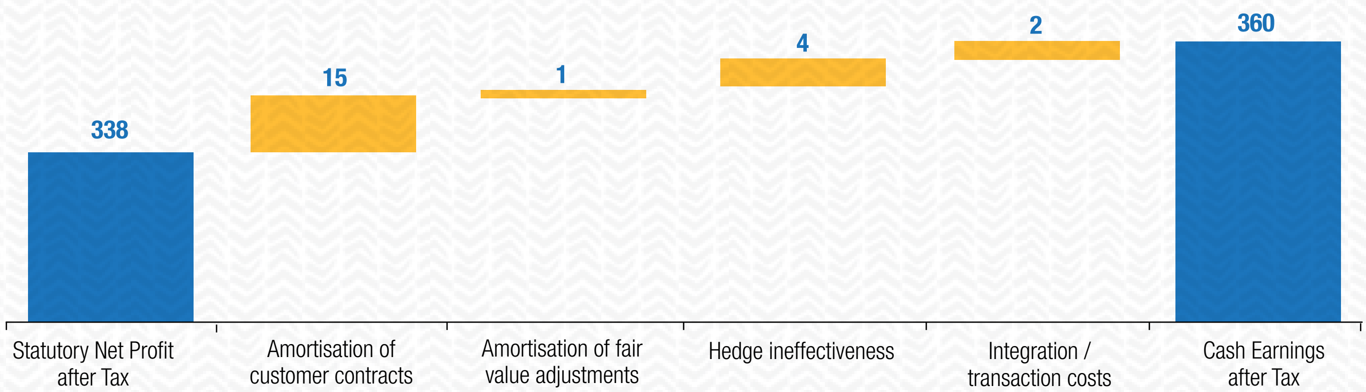
Statutory Profit is prepared in accordance with the *Corporations Act 2001* and the Australian Accounting Standards, which comply with International Financial Reporting Standards ('IFRS'). Cash Earnings is a non-Accounting Standards measure commonly used in the banking industry to assist in presenting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

The items excluded from Cash Earnings are consistent with the prior year. Integration/Due Diligence costs relate to the acquisition of BOQ Specialist and are in line with guidance provided at acquisition. Hedge ineffectiveness represents earnings volatility from hedges that are not fully effective under the application of AASB 39 Financial Instruments: Recognition and Measurement and create a timing difference in reported profit. These hedges remain economically effective. (Refer to the Reconciliation of Statutory Profit to Cash Earnings chart below).

Figures disclosed in this report are on a Cash Earnings basis unless stated as Statutory Profit basis. Unless otherwise stated, all financial comparisons in this document refer to the prior half (to 29 February 2016) and the prior year (to 31 August 2015).

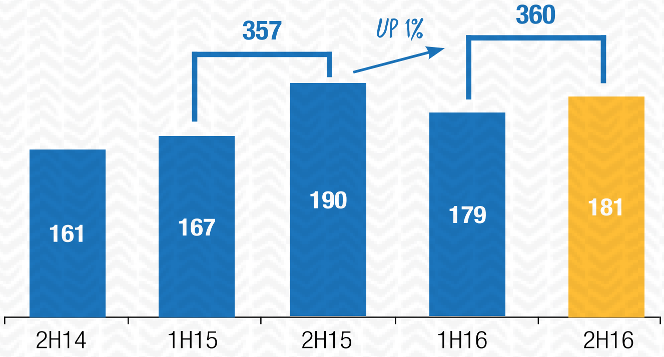
These non-statutory measures have not been subject to review or audit.

RECONCILIATION OF STATUTORY PROFIT TO CASH EARNINGS ($M)

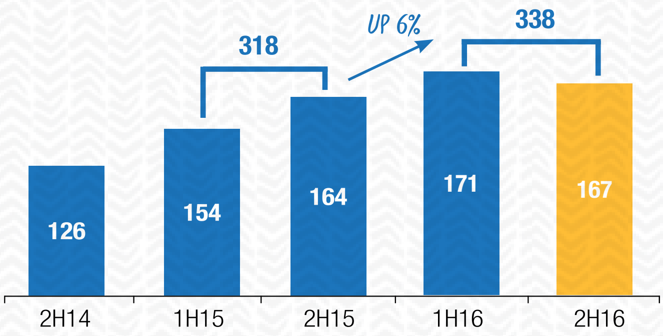


1.2 GROUP HIGHLIGHTS

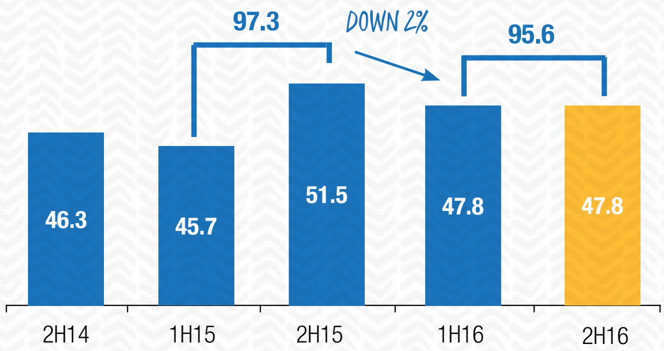
Cash Earnings after Tax ($m)



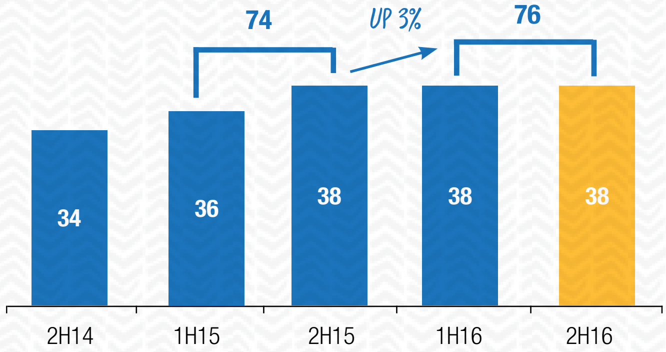
Statutory Profit after Tax ($m)



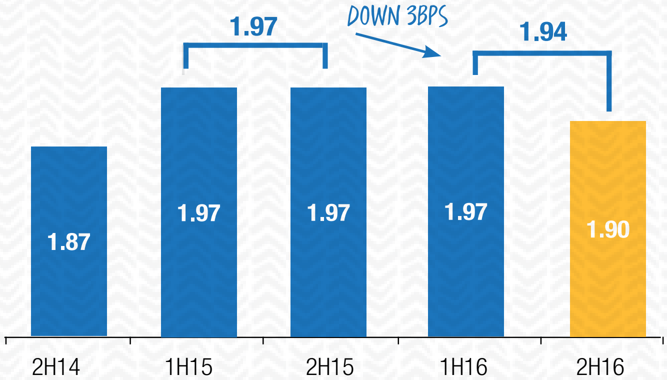
Cash Basic Earnings per Share ('EPS') (cents)



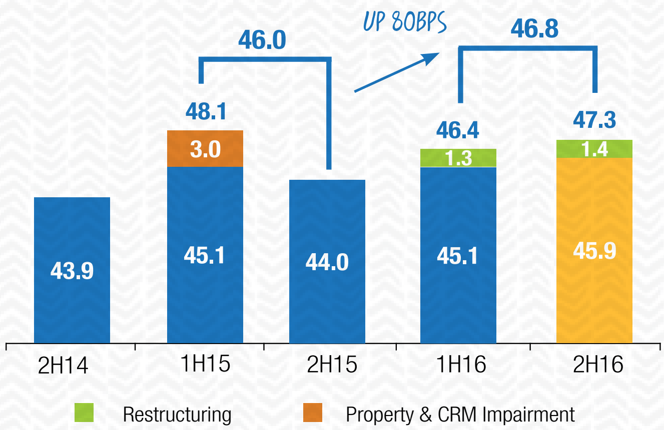
Dividends per share (cents)



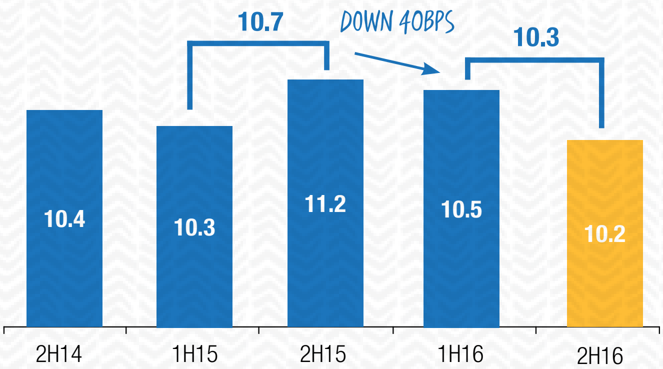
Cash Net Interest Margin ('NIM') (%)



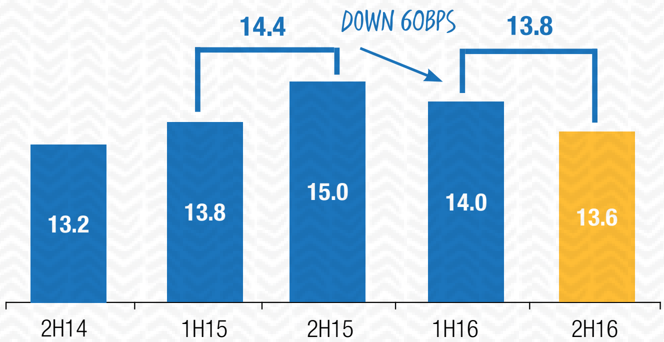
Cash Cost to Income (%)



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



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



1.2 GROUP HIGHLIGHTS (CONTINUED)

CASH EARNINGS AFTER TAX
$360 million

Increased by 1% on the prior year in a challenging market

STATUTORY PROFIT
$338 million

Increased by 6% on the prior year

DIVIDENDS
$0.76 UP 3%

Dividend yield of 7.2%

CASH NET INTEREST MARGIN
1.94%

Down 3bps over the prior year driven by challenging market dynamics, including a lower yield curve and higher funding costs

CASH COST TO INCOME RATIO
46.8%

4% uplift in underlying expense profile and elevated focus on productivity and efficiency programs

DELIVERING TRANSFORMATION
Key strategic initiatives delivered such as Virgin Money[1] Mortgages, and Retail Lending Program

Evolving to a modern adaptive operating model by reshaping the organisational structure

LOAN IMPAIRMENT EXPENSE
$67 million

Down 2bps to 16bps of lending and 9% reduction over the prior year reflecting the improved portfolio quality

IMPAIRED ASSETS
$232 million

Improved asset quality evidenced by a reduction of $5 million (2%) from the prior year

COMMON EQUITY TIER 1
9.00%

Increase of 20bps in the second half through organic capital generation

(1) Virgin Money (Australia)

BOQ has delivered a 1% uplift in Cash Earnings to $360 million for the 2016 financial year and increased Statutory Net Profit after Tax 6% to $338 million in competitive environment. This result has been achieved whilst reshaping the organisational structure and delivering a number of key strategic initiatives including the launch of Virgin Money (Australia) ('Virgin Money') mortgages, phase 1 of the Retail Lending Origination Platform and the Commercial Lending Origination Environment ('CLOE').

Over recent years, BOQ's strategic progress, supported by increased reinvestment in the business, has delivered solid financial performance and improved credit quality, positioning the Group well to deliver a sustainable future earnings profile. A revised risk appetite and more diverse business model allows BOQ to respond more effectively to the current challenges of a low interest rate environment and market volatility. The second half saw heightened margin challenges across the sector. In response, BOQ accelerated its investment program to streamline its operating model. The balance sheet and earnings trajectory remain sound and BOQ is well positioned for impending changes in the regulatory agenda as the playing field between advanced and standardised banks appears to be levelling.

Net Interest Margin contracted 3bps over the year to 1.94%, with the second half margin declining to 1.90%. The highly competitive rates in lending and deposits across the industry have translated into reduced new business margins and increased levels of retention repricing of existing customers. Further, the confluence of market dynamics in wholesale funding and hedging costs, and the low yield environment, accelerated the margin decline in the second half.

Further improvement in asset quality was evident across the portfolio. Loan impairment expense reduced by 9% to $67 million in 2016, or a reduction of 2bps to 16bps of gross loans and advances. The second half result of 14bps of gross loans and advances was pleasing. BOQ achieved positive improvements in credit quality metrics across the portfolio compared to the prior year and continues to maintain sector leading provisioning coverage.

Operating expenses increased 4% from the prior year to $520 million. This included a $10 million uplift in amortisation expense as a number of strategic initiatives have been delivered, together with costs associated with the newly launched Virgin Money mortgage offering ($3 million). The benefit of the $15 million investment in organisational operating model changes announced to the ASX in February will be fully realised in line with stated targets, with further opportunities identified. Employee numbers reduced 2% over the year, with the majority of this reduction occurring in the second half.

Lending growth of 5% or $2.2 billion was achieved in the 2016 financial year, though this growth was moderated in the second half with the strategic shift to preserve margin and target deposit acquisition through retail channels. Lending growth was entirely funded by the 8% growth in customer deposits, which resulted in a 2% uplift to the deposit to loan ratio to 68%.

During the year BOQ continued to strengthen its balance sheet with strong capital generation enabling an increase in the Common Equity Tier 1 ratio ('CET1') to 9.0%, which positions it well for evolving regulatory capital requirements.

The Board has determined a final dividend of 38 cents per share fully franked, with the total dividends of 76 cents for the year, an increase of 3% on the 2015 financial year.

1.3 STRATEGY

BOQ is a full service financial institution, listed on the Australian Securities Exchange ('ASX'), regulated by the Australian Prudential Regulation Authority ('APRA') as an authorised deposit taking institution ('ADI') and ranked among the top 100 companies by market capitalisation on the ASX. BOQ has grown from being the first Permanent Building Society in Queensland in 1874 to the current day with a network of retail branches, and other points of presence spanning every state and territory in Australia.

BOQ aspires to build a differentiated position in the Australian financial services sector by demonstrating to customers that 'It's Possible to Love a Bank'. BOQ's corporate strategy is to focus on specialised customer segments that value a more intimate customer relationship, beyond what they receive from the major banks. Importantly, BOQ's strategic focus plays to its competitive strengths as a challenger bank in being able to provide customers with personalised relationship management, passionate customer service, focused products and solutions, nimble decision making and problem resolution.

BOQ's strategy is based around four strategic pillars of (i) **Customer in Charge** (ii) **Grow the Right Way** (iii) **There's Always a Better Way**, and (iv) **Loved Like No Other**.

'**Customer in Charge**' is about continuing to expand BOQ's sources of originations through growth in new channels including Broker, BOQ Specialist and Virgin Money as well as improvements to digital, online and call centre channels. This makes it easier for customers to deal with the Bank in the way they prefer, further accelerating improvements to geographic diversification outside of Queensland.

To '**Grow the Right Way**' and achieve the right balance between risk and return, BOQ continues to diversify its balance sheet by pursuing niche segments in BOQ Specialist, SME Business Banking and BOQ Finance. In Business Banking, the Bank expanded its presence in the target industries of Medical & Dental, Retirement Living, Hospitality & Tourism, Agribusiness and Franchising with a continued focus on credit quality across the portfolio. The Group's revised risk appetite is evident from the improving metrics in the lending portfolio, which continues to benefit from diversification by geography and customer mix, including high quality BOQ Specialist mortgages and commercial exposures, and the rebalancing of the line of credit mortgage portfolio to industry levels.

'**There's Always a Better Way**' is the pursuit of operational efficiency. The current operating environment has elevated the importance and focus on productivity and efficiency with a number of programs underway. Implementation of BOQ's new digitised mortgage origination platform continues with 30% of mortgage applications benefiting from the new streamlined process and faster time to 'yes' for customers. The next release of the platform is on schedule for the end of the calendar year and will see the majority of mortgage applications processed digitally, resulting in increased lender productivity, improved customer experience and reduced operational risk. The Commercial Lending Origination Environment ('CLOE') that was delivered at the end of the 2016 financial year will deliver similar improvements in the SME / Commercial portfolio. A number of efficiency and digitisation initiatives are underway across the Group to enhance productivity, eliminate duplication and streamline BOQ's operating model.

'**Loved like no Other**' is about building a culture that makes BOQ a great place to work and inspiring passion to deliver exceptional customer outcomes. A number of initiatives are underway across the BOQ Group to implement an innovative and customer centric culture that proves 'It's Possible to Love a Bank', including the '144' culture initiative – which links the Group's vision to be Australia's most loved bank with its 4 Strategic Pillars and 4 Values – Passion, Impact, Collaboration and Integrity.

Through continued focus on these four strategic pillars, supported by embedding the cultural values, BOQ aims to deliver robust and sustainable financial performance, consistent growth in returns to deliver earnings per share outperformance for shareholders and superior service to its customers and the wider community.

2. GROUP PERFORMANCE ANALYSIS

2.1 INCOME STATEMENT & KEY METRICS

	Year End Performance			Half Year Performance		
$ million	**Aug-16**	Aug-15	Aug-16 vs Aug-15	**Aug-16**	Feb-16	Aug-16 vs Feb-16
Net Interest Income	**937**	907	3%	**470**	467	1%
Non-Interest Income	**173**	180	(4%)	**88**	85	4%
Total Income	**1,110**	1,087	2%	**558**	552	1%
Operating Expenses	**(520)**	(500)	4%	**(264)**	(256)	3%
Underlying Profit	**590**	587	1%	**294**	296	(1%)
Loan Impairment Expense	**(67)**	(74)	(9%)	**(31)**	(36)	(14%)
Profit before Tax	**523**	513	2%	**263**	260	1%
Income Tax Expense	**(163)**	(156)	4%	**(82)**	(81)	1%
Cash Earnings after Tax	**360**	357	1%	**181**	179	1%
Statutory Net Profit after Tax	**338**	318	6%	**167**	171	(2%)

		Year End Performance			Half Year Performance		
Key Metrics		**Aug-16**	Aug-15	Aug-16 vs Aug-15	**Aug-16**	Feb-16	Aug-16 vs Feb-16
Shareholder Returns							
Share Price	($)	**10.55**	12.67	(17%)	**10.55**	10.55	-
Market Capitalisation	($ million)	**4,020**	4,698	(14%)	**4,020**	3,969	1%
Dividends per share (fully franked)	(cents)	**76**	74	3%	**38**	38	-
Dividend yield	(%)	**7.20**	5.84	136bps	**7.16**	7.24	(8bps)
Grossed-up dividend yield (including franking)	(%)	**10.29**	8.34	195bps	**10.24**	10.35	(11bps)
Cash Earnings basis							
Basic Earnings per Share ('EPS')	(cents)	**95.6**	97.3	(2%)	**47.8**	47.8	-
Diluted EPS [(1)]	(cents)	**90.7**	94.3	(4%)	**45.4**	45.6	-
Dividend payout ratio	(%)	**79.9**	76.5	340bps	**80.0**	79.9	10bps
Statutory basis							
Basic EPS	(cents)	**89.8**	86.8	3%	**44.2**	45.7	(3%)
Diluted EPS [(1)]	(cents)	**85.5**	84.7	1%	**42.1**	43.7	(4%)
Dividend payout ratio	(%)	**85.1**	85.7	(60bps)	**86.7**	83.6	310bps

(1) August 2015 has been restated to reflect the correct pro-rata treatment of the Wholesale Capital notes issued on 26 May 2015.

2.1 INCOME STATEMENT & KEY METRICS (CONTINUED)

		Year End Performance			Half Year Performance		
Key Metrics		**Aug-16**	Aug-15	Aug-16 vs Aug-15	**Aug-16**	Feb-16	Aug-16 vs Feb-16
Profitability and efficiency measures							
Cash Earnings basis							
Net Profit After Tax	($ million)	**360**	357	1%	**181**	179	1%
Underlying Profit [(1)]	($ million)	**590**	587	1%	**294**	296	(1%)
Net Interest Margin	(%)	**1.94**	1.97	(3bps)	**1.90**	1.97	(7bps)
Cost to Income Ratio	(%)	**46.8**	46.0	80bps	**47.3**	46.4	90bps
Loan Impairment Expense to Gross Loans and Advances ('GLA')	(bps)	**16**	18	(2bps)	**14**	17	(3bps)
Return on Average Equity	(%)	**10.3**	10.7	(40bps)	**10.2**	10.5	(30bps)
Return on Average Tangible Equity [(2)]	(%)	**13.8**	14.4	(60bps)	**13.6**	14.0	(40bps)
Statutory basis							
Net Profit After Tax	($ million)	**338**	318	6%	**167**	171	(2%)
Underlying Profit [(1)]	($ million)	**563**	536	5%	**276**	287	(4%)
Net Interest Margin	(%)	**1.93**	1.95	(2bps)	**1.90**	1.97	(7bps)
Cost to Income Ratio	(%)	**49.6**	50.7	(110bps)	**50.0**	48.8	120bps
Loan Impairment Expense to GLA	(bps)	**16**	18	(2bps)	**14**	17	(3bps)
Return on Average Equity	(%)	**9.7**	9.6	10bps	**9.5**	10.0	(50bps)
Return on Average Tangible Equity [(2)]	(%)	**13.0**	12.9	10bps	**12.6**	13.4	(80bps)
Asset Quality							
30 days past due ('dpd') Arrears	($ million)	**461**	478	(4%)	**461**	562	(18%)
90dpd Arrears	($ million)	**234**	257	(9%)	**234**	255	(8%)
Impaired Assets	($ million)	**232**	237	(2%)	**232**	240	(3%)
Specific Provisions to Impaired Assets	(%)	**50.1**	53.3	(320bps)	**50.1**	48.8	130bps
Collective Provisions to Risk Weighted Assets	(%)	**0.50**	0.56	(6bps)	**0.50**	0.54	(4bps)
Capital							
Common Equity Tier 1 Ratio	(%)	**9.00**	8.91	9bps	**9.00**	8.80	20bps
Total Capital Adequacy Ratio	(%)	**12.29**	12.72	(43bps)	**12.29**	12.45	(16bps)
Risk Weighted Assets ('RWA')	($ million)	**28,054**	26,321	7%	**28,054**	27,467	2%

(1) Profit before loan impairment expense and tax.

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

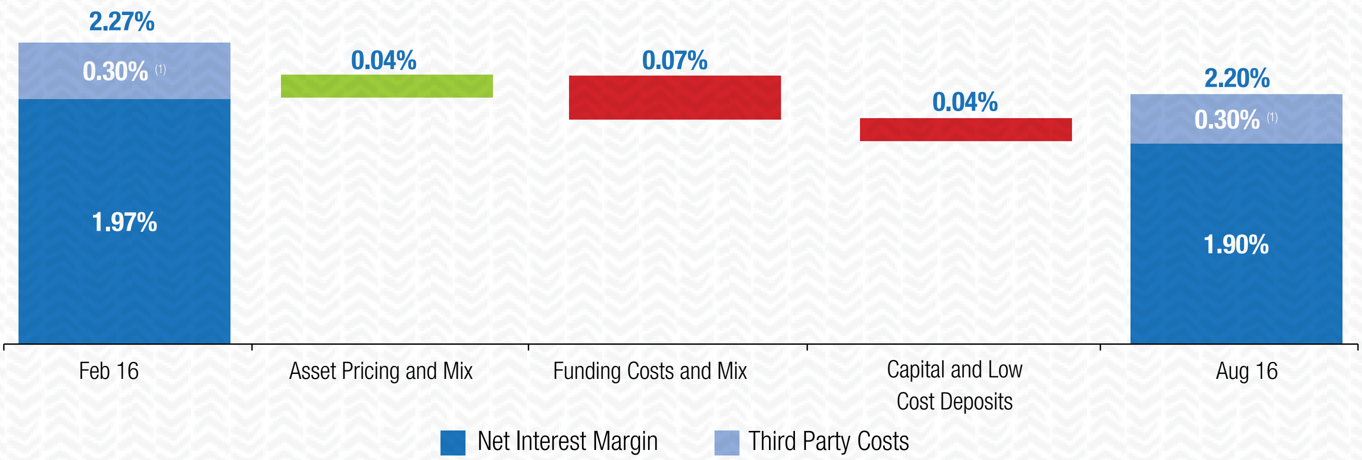
2.2 NET INTEREST INCOME

	Year End Performance			Half Year Performance		
$ million	**Aug-16**	Aug-15	Aug-16 vs Aug-15	**Aug-16**	Feb-16	Aug-16 vs Feb-16
Net Interest Income	**937**	907	3%	**470**	467	1%
Average Interest Earning Assets	**48,421**	46,098	5%	**49,353**	47,506	4%
Net Interest Margin	**1.94%**	1.97%	(3bps)	**1.90%**	1.97%	(7bps)

Net Interest Income grew by 3% over the year to $937 million reflecting the 5% growth in average interest earning assets largely from first half growth through new channels and reduced by lower net interest margin in the second half. Net Interest Income increased to $470 million for the half, representing a 1% uplift on the first half, but was flat adjusting for the higher day count in the second half.

Net Interest Margin compression in this half reflects the heightened competition in lending and deposit markets, global wholesale market volatility and unprecedented low interest rates. The last quarter saw intense competition for retail term deposits with an increase in spreads following the Reserve Bank of Australia ('RBA') rate reductions in May and August.

NET INTEREST MARGIN – FEBRUARY 2016 TO AUGUST 2016



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

Underlying movements within the Net Interest Margin ('NIM') included the following:

Asset Pricing and Mix: Repricing actions during the year positively impacted NIM by 9 basis points. Front to back book repricing impacts and retention repricing activity had a 3 basis point contractionary impact on NIM in the half, similar to the impact in the prior half. A reduction in renewal income in the equipment finance portfolio over the half reduced NIM by a further basis point, however this resulted in higher equipment sales income generated on this portfolio that is reported in other income. A further basis point of NIM degradation was caused by a combination of product mix and the impact of a higher proportion of lower yielding government bonds in BOQ's Liquids portfolio to satisfy APRA's APS 210 *Liquidity Standard* requirements.

Funding Costs and Mix: The competition for funding intensified over the second half at the same time as the yield curve contracted, with a 4 basis point impact to NIM. Half of this impact was evident in retail liabilities as increased competition meant absolute term deposit rates did not fall in line with movements in the yield curve. The majority of this impact emerged in the last quarter. A further 2 basis points of impact occurred in wholesale funding costs. As global market volatility increased, funding costs widened in the domestic wholesale and middle markets. This was coupled with a push by participants to increase duration across all funding segments, in preparation for the impending introduction of the Net Stable Funding Ratio regulatory requirements in January 2018. Hedging costs increased by 3 basis points over the half as flagged at the first half results release. This headwind has largely ceased, assuming no change to current market conditions.

Capital and Low Cost Deposits: The low yield curve continues to impact returns on BOQ's replicating portfolio, covering the investment profile of BOQ's capital and low cost deposits totalling $4.8 billion at year end and causing a 4 basis point reduction in the half.

2.3 NON-INTEREST INCOME

	Year End Performance			Half Year Performance		
$ million	**Aug-16**	Aug-15	Aug-16 vs Aug-15	**Aug-16**	Feb-16	Aug-16 vs Feb-16
Banking Income	**99**	110	(10%)	**50**	49	2%
Insurance Income	**26**	33	(21%)	**11**	15	(27%)
Other Income	**30**	17	76%	**17**	13	31%
Trading Income	**18**	20	(10%)	**10**	8	25%
Total Non-Interest Income	**173**	180	(4%)	**88**	85	4%

Non-Interest Income of $173 million is down 4% on the prior year. The fall in Banking Income reflects continuing customer preferences for no fee products. Changes to the structure of interchange fees reduced transaction income by $3 million over the year. BOQ Specialist's strategic focus on the new on balance sheet mortgage offering has reduced third party brokerage received by $3 million compared to the prior year.

Other income increased $13 million during the year with a significant portion of this increase attributed to BOQ Finance equipment sales which witnessed increased realisations of $6 million in the portfolio. The prior year included $4 million of one-off unfavourable items which were not repeated. The Virgin Money contribution from third party product distribution is included in Other Income. The business achieved good growth over the year with Virgin Money Credit Card receivables growing by 3% in a flat market.

Trading contribution reduced from the prior year as BOQ finalised the transition to the new APRA APS210 *Liquidity Standard*. However, heightened market volatility in the second half provided opportunities to deliver a strong trading income result in the second half.

The St Andrews' Insurance contribution is discussed in detail in Section 2.4 below.

2.4 INSURANCE OVERVIEW

	Year End Performance			Half Year Performance		
$ million	**Aug-16**	Aug-15	Aug-16 vs Aug-15	**Aug-16**	Feb-16	Aug-16 vs Feb-16
Gross Written Premium (net of refunds)	**62**	55	13%	**32**	30	7%
Net Earned Premium	**70**	72	(3%)	**35**	35	-
Underwriting Result	**21**	25	(16%)	**9**	12	(25%)
Other Insurance Income	**4**	6	(33%)	**2**	2	-
Total Income	**25**	31	(19%)	**11**	14	(21%)
Consolidation Adjustment	**1**	2	(50%)	**-**	1	(100%)
Group Insurance Result	**26**	33	(21%)	**11**	15	(27%)

St Andrew's Insurance contributed $26 million to Non-Interest Income, a $7 million reduction from the prior year as the business transitions to a new product mix and refreshed corporate alliances.

Gross written premiums increased 13%, with the proportion of customers paying regular premiums over the life of the policy continuing to increase and fewer customers paying single premiums to cover the life of the policy at policy commencement. This is consistent with the business strategy to diversify revenue streams and the extension of the business into providing wholesale lines to business partners. Net Earned Premiums reduced 3%, due to the reduction in single premium policies and an increase in reinsurance premiums, reflecting the changing mix of business.

Underwriting Result reduced by $4 million to $21 million, due to the reduction in Net Earned Premiums and an increase in commissions and administration fees paid on wholesale lines, reflecting the changing mix of business. Claims experience improved over the prior year and was in line with expectations, however, favourable claims experience in the first half was offset by the higher claims in the second half. The net impact of the shift in the business mix has largely now occurred and the contribution from the newly established wholesale partnerships is expected to largely offset the residual impact of the refreshed corporate alliances.

Other insurance income reduced due to lower returns on the investment portfolio with a lower interest rate environment.

2.5 OPERATING EXPENSES

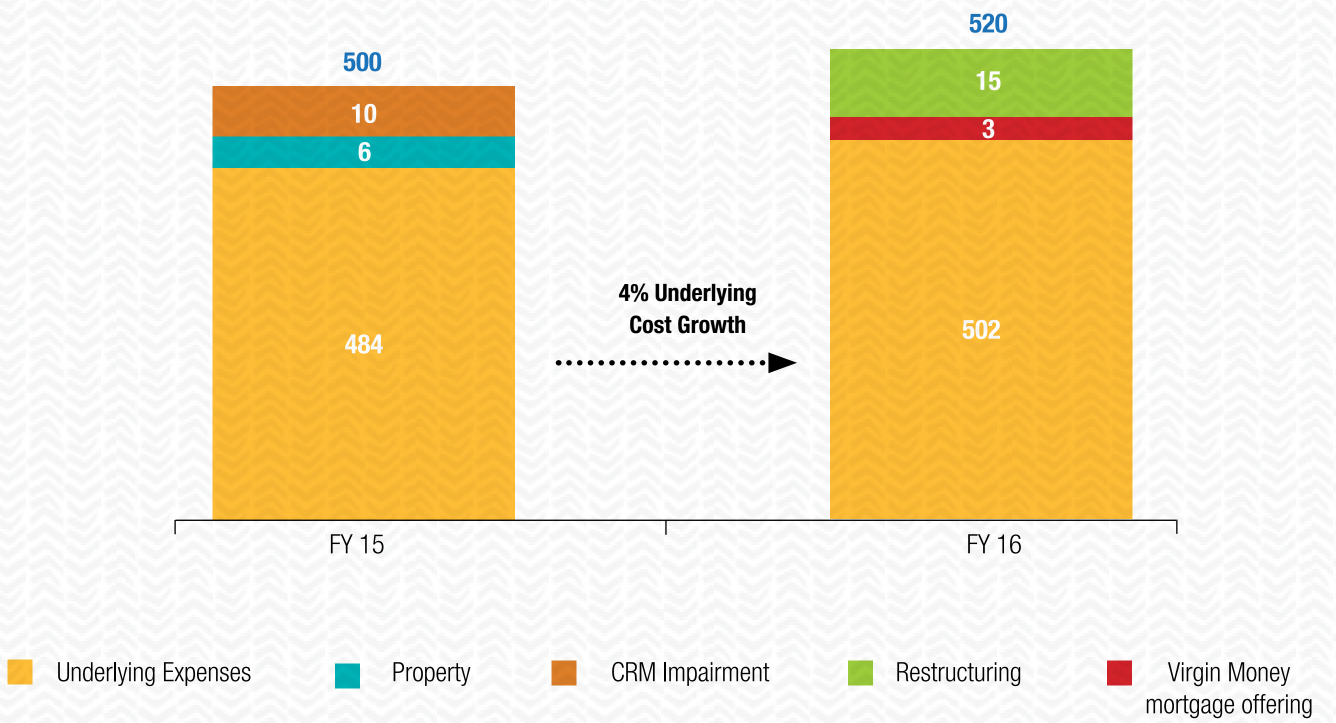
	Year End Performance			Half Year Performance		
$ million	**Aug-16**	Aug-15	Aug-16 vs Aug-15	**Aug-16**	Feb-16	Aug-16 vs Feb-16
Employee Expenses	**253**	241	5%	**127**	126	1%
Occupancy Expenses	**43**	47	(9%)	**21**	22	(5%)
General Expenses	**98**	110	(11%)	**48**	50	(4%)
IT Expenses	**92**	82	12%	**50**	42	19%
Other Expenses	**19**	20	(5%)	**10**	9	11%
Operating Model	**15**	-	-	**8**	7	14%
Total Operating Expenses (1)	**520**	500	4%	**264**	256	3%
Cost to Income Ratio	**46.8%**	46.0%	80bps	**47.3%**	46.4%	90bps
Cost to Income Ratio (excluding one-off costs) (2)	**45.5%**	44.5%	100bps	**45.9%**	45.1%	80bps
Number of employees (FTE) (1)	**1,959**	1,991	(2%)	**1,959**	1,990	(2%)

(1) FTE numbers and Operating Expenses exclude Virgin Money (Australia) as the net result is included in Non-Interest Income.

(2) One-off costs are related to restructuring ($15 million) in FY16 and Customer Relationship Management ('CRM') Impairment ($10 million) and property transition costs ($6 million) incurred in 1H15.

Operating expenses exclude costs relating to Virgin Money commission based third party product activities where the net result has been consolidated in Non-Interest Income for presentation of Cash Earnings. The total expenses for this element of Virgin Money operations were $15 million for the year which is largely consistent with the prior period. Costs associated with the Virgin Money mortgage offering are in addition to this and treated in line with other Group mortgage lending activities. A reconciliation of Cash Earnings to Statutory Profit is set out in Section 4.1 (b).

Operating expenses have increased 4% on the prior year to $520 million. This includes the cost of the operating model restructuring program of $15 million, with a similar level of one-off expenses in the prior year. The result also includes the uplift in intangible IT asset amortisation ($10 million), as the digitisation program and key strategic initiatives have been delivered. Increased operating costs for the Virgin Money proprietary product mortgage offering have also been incurred totalling $3 million.



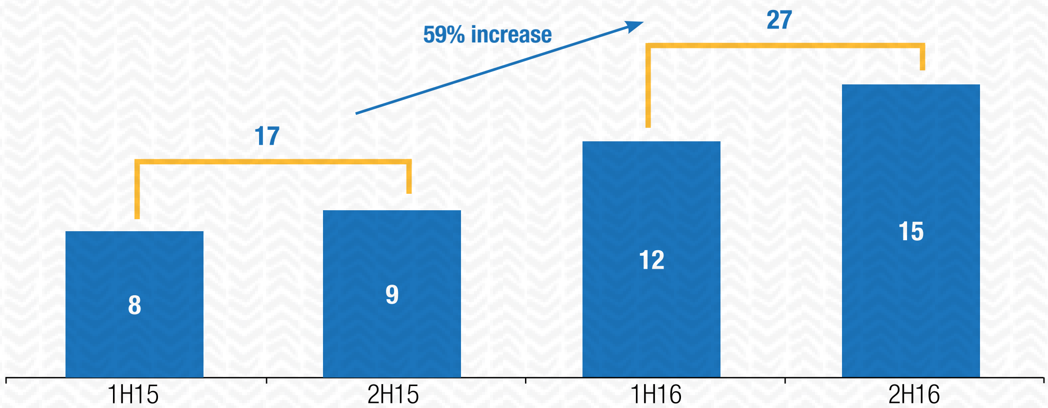
2.5 OPERATING EXPENSES (CONTINUED)

In the first half BOQ announced a program to reshape its operating model and organisational structure through a number of productivity initiatives. The full year investment in the program of $15 million (pre-tax) is in line with the announcement made by the Group in February 2016 and will deliver the planned 100% payback through cost savings within twelve months. Productivity initiatives progressed during the year include digitising cheque processing, deposit analytics and establishing electronic statement capability. Further initiatives have been identified that include the creation of a centralised Lending Hub which will deliver a customer centric and cost effective end to end process for lending services across the broader BOQ Group. Mortgage lending will commence first, with other products to follow progressively. Other initiatives are also being pursed to better leverage shared service centres of excellence across the Group.

Underlying operating expenses, excluding the impact of one-off items, increased by 4% over the year. A number of key strategic initiatives were delivered during 2016 (refer Section 2.6 Capitalised Investment Spend). This has resulted in increased amortisation expense in 2016 of $10 million compared to the prior year as reflected in the graph below and is reported within the IT Expenses category. Excluding this impact, operating expenses have increased 2% on the prior year as the rollout of the channel diversification strategy continues.

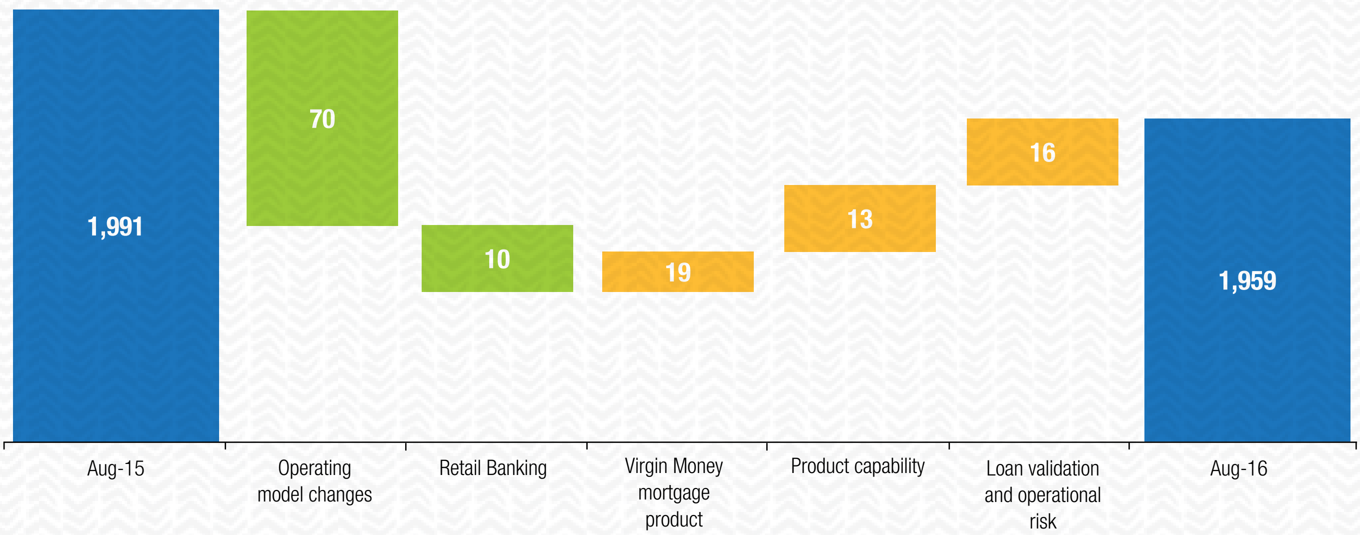
Whilst specific efficiency gains have been achieved, BOQ continues to review the optimal operating model to further extract benefits of digitisation across the Group and target investment to deliver further process improvements.

Amortisation Profile ($m)



BOQ FTE FY16 VS FY15

Employee numbers have decreased 2% over the year as a result of the organisational operating model reshaping. Investment has been made to support the launch of the Virgin Money mortgage product and to support the channel diversification strategy.



DIRECTORS' REPORT

FOR THE YEAR ENDED 31 AUGUST 2016

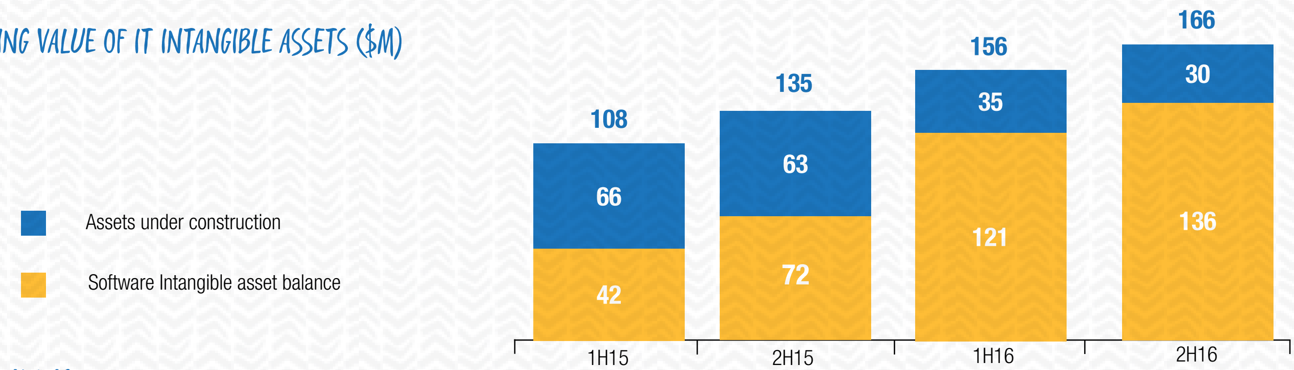
2.6 CAPITALISED INVESTMENT SPEND

The Group's transformation, aligned to its four strategic pillars, has continued during the year with further delivery of a number of key initiatives. Following the release of the Group's new Retail Lending Origination Platform in the first half, the most significant delivery in the second half was the launch of the new Virgin Money home loan product which will enable BOQ to capture a different customer demographic within the highly competitive retail lending market. The Group's Commercial Lending Origination Environment ('CLOE') was also delivered at the end of the financial year, significantly automating a previously manual, paper based process. This system will generate productivity benefits, but importantly will enhance customer experience and provide early data capture to enable better pipeline management of the SME and Commercial segments.

Further investment has continued as BOQ aims to improve customer experience and reduce turnaround times, whilst transitioning from legacy manual processes to a more digitised environment. This includes subsequent releases of the Retail Lending Origination Platform to extend its reach to the majority of applications (currently 30% of all mortgage applications), with the next release on schedule for delivery by the end of the 2016 calendar year. A new investment is underway to transform the Leasing platform for BOQ Finance from more than 20 separate systems into a single market-leading system that will improve the customer experience while reducing legacy costs and risks. The program will be delivered progressively over the 2017 financial year. BOQ is investing in capabilities that support its strategy of focusing on niche areas in the market where specialisation can deliver higher return on equity. A digital application programming interface (API) gateway, in the process of being implemented, will make it easier for BOQ and its partners to quickly and efficiently develop new mobile capabilities for customers.

This continued level of heightened investment is evident in the increased carrying value of intangible assets over the past two years as shown in the graph below. Assets under construction continue to reduce as the Group delivered on its major investments during the year. The rate of growth in the carrying value of IT Intangible Assets is expected to slow over coming periods as the annual amortisation charge converges towards the current level of initiative spend.

CARRYING VALUE OF IT INTANGIBLE ASSETS ($M)



2.7 LENDING

Total lending has increased 5% over the year, at 0.8x System, with gross loans and advances totalling $43.2 billion. Loan growth moderated significantly in the second half in light of heightened competition in key markets, the prudential cap on investment housing and the strategic shift to preserve margin over asset growth with an emphasis on deposit gathering. The strategy of targeting niche customer segments is delivering results with BOQ Specialist, BOQ Finance and niche segments in BOQ Commercial demonstrating solid growth momentum. The Group's maturing broker presence combined with the new Virgin Money mortgage offering, and a more productive branch network, supported by the digitisation investment being progressively rolled out, should continue to deliver success from the multi-channel strategy.

Prudent credit and pricing for risk disciplines, along with robust origination validation requirements, are evident in improved portfolio credit quality metrics. (refer Section 3.1 Asset Quality)

	As at				
$ million	**Aug-16**	Feb-16	Aug-15	Aug-16 vs Feb-16 [1]	Aug-16 vs Aug-15
Housing Lending	**27,733**	27,709	25,641	-	8%
Housing Lending - APS 120 qualifying securitisation [2]	**2,155**	2,339	2,737	(16%)	(21%)
	29,888	30,048	28,378	(1%)	5%
Commercial Lending	**8,818**	8,502	8,258	7%	7%
BOQ Finance	**4,142**	4,057	4,015	4%	3%
Consumer	**304**	317	324	(8%)	(6%)
Gross Loans and Advances	**43,152**	42,924	40,975	1%	5%
Specific and Collective Provisions	**(256)**	(265)	(272)	(7%)	(6%)
Net Loans and Advances	**42,896**	42,659	40,703	1%	5%

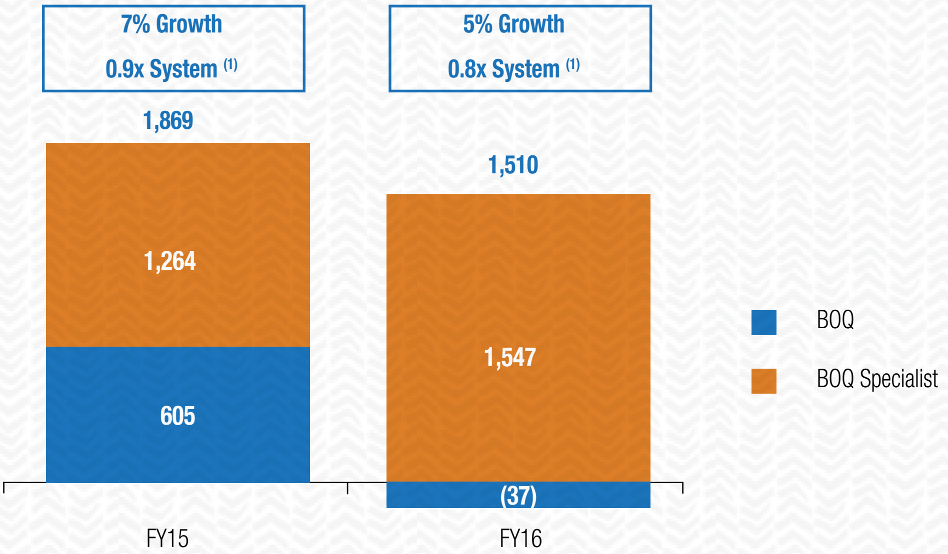
(1) Growth rates have been annualised.

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

2.7 LENDING (CONTINUED)

GROWTH IN GROSS LOANS & ADVANCES

GROWTH IN HOUSING ($M)



(1) Source: APRA Monthly Banking Statistics.

HOUSING LENDING

The housing portfolio grew 5% over the year. Above system growth in the first half was offset by a slight contraction in the second half as the business focused on margin preservation and deposit gathering. Competition intensified through the second half and given the changing economic environment, including higher funding and hedging costs and lower interest rates, BOQ decided not to match the most aggressive rates on offer in the market. BOQ continued to focus on building service and fulfilment capability by improving its time to yes through the progressive rollout of the new mortgage origination platform, with the majority of home loans to be covered by this system following the next stage of implementation at the end of the year. The launch of a new BOQ branded Economy home loan in August is also gaining good traction with customers.

BOQ Specialist continued strong momentum in its on balance sheet mortgage offering to its niche, professional client base. Full year growth of $1.5 billion was achieved, with momentum in the second half reducing in line with the reduction in new business pricing levels. This portfolio provides significant mortgage portfolio diversification both demographically and geographically outside of Queensland. It also provides future cross sell opportunities as BOQ Specialist supports the needs of these customers in commercial lending over their life cycle.

The broker channel continued to expand throughout the year, growing the accredited broker base and aiding BOQ's geographic footprint with 84% of growth in this channel outside of Queensland. Growth through the broker channel moderated in the second half, with greater price sensitivity to new business acquisition pricing compared to other channels. Despite the slower volumes through the second half, the broker network still contributed 23% of total retail housing settlements during the year, albeit with settlement volumes reducing to 19% of total retail housing settlements in the second half.

The launch of the Virgin Money mortgage product in May provides another channel for BOQ to engage with a new customer demographic. The Virgin brand attracts a different customer, more affluent and likely to be metro-based with a strong propensity to engage through digital channels. Virgin Money has engaged with complementary broker groups PLAN and FAST with over 800 brokers now accredited. Virgin Money is about to launch with two additional large broker groups in the coming months.

BOQ continued to optimise the branch network with a reduction in the branch footprint of 23 locations across the year to 211 branches, mainly reflecting consolidations and retirements. Whilst some branches have seen higher levels of run-off which has constrained growth, this has accelerated the journey to a more efficient network with higher average footings per branch (an increase of 8% in 2016) and stronger risk and compliance foundations. BOQ has seen strong engagement from the Owner Managers transitioning to the new franchise agreement, now covering 48% of all Owner Managers. The new franchise agreement better aligns the network with the strategic objectives of the Bank and has delivered significant performance improvements in terms of settlements and increased customer fulfilment across the product suite. A further 8 ICON branches were delivered during the year bringing the total to 13, including the first Owner Managed ICON branch.

The Digital and Direct channel continues to support the omni-channel customer experience by being a key avenue for digital lead generation which results in conversion through the branch network. BOQ continues to drive its digital capability with a focus on delivering technology that will enhance the customer experience including the digitised mortgage origination platform, an upgrade of the mobile banking app (both BOQ and Virgin Money), a refresh of the ATM network and the e-statements initiative.

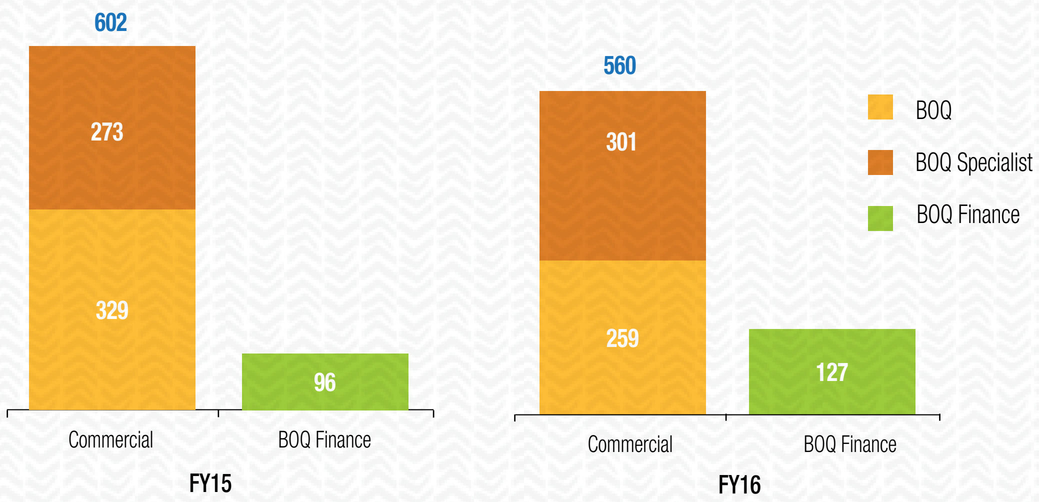
Across the BOQ branded and Virgin Money broker aggregator relationships, the Group has access to approximately 75% of the Australia Broker market.

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 AUGUST 2016

2.7 LENDING (CONTINUED)

GROWTH IN COMMERCIAL & BOQ FINANCE ($M)



	FY15 Commercial	FY15 BOQ Finance	FY16 Commercial	FY16 BOQ Finance
Growth rate	7.9%	2.4%	**6.8%**	**3.2%**
System growth (1)	9.2%	(0.1%)	**8.0%**	**2.7%**
Growth vs System	0.9x	n/a	**0.8x**	**1.2x**

(1) Based on APRA and AELA system growth statistics.

BOQ BUSINESS

BOQ Commercial loans grew by 7% for the year to $8.8 billion with growth 30% stronger in the second half than the prior half. The updated strategy concentrating on five defined niche target industries in Medical & Dental, Retirement Living, Hospitality & Tourism, Agribusiness and Franchising continues to gain momentum. BOQ's continued focus on credit quality and appropriate pricing for risk, coupled with its relationship banking focus, has yielded improved referrals and new business flow. Market pricing for new customer acquisition improved over the half with an increase in the pipeline of new opportunities that meet target risk versus reward levels. BOQ's diversification by geography is continuing to rebalance its commercial exposures nationally, reducing the previous reliance on the Queensland market.

The BOQ Specialist commercial loan book has maintained strong growth of 13% in a higher margin customer segment in a stronger growth sector of the Australian economy. Despite increasing competitor activity in this higher margin niche, BOQ Specialist maintains a competitive advantage in delivering bespoke solutions to their core medical clients and by building deeper, more meaningful relationships in the broader medical community. BOQ Specialist has increased its customer numbers by 11% over the year to more than 32,000. The success of customer acquisition through the mortgage offering positions BOQ Specialist well for long term sustained growth in commercial lending as the life cycle of these new customers transitions to requiring commercial lending over time.

The SME strategy continues to evolve with further investment in the delivery of product and technical capability through BOQ's Retail branches, business centres and corporate bankers. The successful delivery of the Commercial Lending Origination Environment ('CLOE') has digitised the commercial lending process. BOQ Business has also increased penetration of SME customers originated and managed through the branch network. BOQ has been selective in its risk appetite for residential apartment developments reflecting the Group's dynamic approach to maintaining an appropriately conservative risk appetite.

BOQ Finance grew by 3% to $4.1 billion in a challenging business environment with subdued plant and equipment reinvestment. The repositioning of BOQ Finance as the asset financier of choice and "Proudly Backing Your Business" philosophy has been embraced by a range of business partners including branches, business bankers, brokers, manufacturers, distributors, fleet lessors and specialist finance companies. BOQ has commenced the implementation of a new Leasing platform to simplify and automate processes through the asset funding cycle which should provide a key lever in the continued growth of BOQ Finance. The program is scheduled to be implemented over the course of financial year 2017.

3. BUSINESS SETTINGS

3.1 ASSET QUALITY

Further improvement in asset quality was evident across the portfolio. Loan impairment expense reduced by 9% to $67 million in 2016, or 16bps of gross loans and advances. BOQ achieved improvements in arrears and impairments across all portfolios compared to the prior year and continues to maintain sector leading provisioning coverage. Nearly two thirds of the housing portfolio has now been originated under the revised risk appetite framework established in the 2013 financial year.

		Year End Performance			Half Year Performance		
		Aug-16	Aug-15	Aug-16 vs Aug-15	**Aug-16**	Feb-16	Aug-16 vs Feb-16
Loan Impairment Expense	($ million)	**67**	74	(9%)	**31**	36	(14%)
Loan Impairment Expense / GLA	bps	**16**	18	(2bps)	**14**	17	(3bps)
Impaired Assets	($ million)	**232**	237	(2%)	**232**	240	(3%)
30dpd Arrears	($ million)	**461**	478	(4%)	**461**	562	(18%)
90dpd Arrears	($ million)	**234**	257	(9%)	**234**	255	(8%)
Collective Provision & General Reserve for Credit Losses ('GRCL') / RWA	bps	**91**	100	(9bps)	**91**	96	(5bps)

The table above summarises BOQ's key credit indicators with comparison against August 2015 and February 2016:

- **Loan impairment expense** has continued to reduce, reflective of continued strong credit management practices implemented across the business in prior years. This has driven a significant improvement in the Commercial portfolio metrics over the half and maintained low loss experience through the housing portfolio which continues to benefit from the record low interest rate environment. The full year impairment expense of $67 million or 16bps/GLA is a 2bps improvement on the prior year, with the second half charge reducing to 14bps/GLA.
- **Impaired assets** declined by $5 million (2%) to $232 million for the year with the mix across the portfolio remaining largely in line with the prior year. No exposures greater than $5 million were recognised in the second half, though the impaired asset portfolio still contains three exposures greater than $5 million.
- **Past due performance** has improved at a total portfolio level. The dollar value of arrears has dropped in comparison with the prior year, while GLAs have grown (refer 'Arrears' Section). The housing portfolio continues to show strong payment performance in line with the low interest rate environment. Commercial arrears are at their lowest levels since 2012 with a significant decrease witnessed in both 30dpd (27%) and 90dpd (33%) during the second half.
- **Collective provisioning and GRCL** coverage against risk weighted assets has decreased by 5bps over the half, though BOQ remains prudently provisioned.

LOAN IMPAIRMENT EXPENSE

	Year End Performance			Half Year Performance		
$ million	**Aug-16**	Aug-15	Aug-16 vs Aug-15	**Aug-16**	Feb-16	Aug-16 vs Feb-16
Retail Lending	**16**	22	(27%)	**8**	8	-
Commercial Lending	**22**	21	5%	**8**	14	(43%)
BOQ Finance	**29**	31	(6%)	**15**	14	7%
Total Loan Impairment Expense	**67**	74	(9%)	**31**	36	(14%)
Loan Impairment Expense / GLA	**16bps**	18bps	(2bps)	14bps	17bps	(3bps)

The above table shows the continuing improvement in the Retail portfolio as the main driver for reduction in the impairment expense with the Retail portfolio continuing to be aided by record low interest rates, improved market conditions and faster clearance rates. The Commercial portfolio has increased slightly against the prior year. However, performance in the second half saw strong improvement on the first half, benefiting from fewer new impaired assets, successful resolution of a number of troublesome watchlist accounts that emerged in the first half and improving arrears. BOQ Finance impairment expense has improved slightly against the prior year and is operating in line with long term expectations for this portfolio. Strong credit performance in the vast majority of the portfolio was offset by elevated loss experiences in the exposures relating to the mining and associated sectors of the economy.

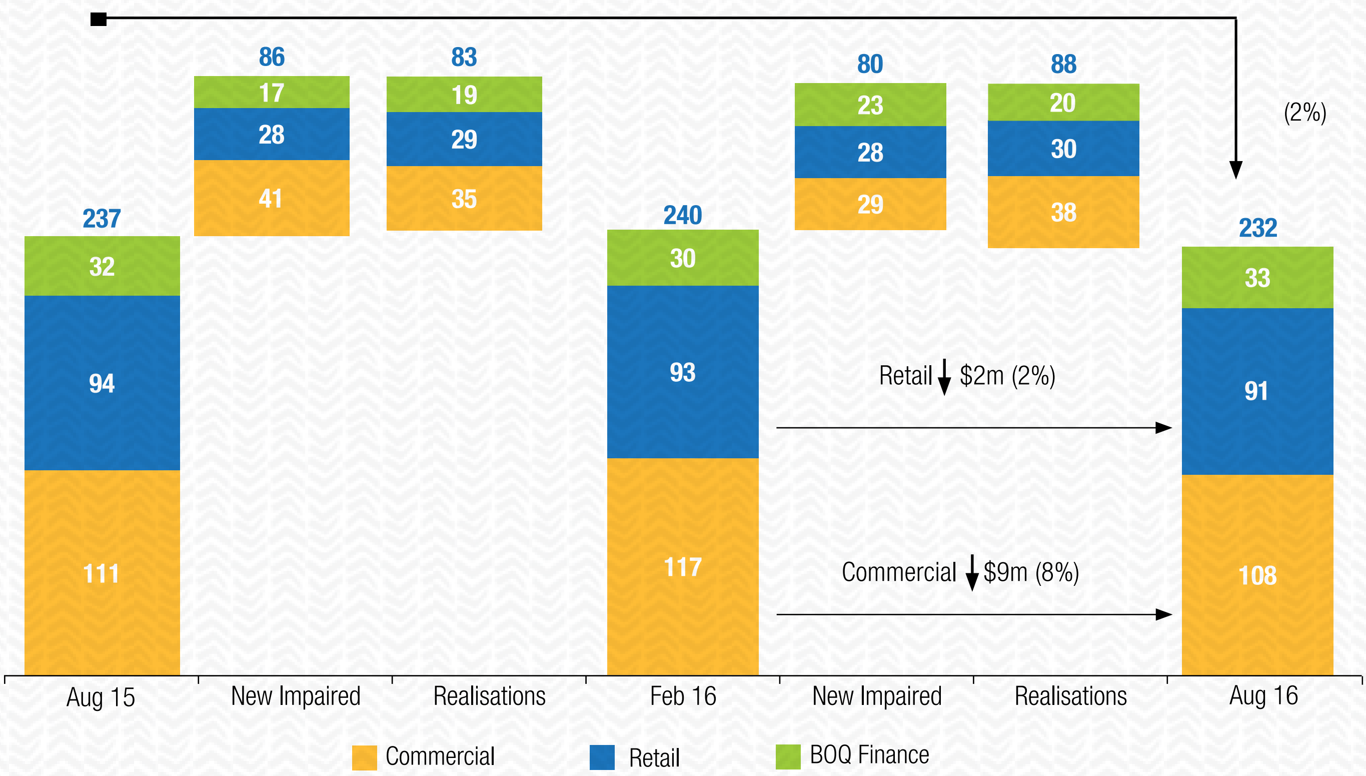
3.1 ASSET QUALITY (CONTINUED)

IMPAIRED ASSETS

$ million	As at Aug-16	As at Feb-16	As at Aug-15	Aug-16 vs Feb-16	Aug-16 vs Aug-15
Retail Lending	**91**	93	94	(2%)	(3%)
Commercial Lending	**108**	117	111	(8%)	(3%)
BOQ Finance	**33**	30	32	10%	3%
Total Impaired Assets	**232**	240	237	(3%)	(2%)
Impaired Assets / GLA	**54bps**	56bps	58bps	(2bps)	(4bps)

Impaired assets have decreased by $5 million (2%) to $232 million resulting in an improvement of the impaired asset to GLA ratio by 4bps over the year to 54bps. The asset mix is largely in line with the prior year, with reductions in both Retail and Commercial impaired balances. BOQ Finance increased over the half and full year due to a small number of exposures that transitioned into the portfolio associated with broader commercial lending facilities which have longer workout timeframes than the traditional nature of leasing impairments. The graph below outlines the movements in impaired assets since August 2015.

IMPAIRED ASSETS ($M)



3.1 ASSET QUALITY (CONTINUED)

RETAIL IMPAIRED ASSETS

Retail impaired assets reduced $3 million (3%) over the year. The housing portfolio continues to show strong performance through improved default metrics. There has been a lowering of the specific provision coverage ratio as the security position of the exposures entering default status has been stronger than earlier in the cycle.

COMMERCIAL IMPAIRED ASSETS

Commercial impaired assets decreased by $3 million (3%) during the year after a slight increase in the first half. There were no new impaired exposures greater than $5 million recognised over the half, and the portfolio contains three exposures greater than $5 million which relate to different sectors of the economy.

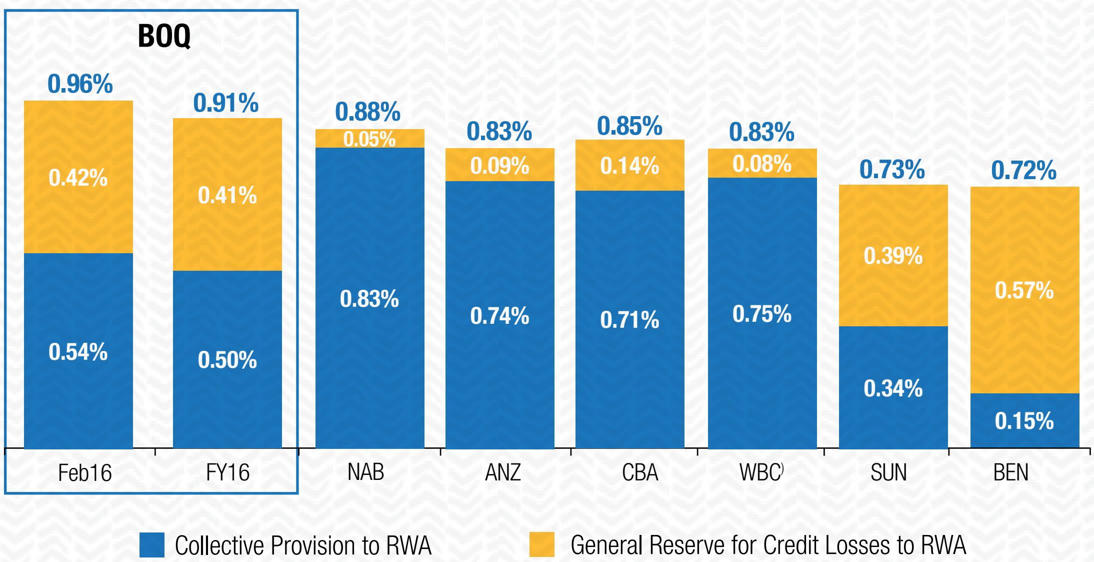
BOQ FINANCE IMPAIRED ASSETS

BOQ Finance impaired assets increased by $1 million (3%) over the full year. An increase in arrears in the first half translated into an increase in impaired assets in the third quarter of the financial year. This trend reversed in the fourth quarter as arrears metrics ended below the position at half year and were largely in line with the prior year position.

COLLECTIVE PROVISION AND GRCL/RWA VS PEERS

The graph below shows BOQ's level of collective provisions and GRCL to RWA against the current peer levels as published in their most recent financial reports. BOQ's coverage has dropped 4bps over the half as collective provisions decreased by $8 million (5%). BOQ remains prudently provisioned and continue to be at the upper end of industry coverage ratio's.

Collective Provision and GRCL/RWA vs Peers (1)



(1) Major banks on advanced approach accredited by APRA risk weightings are lower causing coverage to appear higher on a relative basis to the standardised banks.

3.1 ASSET QUALITY (CONTINUED)

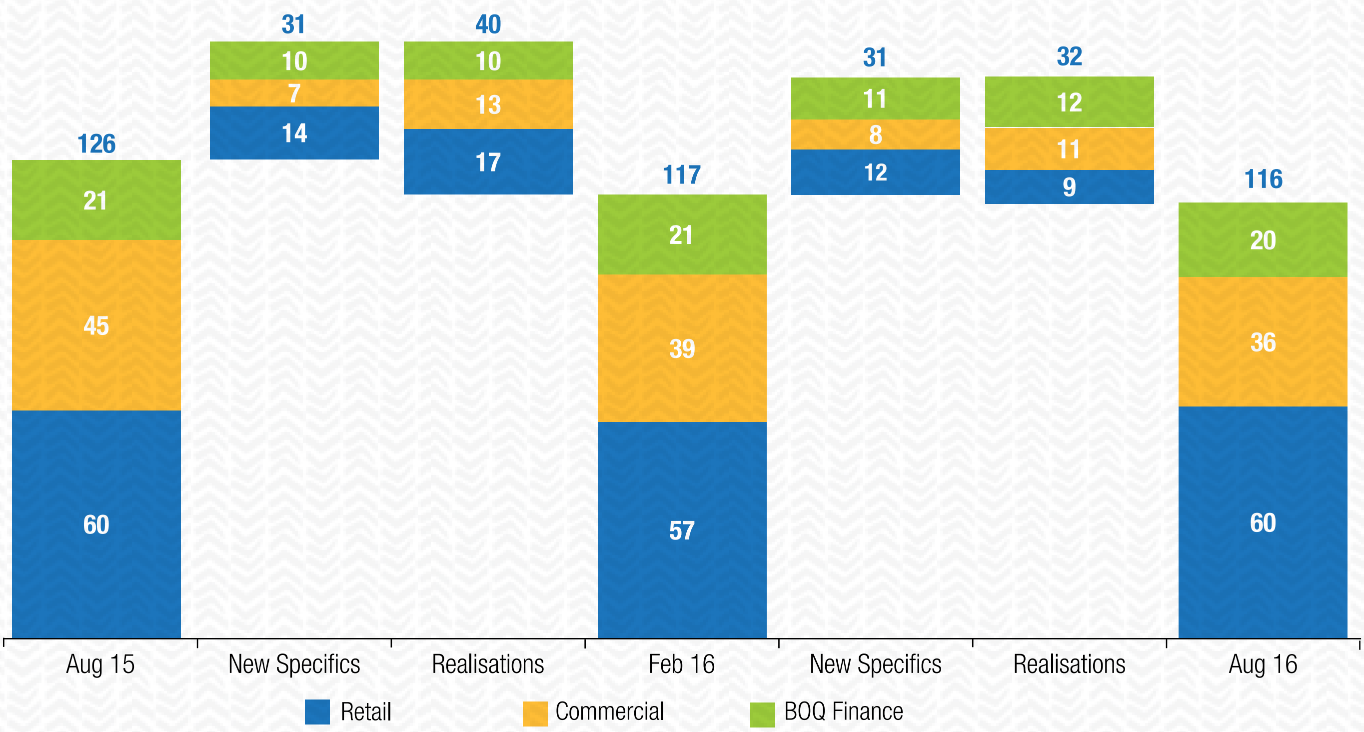
PROVISION COVERAGE

Total provisions decreased by $16 million during the year. Specific provision coverage still remains at 50% as the impaired balance has also decreased for the year. Collective provisions decreased over the year aided by some good success in early intervention in working with some larger troublesome watchlist exposures that emerged in the first half to effective workout, without incurring loss.

	As at				
$ million	**Aug-16**	Feb-16	Aug-15	Aug-16 vs Feb-16	Aug-16 vs Aug-15
Specific Provision	**116**	117	126	(1%)	(8%)
Collective Provision	**140**	148	146	(5%)	(4%)
Total Provisions	**256**	265	272	(3%)	(6%)
GRCL	**81**	81	81	-	-
Specific Provisions to Impaired Assets	**50%**	49%	53%	100bps	(300bps)
Total Provisions and GRCL to Impaired Assets [1]	**160%**	159%	164%	100bps	(400bps)
Total Provisions and GRCL to RWA [1]	**1.3%**	1.4%	1.5%	(10bps)	(20bps)

(1) GRCL gross of tax effect.

SPECIFIC PROVISIONS ($M)



3.1 ASSET QUALITY (CONTINUED)

ARREARS

Key Metrics	Portfolio Balance $m Aug-16	Aug-16	Feb-16	Aug-15	Aug-16 vs Feb-16	Aug-16 vs Aug-15
Total Lending - Portfolio balance ($ million)		**43,152**	42,924	40,975	1%	5%
30 days past due ($ million)		**461**	562	478	(18%)	(4%)
90 days past due ($ million)		**234**	255	257	(8%)	(9%)
		Proportion of Portfolio				
30 days past due: GLAs		**1.07%**	1.31%	1.17%	(24bps)	(10bps)
90 days past due: GLAs		**0.54%**	0.59%	0.63%	(5bps)	(9bps)
By Product						
30 days past due: GLAs (Housing)	**27,248**	**0.98%**	1.10%	1.02%	(12bps)	(4bps)
90 days past due: GLAs (Housing)		**0.47%**	0.40%	0.55%	7bps	(8bps)
30 days past due: GLAs (Line of Credit)	**2,640**	**1.93%**	2.70%	1.61%	(77bps)	32bps
90 days past due: GLAs (Line of Credit)		**1.02%**	1.18%	0.74%	(16bps)	28bps
30 days past due: GLAs (Consumer)	**304**	**1.97%**	1.89%	1.85%	8bps	12bps
90 days past due: GLAs (Consumer)		**1.32%**	0.95%	0.93%	37bps	39bps
30 days past due: GLAs (Commercial)	**8,818**	**1.23%**	1.68%	1.63%	(45bps)	(40bps)
90 days past due: GLAs (Commercial)		**0.81%**	1.20%	1.06%	(39bps)	(25bps)
30 days past due: GLAs (BOQ Finance)	**4,142**	**0.75%**	0.89%	0.79%	(14bps)	(4bps)
90 days past due: GLAs (BOQ Finance)		**0.13%**	0.17%	0.13%	(4bps)	-

RETAIL ARREARS

Housing arrears improved by 12bps for the half in 30dpd following the usual seasonal uptick in February, though deteriorated slightly in 90dpd with an increase of 7bps from a very strong half year position. While 90dpd increased over the half, it is still 8bps lower than the prior year as the mortgage portfolio continues to benefit from lower interest rate environment.

Line of Credit arrears decreased over the half as anticipated, with the first half impacted by seasonality and unwound as expected. The portfolio balance continued to decrease as it was largely originated prior to 2012. The portfolio was progressively repriced during the year to better reflect its underlying riskier profile.

BOQ BUSINESS ARREARS

Commercial arrears improved substantially over the full year in both 30dpd and 90dpd. The benefits of the new risk appetite and credit practices established in 2012 are evident. Improved asset prices and low interest rates assisted in rectifying troubled accounts and BOQ's improved risk management capability has been successful in driving early identification and intervention in stressed exposures.

3.2 FUNDING AND LIQUIDITY

The funding strategy and risk appetite reflects the Group's business strategy, current economic environment, and allowance for potential scenarios that could impact the funding position. Over the year, BOQ increased customer deposits adding $2.2 billion, an increase of 8% that fully funded lending growth for 2016. This increased BOQ's Deposit to Loan Ratio by 2% to 68% as at August 2016.

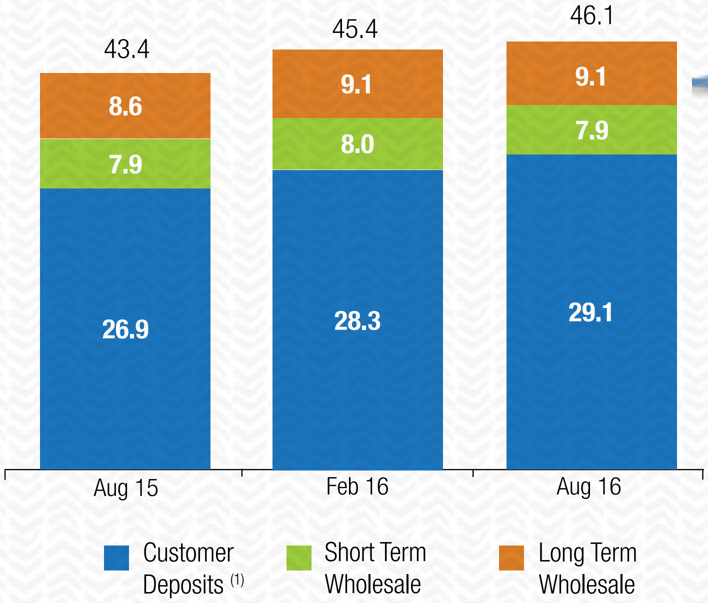
The increase in long term wholesale funding of $500 million over the year was created predominantly through senior unsecured debt issuance, highlighting the Group's ability to build additional capacity in both domestic and offshore markets following credit rating upgrades in prior years.

The combination of growth in customer deposits and long term wholesale funding strengthened the core stable funding profile of the Bank.

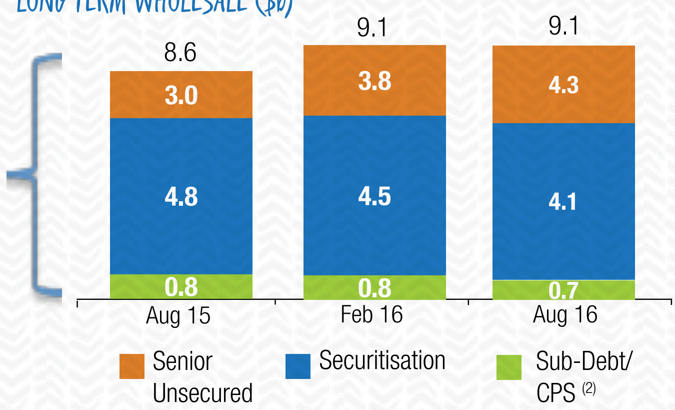
	As at				
$ million	**Aug-16**	Feb-16	Aug-15	Aug-16 vs Feb-16 (1)	Aug-16 vs Aug-15
Customer Deposits (2)	**29,122**	28,260	26,914	6%	8%
Wholesale Deposits	**7,598**	7,820	7,818	(6%)	(3%)
Total Deposits	**36,720**	36,080	34,732	4%	6%
Borrowings	**9,398**	9,204	8,713	4%	8%
Other Liabilities	**1,148**	1,032	1,104	23%	4%
Total Liabilities	**47,266**	46,316	44,549	4%	6%

(1) Growth rates have been annualised.
(2) The classification of customer deposits is defined as all deposits excluding those from financial institutions as defined under APS210 Liquidity Standard

FUNDING MIX ($b)



LONG TERM WHOLESALE ($b)



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

(2) Convertible Preference Shares and Wholesale Capital Notes.

3.2 FUNDING AND LIQUIDITY (CONTINUED)

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

As at 31 August 2016 the Liquidity Coverage Ratio ('LCR') was 122% and the average for the quarter was 129%, with an appropriate buffer held against prudential limits. In addition, based upon the information available, the Group's Net Stable Funding Ratio is above the regulatory minimum. BOQ is well positioned to have a prudent buffer in place by 1 January 2018 once the regulatory standard is finalised over the coming year.

BOQ continues to take all reasonable steps to reduce its reliance on the Committed Liquidity Facility ('CLF') and strengthen the Net Stable Funding Ratio by continuing to grow stable sources of funding, namely customer deposits and long term wholesale funding.

BOQ continues to diversify and increase its allocation to Tier One High Quality Liquid Assets ('HQLA1') consisting of deposits with central banks, Australian Commonwealth Government and Semi-Government securities which now represents 70% of Net Cash Ouflows.

	As at				
	Aug-16	Feb-16	Aug-15	Aug-16 vs Feb-16	Aug-16 vs Aug-15
Customer deposit funding	**79%**	78%	77%	1%	2%
Wholesale deposit funding	**21%**	22%	23%	(1%)	(2%)
Total GLA's (net of specific provision) ($ million)	**43,036**	42,807	40,849	1%	5%
Deposit to Loan Ratio	**68%**	66%	66%	2%	2%

FUNDING

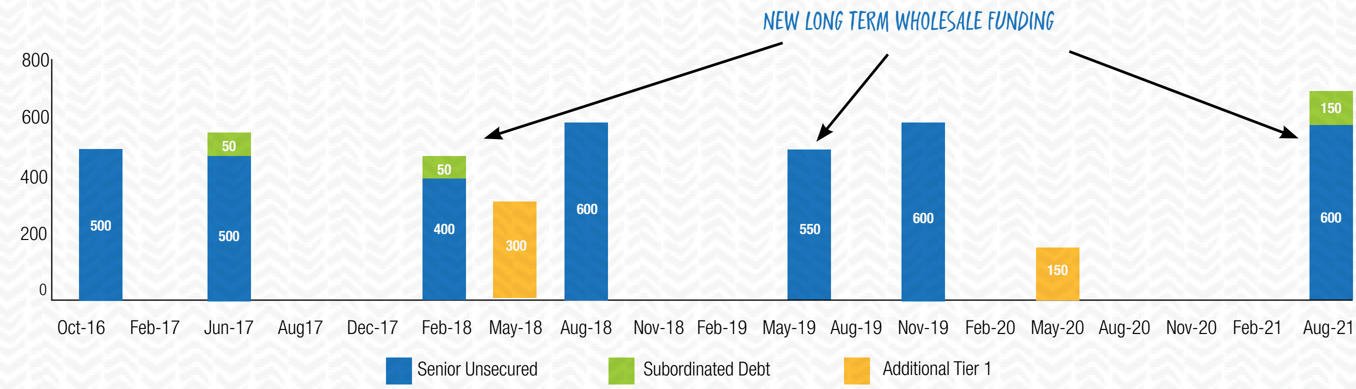
BOQ has increased the long term wholesale funding portfolio over the year against a backdrop of challenging economic and market conditions.

In addition to the two benchmark senior unsecured transactions executed in the first half, BOQ continued to extend its funding curve with the execution of a new five year senior unsecured transaction in May. BOQ also took advantage of the private placement market raising additional funding both domestically and via BOQ's Euro Medium Term Note programme. BOQ will continue exploring other funding markets that will further increase its funding capability and diversity.

MAJOR MATURITIES ($M) (1) (2)

Over the past year, BOQ continued to evolve its long term wholesale funding profile into a mature state with numerous pricing points on the senior unsecured curve to promote more transparent pricing for investors. BOQ built further capacity into its wholesale funding profile, ensuring maturities are balanced to limit refinancing risk and assist with liability and liquidity management.

Term issuance over the year included a $750 million securitisation transaction, $150 million subordinated debt issue and $1.9 billion worth of senior unsecured issues (including domestic and offshore private placements).



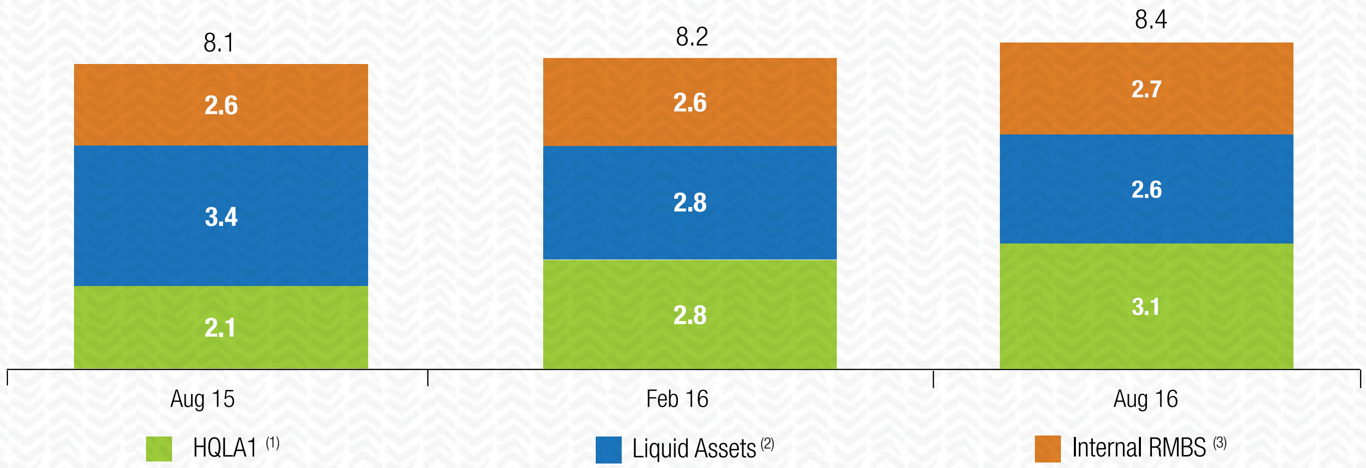
(1) Senior unsecured maturities greater than $100 million shown, excludes private placements.

(2) Redemption of Subordinated Debt Notes and Additional Tier 1 instruments at the scheduled call date is to BOQ's option and is subject to obtaining prior written approval from APRA.

3.2 FUNDING AND LIQUIDITY (CONTINUED)

BOQ maintains a portfolio of repo eligible, diversified, marketable High Quality Liquid Assets to facilitate balance sheet liquidity and meet internal and external requirements. The credit quality of the liquid asset portfolio continued to improve through an increase in HQLA1 holdings over the year to $3.1 billion. BOQ was granted a $2.6 billion RBA Committed Liquidity Facility for the 2016 calendar year, sufficient to enable BOQ to meet its minimum regulatory requirement of greater than 100% LCR.

LIQUIDITY COMPOSITION - BASEL III ($B)



(1) HQLA1 includes government and semi-government securities, cash held with RBA and notes & coins.
(2) Liquid Assets include all unencumbered RBA repurchase eligible liquid assets able to be pledged as collateral to the RBA under the CLF.
(3) Internal RMBS are able to be pledged as collateral to the RBA CLF.

3.3 CAPITAL MANAGEMENT

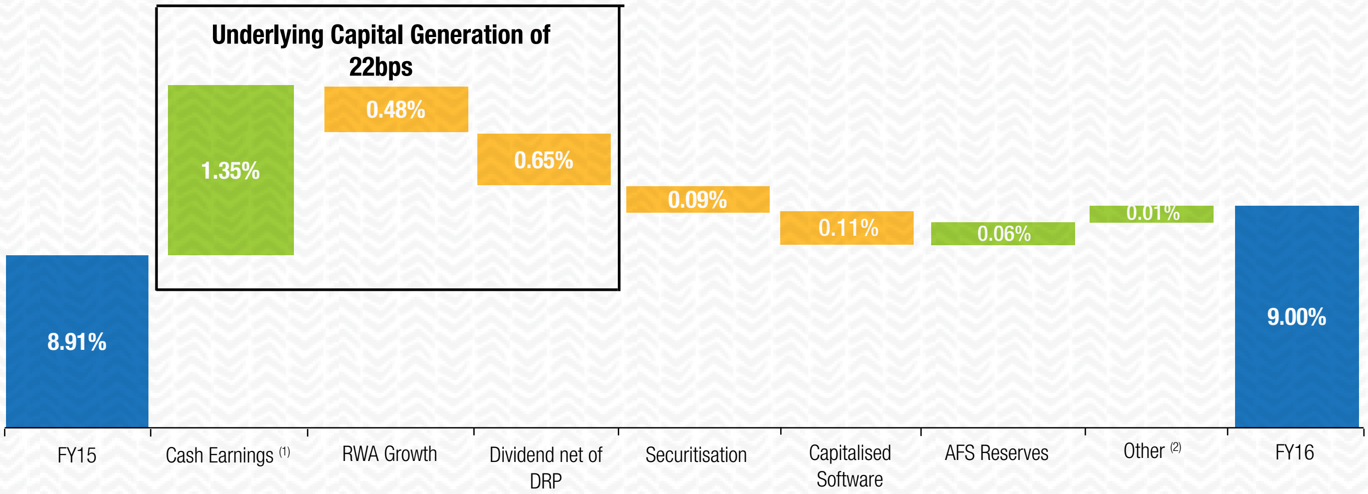
CAPITAL ADEQUACY

	As at				
$ million	**Aug-16**	Feb-16	Aug-15	Aug-16 vs Feb-16	Aug-16 vs Aug-15
Common Equity Tier 1 ('CET1')	**2,524**	2,416	2,346	5%	8%
Additional Tier 1 Capital	**450**	450	450	-	-
Total Tier 2	**474**	554	551	(14%)	(14%)
Total Capital Base	**3,448**	3,420	3,347	1%	3%
Total RWA	**28,054**	27,467	26,321	2%	7%
Common Equity Tier 1 Ratio	**9.00%**	8.80%	8.91%	20bps	9bps
Total Capital Adequacy Ratio	**12.29%**	12.45%	12.72%	(16bps)	(43bps)

The Group further strengthened its capital ratios during the year with the Common Equity Tier 1 ('CET1') ratio increasing 9bps to 9.00%. The second half saw a 20bps increase in CET1 reflecting underlying cash earnings and a strong dividend reinvestment participation rate which more than compensated for the moderated loan growth in the second half. The half also saw a favourable movement in the available for sale reserve which offset the impact of an increase in capitalised software reflecting the heightened reinvestment being undertaken.

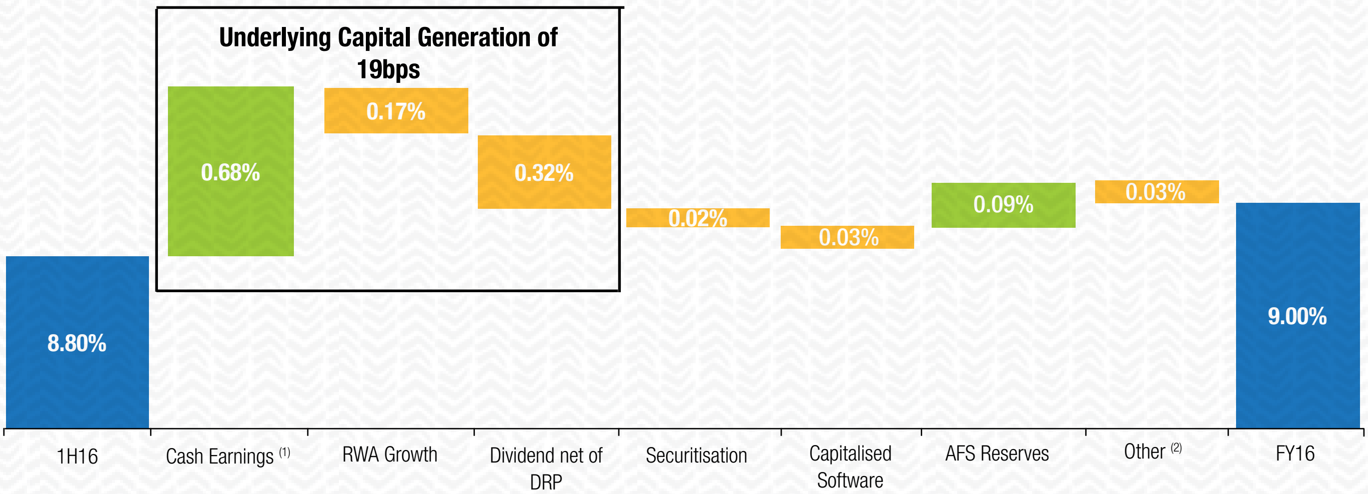
3.3 CAPITAL MANAGEMENT (CONTINUED)

COMMON EQUITY TIER 1 FY16 V FY15



(1) Cash earnings adjusted for one-off non-recurring items which represents the impact of the restructuring costs of $15 million before tax.
(2) Other items include the positive impact of reduced deferred tax balances and dividends received from entities outside the capital group, net against non-recurring items and deferred acquisition costs.

COMMON EQUITY TIER 1 2H16 V 1H16



(1) Cash earnings adjusted for one-off non-recurring items which represents the impact of the restructuring costs of $8 million before tax.
(2) Other items includes capitalised deferred acquisition costs and non-recurring items offset by positive impact of a reduced deferred tax asset.

3.4 TAX EXPENSE

Tax expense arising on Cash Earnings for the year amounted to $163 million. This represents an effective tax rate of 31.2%, which is above the corporate tax rate of 30% primarily due to non-deductibility of interest payable on convertible preference shares issued in 2013 and Wholesale Capital Notes issued in 2015.

4. APPENDICES

4.1 RECONCILIATION OF STATUTORY PROFIT TO CASH EARNINGS

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

The main costs excluded this year relate to the amortisation of customer contracts. The BOQ Specialist integration was finalised during the year and has been completed within previously advised guidance.

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

	Year End Performance			Half Year Performance		
$ million	**Aug-16**	Aug-15	Aug-16 vs Aug-15	**Aug-16**	Feb-16	Aug-16 vs Feb-16
Cash Earnings after Tax	**360**	357	1%	**181**	179	1%
Amortisation of customer contracts (acquisition)	**(15)**	(14)	7%	**(7)**	(8)	(13%)
Amortisation of Fair Value adjustments (acquisition)	**(1)**	(1)	-	**-**	(1)	(100%)
Hedge ineffectiveness	**(4)**	(3)	33%	**(6)**	2	n/a
Integration / transaction costs	**(2)**	(20)	(90%)	**(1)**	(1)	-
Legacy items	**-**	(1)	(100%)	**-**	-	-
Statutory Net Profit after Tax	**338**	318	6%	**167**	171	(2%)

(B) NON-CASH EARNINGS RECONCILING ITEMS

$ million	**Cash Earnings Aug-16**	Virgin Money	Amortisation of customer contracts (acquisition)	Amortisation of fair value adjustments	Hedge ineffectiveness	Integration/ transaction costs	Legacy items	**Statutory Net Profit Aug-16**
Net Interest Income	**937**	-	-	-	-	(1)	-	**936**
Non-Interest Income	**173**	15	-	-	(6)	-	(1)	**181**
Total Income	**1,110**	15	-	-	(6)	(1)	(1)	**1,117**
Operating Expenses	**(520)**	(15)	(17)	(1)	-	(2)	1	**(554)**
Underlying Profit	**590**	-	(17)	(1)	(6)	(3)	-	**563**
Loan Impairment Expense	**(67)**	-	-	-	-	-	-	**(67)**
Profit before Tax	**523**	-	(17)	(1)	(6)	(3)	-	**496**
Income Tax Expense	**(163)**	-	2	-	2	1	-	**(158)**
Profit after Tax	**360**	-	(15)	(1)	(4)	(2)	-	**338**

4.2 OPERATING CASH EXPENSES

	Year End Performance			Half Year Performance		
	Aug-16	Aug-15	Aug-16 vs Aug-15	**Aug-16**	Feb-16	Aug-16 vs Feb-16
Employee expenses						
Salaries	**200**	195	3%	**100**	100	-
Superannuation contributions	**20**	20	-	**10**	10	-
Payroll tax	**13**	12	8%	**6**	7	(14%)
Employee Share Programs	**11**	7	57%	**6**	5	20%
Other	**9**	7	29%	**5**	4	25%
	253	241	5%	**127**	126	1%
Occupancy expenses						
Lease expense	**31**	34	(9%)	**15**	16	(6%)
Depreciation of Fixed Assets	**9**	9	-	**4**	5	(20%)
Other	**3**	4	(25%)	**2**	1	100%
	43	47	(9%)	**21**	22	(5%)
General expenses						
Marketing	**17**	19	(11%)	**10**	7	43%
Commissions to Owner Managed Branches	**7**	7	-	**4**	3	33%
Communications and postage	**21**	20	5%	**11**	10	10%
Printing and stationery	**4**	5	(20%)	**2**	2	-
Impairment	**1**	9	(89%)	**1**	-	-
Processing costs	**20**	24	(17%)	**8**	12	(33%)
Other operating expenses	**28**	26	7%	**12**	16	(25%)
	98	110	(11%)	**48**	50	(4%)
IT expenses						
Data processing	**64**	64	-	**34**	30	13%
Amortisation of Intangible Assets	**27**	17	59%	**15**	12	25%
Depreciation of Fixed Assets	**1**	1	-	**1**	-	-
	92	82	12%	**50**	42	19%
Other expenses						
Professional fees	**12**	12	-	**6**	6	-
Directors' fees	**2**	2	-	**1**	1	-
Other	**5**	6	(17%)	**3**	2	50%
	19	20	(5%)	**10**	9	11%
Restructuring expenses (1)	**15**	-	-	**8**	7	14%
Total Operating Expenses	**520**	500	4%	**264**	256	3%

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

4.2 OPERATING CASH EXPENSES (CONTINUED)

Employee Expenses

Employee share program costs increased over the year. This included allocation of long term award incentives to BOQ Specialist staff that were previously covered by transitional retention arrangements following acquisition in July 2014. Customer acquisition through new channels has impacted salary costs with an increase in sales and support staff required.

Occupancy Expenses

The prior year included $6 million of costs associated with the transition of Brisbane and Sydney head offices.

General Expenses

The decrease from the prior year reflected the impairment of the pilot CRM system ($10 million) in 2015.

IT Expenses

The delivery of a number of key initiatives during the year resulted in an uplift in the amortisation profile of $10 million. BOQ has continued to invest in areas that improve the overall customer experience, productivity and efficiency.

4.3 PROPERTY, PLANT & EQUIPMENT (CONSOLIDATED)

	Leasehold improvements $m	Plant furniture and equipment $m	IT equipment $m	Capital works in progress $m	Assets under Operating Lease $m	Total $m
Cost						
Balance as at 1 September 2015	69	32	32	1	25	159
Additions	6	1	-	1	10	18
Disposals	(4)	(1)	(1)	-	(11)	(17)
Transfers between categories	-	1	-	(1)	-	-
Balance as at 31 August 2016	**71**	**33**	**31**	**1**	**24**	**160**
Amortisation and loss on disposal / impairment						
Balance as at 1 September 2015	30	22	29	-	17	98
Depreciation for the year	7	2	1	-	8	18
Disposals	(4)	(1)	(1)	-	(10)	(16)
Balance as at 31 August 2016	**33**	**23**	**29**	**-**	**15**	**100**
Carrying amount as at 31 August 2015	**39**	**10**	**3**	**1**	**8**	**61**
Carrying amount as at 31 August 2016	**38**	**10**	**2**	**1**	**9**	**60**

4.4 CASH EPS CALCULATIONS

		Year End Performance			Half Year Performance		
		Aug-16	Aug-15 [2]	Aug-16 vs Aug-15	**Aug-16**	Feb-16	Aug-16 vs Feb-16
Basic EPS	(cents)	**95.6**	97.3	(2%)	**47.8**	47.8	-
Diluted EPS	(cents)	**90.7**	94.3	(4%)	**45.4**	45.6	-
Reconciliation of Cash Earnings for EPS							
Cash Earnings available for ordinary shareholders	($ million)	**360**	357	1%	**181**	179	1%
Add: CPS Dividend	($ million)	**16**	16	-	**8**	8	-
Add: Wholesale Capital Notes [1]	($ million)	**7**	2	250%	**3**	4	(25%)
Cash Diluted Earnings available for ordinary shareholders	($ million)	**383**	375	2%	**192**	191	1%
Weighted Average Number of Shares ('WANOS')							
Basic WANOS	(million)	**376**	367	2%	**378**	373	1%
Add: Effect of award rights	(million)	**1**	3	(67%)	**1**	2	(50%)
Add: Effect of CPS	(million)	**30**	24	25%	**30**	27	11%
Add: Effect of Wholesale Capital Notes [1]	(million)	**15**	3	400%	**15**	14	7%
Diluted WANOS for Cash Earnings EPS	(million)	**422**	397	6%	**424**	416	2%

(1) On 26 May 2015, the Bank issued 15,000 Wholesale Capital Notes at a price of $10,000 per note.

(2) August 2015 has been restated to reflect the correct pro-rata treatment of the Wholesale capital notes, issued 26 May 2015.

4.5 ISSUED CAPITAL

ORDINARY SHARES

	Consolidated	
	2016 Number	2016 $m
Movements during the year		
Balance at the beginning of the year – fully paid	**370,768,776**	3,155
Issue of ordinary shares - 26 October 2015 [1]	**1,130,000**	15
Issue of ordinary shares - 9 February 2016 [1]	**374,000**	5
Dividend reinvestment plan - 24 November 2015 [2]	**3,893,309**	51
Dividend reinvestment plan - 19 May 2016 [2]	**4,829,617**	53
Balance at the end of the year – fully paid	**380,995,702**	3,279

(1) On 26 October 2015, 1,130,000 ordinary shares were issued and on 9 February 2016, 374,000 ordinary shares were issued to the trustee of the Bank of Queensland Limited Employee Share Plan Trust. This was to satisfy the exercise of award rights and issue of shares under the Award Rights Plan and issue of shares under the BOQ Restricted Share Plan and BOQ Employee Share Plan.

(2) 36% was taken up by shareholders on 24 November 2015 and 38% on 19 May 2016 as part of the Dividend Reinvestment Plan.

4.6 AVERAGE BALANCE SHEET AND MARGIN ANALYSIS

	August 2016 (Full Year)			August 2015 (Full Year)		
	Average Balance $m	Interest $m	Average Rate %	Average Balance $m	Interest $m	Average Rate %
Interest earning assets						
Gross loans & advances at amortised cost	**42,571**	**2,001**	**4.70**	39,713	2,037	5.13
Investments & other securities	**5,850**	**155**	**2.65**	6,385	190	2.98
Total interest earning assets	**48,421**	**2,156**	**4.45**	46,098	2,227	4.83
Non-interest earning assets						
Property, plant & equipment	**61**			61		
Other assets	**1,558**			1,599		
Provision for impairment	**(268)**			(280)		
Total non-interest earning assets	**1,351**			1,380		
Total Assets	**49,772**			47,478		
Interest bearing liabilities						
Retail deposits	**28,255**	**661**	**2.34**	26,595	726	2.73
Wholesale deposits & Borrowings	**17,124**	**558**	**3.26**	16,593	594	3.58
Total Interest bearing liabilities	**45,379**	**1,219**	**2.68**	43,188	1,320	3.06
Non-interest bearing liabilities	**869**			885		
Total Liabilities	**46,248**			44,073		
Shareholders' funds	**3,524**			3,405		
Total liabilities & shareholders' funds	**49,772**			47,478		
Interest margin & interest spread						
Interest earning assets	**48,421**	**2,156**	**4.45**	46,098	2,227	4.83
Interest bearing liabilities	**45,379**	**1,219**	**2.68**	43,188	1,320	3.06
Net interest spread			**1.77**			1.77
Benefit of net interest-free assets, liabilities and equity			**0.17**			0.20
Net interest margin - on average interest earning assets	**48,421**	**937**	**1.94**	46,098	907	1.97

4.6 AVERAGE BALANCE SHEET AND MARGIN ANALYSIS (CONTINUED)

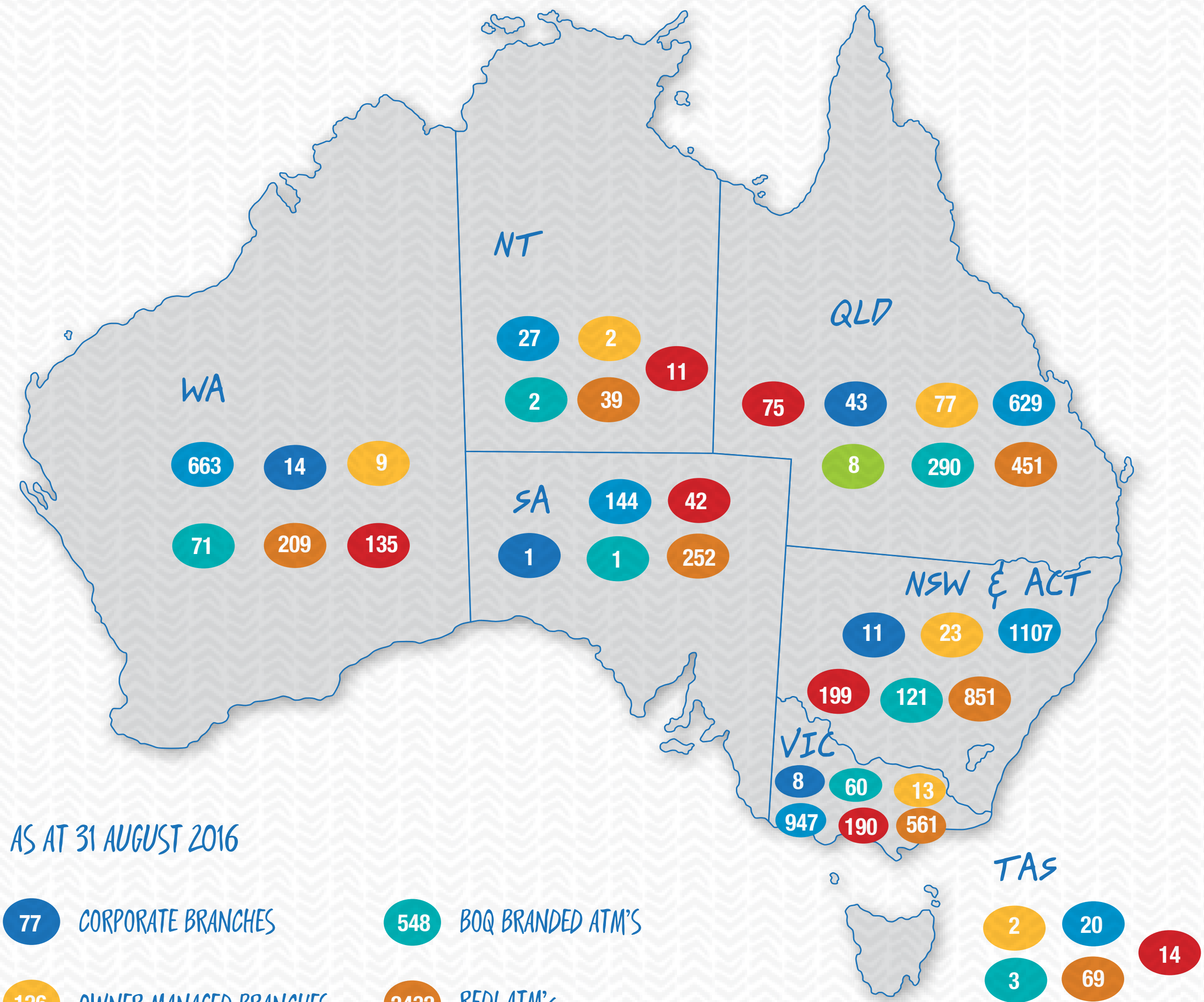
	August 2016 (Six month period)			February 2016 (Six month period)		
	Average Balance $m	Interest $m	Average Rate %	Average Balance $m	Interest $m	Average Rate %
Interest earning assets						
Gross loans & advances at amortised cost	**43,354**	**1,011**	**4.64**	41,837	990	4.76
Investments & other securities	**5,999**	**78**	**2.59**	5,669	77	2.71
Total interest earning assets	**49,353**	**1,089**	**4.39**	47,506	1,067	4.52
Non-interest earning assets						
Property, plant & equipment	**60**			61		
Other assets	**1,551**			1,553		
Provision for impairment	**(264)**			(270)		
Total non-interest earning assets	**1,347**			1,344		
Total Assets	**50,700**			48,850		
Interest bearing liabilities						
Retail deposits	**28,690**	**339**	**2.35**	27,821	323	2.33
Wholesale deposits & Borrowings	**17,569**	**280**	**3.17**	16,690	277	3.34
Total Interest bearing liabilities	**46,259**	**619**	**2.66**	44,511	600	2.71
Non-interest bearing liabilities	**885**			847		
Total Liabilities	**47,144**			45,358		
Shareholders' funds	**3,556**			3,492		
Total liabilities & shareholders' funds	**50,700**			48,850		
Interest margin & interest spread						
Interest earning assets	**49,353**	**1,089**	**4.39**	47,506	1,067	4.52
Interest bearing liabilities	**46,259**	**619**	**2.66**	44,511	600	2.71
Net interest spread			**1.73**			1.81
Benefit of net interest-free assets, liabilities and equity			**0.17**			0.16
Net interest margin - on average interest earning assets	**49,353**	**470**	**1.90**	47,506	467	1.97

4.7 DISTRIBUTION FOOTPRINT

BOQ has continued to develop its 'Customer in Charge' strategy to allow customers to engage through their channel of choice. This includes a preferred broker (aligned to BOQ or Virgin Money) or directly with BOQ through BOQ's Owner Managed and Corporate branches, online via digital, social media or mobile banking or on the telephone to BOQ's award winning Perth and Gold Coast Customer Contact Centres.

Branch numbers reduced by 23 during the 2016 financial year as BOQ looked to optimise its points of presence. Nearly half of BOQ's Owner Managers have transitioned to the new franchise proposition which better aligns the network with the strategic objectives of the Bank and has delivered significant performance improvements in terms of settlements and fulfilment of broader customer needs. A further 8 ICON branches were delivered during the year including the first Owner Managed ICON branch at Kippa-Ring in Brisbane.

The broker strategy expansion accelerated over 2016 with the total BOQ accredited brokers now exceeding 3,500. The launch of Virgin Money mortgages this half has resulted in a further 800 brokers being accredited with the scheduled onboarding of two major aggregators in October. Across the BOQ branded and Virgin Money broker aggregator relationships, the Group now has access to approximately 75% of the Australia Broker market. The majority of accredited brokers are situated outside of Queensland which will further accelerate the geographic diversification of the portfolio.



AS AT 31 AUGUST 2016

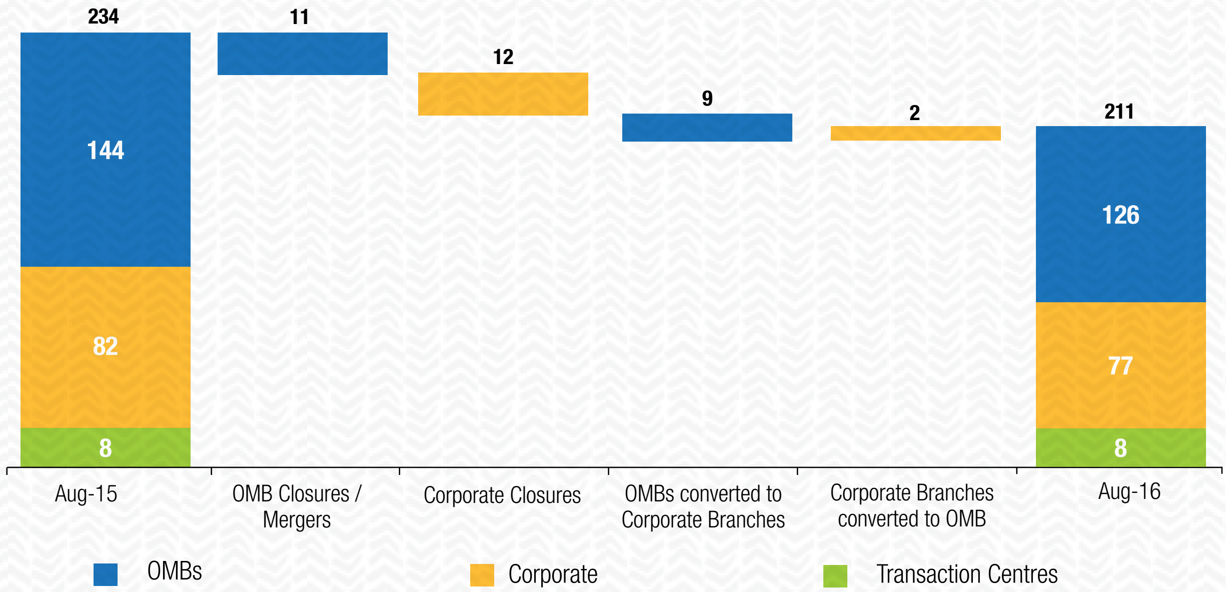
- 77 CORPORATE BRANCHES
- 126 OWNER MANAGED BRANCHES
- 3537 BROKERS
- 666 VIRGIN MONEY BROKERS
- 548 BOQ BRANDED ATM'S
- 2432 REDI ATM's
- 8 TRANSACTION CENTRES

4.7 DISTRIBUTION FOOTPRINT (CONTINUED)

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

As at Aug-15	QLD	NSW / ACT	VIC	WA	NT	TAS	SA	Total
Corporate Branches	45	13	7	16	-	-	1	82
Owner Managed Branches	85	25	20	10	2	2	-	144
Transaction Centres	8	-	-	-	-	-	-	8
	138	**38**	**27**	**26**	**2**	**2**	**1**	**234**

CORPORATE, OWNER MANAGED BRANCHES ('OMB') & TRANSACTION CENTRES



4.8 CREDIT RATING

The progress made over recent years in strengthening the balance sheet and embedding a revised risk appetite has been recognised with the major credit agencies of Standard & Poor's, Moody's and Fitch having reaffirmed BOQ's credit ratings during the course of the year.

BOQ's current long term debt ratings are shown below.

Rating Agency	Short Term	Long Term	Outlook
Standard & Poor's	A2	A-	Stable
Fitch	F2	A-	Stable
Moody's	P2	A3	Stable

4.9 LIQUIDITY COVERAGE RATIO

APRA requires ADIs to maintain a minimum 100% LCR. The LCR requires sufficient High Quality Liquid Assets to meet net cash outflows over a 30 day period, under a regulator defined liquidity stress scenario. BOQ manages its LCR on a daily basis with a buffer above the regulatory minimum in line with the BOQ prescribed risk appetite and management ranges. BOQ's average LCR remained consistent over the August quarter at 129% (31 May 2016 quarter: 129%). The following table presents detailed information in respect of the average LCR composition for the two quarters.

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

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

The liquid assets composition has changed over the combined quarters with the allocation to HQLA increasing, now making up 72% of net cash outflows (29 February 2016: 64%). Across the combined quarters net cash outflows have increased in line with balance sheet growth.

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

4.9 LIQUIDITY COVERAGE RATIO (CONTINUED)

	Average Quarterly Performance			
	August Quarter		May Quarter	
	Total Unweighted Value $m	Total Weighted Value $m	Total Unweighted Value $m	Total Weighted Value $m
Liquid Assets, of which				
High quality liquid assets	n/a	2,982	n/a	3,014
Alternative liquid assets	n/a	2,385	n/a	2,375
Total Liquid Assets		**5,367**		**5,389**
Cash Outflows				
Customer deposits and deposits from small branch customers, of which	13,497	1,239	13,444	1,325
stable deposits	*6,863*	*343*	*6,419*	*321*
less stable deposits	*6,634*	*896*	*7,025*	*1,004*
Unsecured wholesale funding, of which	4,322	2,721	4,211	2,756
non-operational deposits	*3,279*	*1,678*	*3,116*	*1,661*
unsecured debt	*1,043*	*1,043*	*1,095*	*1,095*
Secured wholesale funding	n/a	56	n/a	65
Additional requirements, of which	394	333	423	324
outflows related to derivatives exposures and other collateral requirements	*330*	*330*	*319*	*319*
credit and liquidity facilities	*64*	*3*	*104*	*5*
Other contractual funding obligations	324	16	369	53
Other contingent funding obligations	9,105	609	8,528	598
Total Cash Outflows	**27,642**	**4,974**	**26,975**	**5,121**
Cash Inflows				
Inflows from fully performing exposures	723	413	750	433
Other cash inflows	395	395	515	515
Total Cash Inflows	**1,118**	**808**	**1,265**	**948**
Total Net Cash Outflows	**26,524**	**4,166**	**25,710**	**4,173**
Total Liquid Assets	n/a	**5,367**	n/a	**5,389**
Total Net Cash Outflows	n/a	**4,166**	n/a	**4,173**
Liquidity Coverage Ratio (%)	n/a	**129%**	n/a	**129%**

REMUNERATION REPORT

FOR THE YEAR ENDED 31 AUGUST 2016

Dear Shareholder,

Please find attached our 2016 Remuneration Report.

This letter provides an overview and summary of our policy, practice and its application to remuneration in 2016.

During the year the Board Chair and I again met with a number of shareholders and their advisors. Feedback from these meetings has been central to the refinements made to the report, providing improved disclosure and explanation of the key components of our remuneration.

Our remuneration philosophy remains underpinned by a desire to attract and retain quality executives and directors, to align with the short and medium term rewards for our shareholders, and to incentivise appropriate long term risk behaviours.

The core principles upon which remuneration is based have remained unchanged in the 2016 financial year:

- Remuneration structure is appropriately balanced between fixed and at risk variable reward. For guidance, the mix is weighted approximately one third fixed pay, one third short term incentive and one third long term incentive;
- We do not make cash payments to executives on commencement of employment with BOQ;
- Key performance measures covering both financial and non financial targets are agreed for all executives at the commencement of the financial year;
- Remuneration outcomes are matched to independently sourced market data;
- Short Term Incentive ('STI') is capped and over a certain amount a portion is deferred over two years;
- Long Term Incentive ('LTI') is capped and for senior executives is awarded by way of Performance Award Rights ('PARs') at face value. These vest subject to Total Shareholder Return ('TSR') and Earnings Per Share ('EPS') growth hurdles;
- For senior executives departing BOQ unvested or deferred equity and cash remain on foot for the full vesting period;
- The Board has discretion on all remuneration outcomes.

In 2016, with the assistance of external advisors the Remuneration Committee undertook a review of the senior executive STI scheme. The Board subsequently approved the new scheme for the 2017 financial year. Changes further clarify the KPIs and the scoring of these, provide greater flexibility to the scoring range, and establish a guide to the Board overlay. The outcome is greater clarity for executives and more transparent scoring for the Board.

As part of its overall review of remuneration in 2016 the Committee agreed a capped pool for fixed pay increases at 2% (2015: 2.5%) and a bank wide STI pool of $17.5 million (2015: $20.1 million).

In relation to senior executives and the Managing Director and Chief Executive Office ('MD') the Committee received verbal and written submissions from the MD for the banks Group Executives and from the Board Chair for the MD. The 2016 increases in fixed remuneration were considered in the context of market comparators, inflation, job scope changes and the history of each individual's fixed pay increases over the past 3 years. In assessing the STI recommendations the Committee had regard for the outcomes produced by the application of KPI scores to the 2016 scheme formula. It also considered a number of other factors relevant to the outcomes for shareholders but which were not contemplated in the KPIs set at the beginning of the 2016 financial period. These factors included actual as opposed to targeted results, short and medium term value created for shareholders, improved technology outcomes, successful business integration, improved product and pricing disciplines, and importantly enhanced risk systems and awareness. LTI has been considered by the committee on the basis of retention and potential.

The outcomes of this 2016 review of Group Executives including the MD resulted in an increase in fixed pay of 3.7% (2015: 0%). For STI, the agreed awards represent a reduction of 15% to awards made in 2015 (In 2015 the comparative amount reduced by 10% as compared to 2014). LTI has been agreed at the same percentage of fixed pay as 2015 albeit the awards have increased with increases in 2015 fixed pay

Overall, your Board has considered remuneration in light of a satisfactory year in a changing environment for banks. It is pleased with progress in a number of areas which are internal to the bank including systems, processes, business integration and risk awareness. The Board has accepted the Committees' remuneration recommendations as serving the best interests of shareholders in the short and medium term.

Yours sincerely

David Willis

Chair BOQ Human Resources & Remuneration Committee

CONTENTS

SECTION 1. SUMMARY OF KEY MANAGEMENT PERSONNEL ('KMP') NON-STATUTORY REMUNERATION OUTCOMES 2016

This Remuneration Report is prepared for consideration by shareholders at the 2016 Annual General Meeting of the Bank. It outlines the overall remuneration strategy, framework and practices adopted by the Consolidated Entity for the period 1 September 2015 to 31 August 2016 and has been prepared in accordance with Section 300A of the *Corporations Act 2001* and its regulations.

The table below provides shareholders with a view of non-statutory remuneration paid to and earned by KMP, pro-rated for service during the period up to 31 August 2016. It includes fixed and short term variable remuneration and LTI grants that vested during the period. Information will differ from that provided in the statutory tables.

Table 1 KMP Non-statutory Remuneration

	Base plus Superannuation (1) $	Maximum STI Potential (2) %	STI as % of Maximum STI Potential (3) %	STI Paid as Cash (4) $	STI Deferred (5) $	2016 Total STI Value $	Total Cash Payments in relation to the 2016 year (6) $	Deferred Equity Awards Vested in the Period (7) $	LTI Awards Vested in 2016 (8) $
Current KMP									
Jon Sutton	1,293,678	150%	**51%**	500,000	500,000	1,000,000	1,793,678	515,350	1,628,547
Matthew Baxby	596,245	140%	**56%**	235,000	235,000	470,000	831,245	349,998	1,445,609
Peter Deans	649,138	100%	**56%**	187,500	187,500	375,000	836,638	324,179	1,459,378
Belinda Jefferys (9)	315,805	100%	**47%**	72,500	72,500	145,000	388,305	-	-
Vimpi Juneja (9)	383,638	100%	**53%**	100,000	100,000	200,000	483,638	-	-
Anthony Rose	647,509	100%	**58%**	187,500	187,500	375,000	835,009	331,460	1,559,269
Michelle Thomsen	393,487	100%	**43%**	85,000	85,000	170,000	478,487	-	-
Donna-Maree Vinci	563,448	100%	**60%**	170,000	170,000	340,000	733,448	-	-
Brendan White	637,548	140%	**53%**	237,500	237,500	475,000	875,048	418,171	1,464,586
Former KMP									
Karyn Munsie	115,856	100%	-	-	-	-	**115,856**	164,858	-

Additional Information – Non-Statutory Remuneration Methodology

(1) Base remuneration and superannuation make up an Executive's fixed remuneration.

(2) The maximum STI is represented as a percentage of fixed remuneration. The minimum STI potential is zero.

(3) Total STI paid as a percentage of maximum STI potential.

(4) This is 50% of the 2016 STI for performance during the 12 months to 31 August 2016 (payable October 2016).

(5) This represents 50% of the 2016 STI award that is deferred until 1 October 2017 (50%) and 1 October 2018 (50%). The deferred awards are subject to Board review at the time of payment and are deferred into restricted shares subject to vesting conditions.

(6) This is the total $ value of cash STI, base and superannuation relating to 2016.

(7) The value of all deferred cash and /or equity awards (closing share price on vesting date) that vested during 2016 financial year. This excludes deferred equity awards granted in previous years which have not vested in financial year 2016.

(8) This relates to Performance Award Rights that vested during the financial year (closing share price on vesting date).

(9) Amounts are pro-rated for Executives appointed during the period.

REMUNERATION REPORT

FOR THE YEAR ENDED 31 AUGUST 2016

SECTION 2. KEY MANAGEMENT PERSONNEL & GOVERNANCE

KMP include those Directors and Executives who have authority and responsibility for planning, directing and controlling the activities of the Bank and the Consolidated Entity. The Group Executives and Directors for the financial year 2016 are shown in the table below. This includes newly appointed Directors and Group Executives and those that exited during the operating period.

Directors (Executive and Non-Executive)		Group Executives (Key Management Personnel)	
Current			
Roger Davis	Chairman (Non-Executive)	Matthew Baxby	Group Executive Retail Banking
Jon Sutton	Managing Director and Chief Executive Officer ('MD')	Peter Deans	Chief Risk Officer ('CRO')
Bruce Carter	Director (Non-Executive)	Belinda Jefferys	Group Executive People and Culture (Appointed 27 January 2016)
Richard Haire	Director (Non-Executive)	Vimpi Juneja	Group Executive Product and Strategy (Appointed 9 November 2015)
John Lorimer	Director (Non-Executive) (Appointed 29 January 2016)	Anthony Rose	Chief Financial Officer ('CFO')
Karen Penrose	Director (Non-Executive) (Appointed 26 November 2015)	Michelle Thomsen	General Counsel and Company Secretary
Margaret Seale	Director (Non-Executive)	Donna-Maree Vinci	Group Executive Chief Operations, Digital & Information Officer
Michelle Tredenick	Director (Non-Executive)	Brendan White	Group Executive BOQ Business
David Willis	Director (Non-Executive)		
Former			
Neil Berkett	Director (Non-Executive) (Resigned 31 May 2016)	Karyn Munsie	Group Executive Corporate Affairs, Investor Relations & Government Relations (Resigned 29 October 2015)
Carmel Gray	Director (Non-Executive) (Resigned 26 November 2015)		

Remuneration is governed by principles, policy and oversight of the Human Resources & Remuneration Committee ('HRRC') in accordance with its Charter. The HRRC and Board may exercise discretion in accordance with parameters described below.

2.1 REMUNERATION PRINCIPLES

The remuneration principles applied are as follows:

- Total reward is linked to performance and aligns to shareholder interests;
- Fixed and total remuneration for each KMP is benchmarked to the market each year to ensure it remains competitive;
- Key performance measures are determined for all Executives, covering both financial and non-financial targets;
- The Bank's Long Term Incentive is awarded on the basis of a face value volume-weighted average share price and not using at-risk adjusted fair value;
- Total remuneration for KMP is targeted to achieve a balanced mix between fixed, short term and long term variable at risk remuneration;
- Variable remuneration is subject to deferral and/or clawback of unvested short term and long term incentives;
- We do not make cash payments on commencement of employment as Executives; and
- The Board has discretion on all remuneration outcomes.

2.2 COMMITTEE CHARTER

Under the Consolidated Entity's HRRC Charter, the Committee undertakes to do the following:

- Conduct regular (at least biennial) reviews of the Consolidated Entity's Remuneration Policy to ensure compliance with the Consolidated Entity's objectives and risk management framework;
- Review and provide recommendations to the Board on remuneration, recruitment, retention and termination policies for Group Executives;
- Review and provide annual recommendations to the Board on the individual remuneration arrangements for Group Executives (i.e. Managing Director and Chief Executive Officer and his or her direct reports) and all other Responsible Persons (as defined by the Australian Prudential Regulation Authority Prudential Standard *CPS520*);
- Review and provide annual recommendations to the Board on the remuneration principles for employees in Finance and Legal and Risk;

2. KEY MANAGEMENT PERSONNEL & GOVERNANCE (CONTINUED)

2.2 COMMITTEE CHARTER (CONTINUED)

- Review and provide recommendations to the Board on the remuneration for all remaining groups of employees not otherwise specified; and
- Consider and recommend Non-Executive Director (NED) remuneration, including to ensure that the structure of NED remuneration is clearly distinguished from that of Group Executives.

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

During the period the Committee engaged AON Hewitt to undertake a review of the STI Plan for 2017. Fees incurred with Aon Hewitt were $74,503.

Egan & Associates and Ernst & Young were engaged to provide external remuneration benchmarking information covering all remuneration elements of the KMP. Fees incurred with Egan & Associates were $51,282 and Ernst & Young were $116,613.

The Board is satsified that remuneration advice provided by these external advisers during the year was free from undue influence by members of the Group Executive to whom the advice related.

2.3 REMUNERATION POLICY

The Consolidated Entity's Executive Reward Policy is designed to balance five objectives:

- Incentivise Executives to pursue the short and long-term goals of the Consolidated Entity within an appropriate risk control framework;
- Demonstrate a clear relationship between Executive performance and remuneration;
- Align the interest of management with those of the shareholders;
- Provide sufficient rewards to ensure the Consolidated Entity attracts and retains suitably qualified and experienced Executives; and
- Ensure that an element of these rewards is deferred to assist in appropriate risk based decision making and behaviour.

The HRRC monitors and reshapes remuneration programs to support these underlying objectives, responds to proposed and enacted legislation and regulatory initiatives and, where appropriate, adjusts remuneration to reflect changes in the business cycle.

2.4 APPLICATION OF DISCRETION IN THE MANAGEMENT OF GROUP EXECUTIVE REMUNERATION

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

Criteria used by the HRRC to apply discretionary adjustments include:

- Factors either not known or relevant at the beginning of a financial year, which can impact performance positively or negatively during the course of the financial year;
- The degree of 'stretch' implicit in the measures and targets, and the environment and market context in which the targets were set;
- Whether the operating environment during the financial year was materially different than forecast and external analysts' consensus estimates;
- Consideration of short and medium term Total Shareholder Return ('TSR');
- Comparison with the performance of the Group relative to its competitors;
- The emergence of any major positive or negative risk or reputational issues;
- The quality of the financial result as shown by its composition and consistency;
- Whether leadership behaviours and BOQ values have been consistently demonstrated throughout the year; and
- Any other matters that the Board and the HRRC deem to be relevant and which are not outlined above.

The HRRC reviews performance against objectives annually and applies any adjustments it considers appropriate. The HRRC then recommends remuneration outcomes for each Group Executive to the Board for approval.

SECTION 3. REMUNERATION FRAMEWORK

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

The components of the Executive remuneration structure are set out within this section. They are consistent with the reward strategy and reinforce the link between performance and reward, and alignment with shareholder interests. Changes to the current STI Plan will be implemented for 2017 are summarised in this section and a side by side analysis is provided to assist with understanding the changes.

SECTION 3. REMUNERATION FRAMEWORK (CONTINUED)

3.1 CURRENT REMUNERATION FRAMEWORK 2016

Table 2 provides a summary of the components of remunertaion for KMP. It describes the at risk reward components applied in the financial year 2016 and includes reference to the relevant performance measure, at risk weighting of variable components and links between strategic pillars and performance. General conditions applied across all remuneration elements are detailed below in the descriptive table.

Table 2 - Remuneration Framework

Component	Performance Measure	At Risk Reward	Performance to Reward Link
Fixed Remuneration ('FR') Salary & other benefits including superannuation. +	Key Result Areas and behaviours expected for the role are defined in the position description.		Remuneration set at competitive levels, to attract, retain and engage key talent. Fixed remuneration level determined by role and responsibility, benchmarked internal and external relativities and contribution, competencies and capability of the position holder.
Short Term Incentives (STI) Annual at risk remuneration consisting of cash and deferred equity. Deferral of 50% of the STI to equity once threshold of $100,000 STI earned. Two year vesting period. Distribution of weighting across financial performance metrics is determined by role. +	STI is earned based on performance against Group Financial and Individual Measures. STI Plan is subject to gateway tests: • Earnings Per Share ('EPS'): 90% of budgeted basic EPS; and • Behavioural and risk metrics. Group Financial Measures Weighting: • EPS : 15% - 20% • Cash Net Profit ('NPAT'): 15% - 20% • Cost to Income Ratio ('CTI'): 10% Aggregated Individual Performance Measures: 50% - 60%. Combination of financial and non-financial metrics that are relevant to each Division and Functional area. A shared diversity metric is included in each scorecard.	At Target % of FR: MD: 90% Line Roles: 75% Functional Roles: 53% At Maximum % of FR: MD: 150% Line Roles: 140% Functional Roles: 100%	Reward performance at Group level. The financial performance measures are chosen to drive financial performance and result in dividend and share price growth over time which aligns with shareholder interests. Recognises and rewards achievement of Group and Divisional goals in the areas of earnings and efficient capital application. Division and functional area goals including specific financial and non-financial targets aligned to delivery of business strategy. Drives leadership performance and behaviours consistent with achieving the Group's long term objectives in areas including workplace health and safety, diversity, succession and talent management.
Long Term Incentive (LTI) Annual grant of equity delivered as performance award rights ('PARs') on a face value basis. Vesting period of three years. Subject to performance testing and clawback.	Metrics: **Relative TSR - 80% weighted** Comparator Group is companies in the ASX 200 updated and reviewed for each grant year, excluding: • all entities in the resources sector; • all real estate investment trusts; • all entities in the energy and utilities sector: and • telecommunications companies whose headquarters are offshore. Vesting scale applied to this Tranche; • Minimum Hurdle 50th percentile performance = vesting of 50% of award. • Maximum vesting at 75th percentile performance = vesting of 100% of award. **EPS performance - 20% weighted** • EPS performance assessed on a relative basis against comparator group comprised of majors and regional banks. Vesting scale applied to this Tranche; • Minimum Hurdle 60th percentile performance = vesting of 50% of award. • Maximum vesting at 90th percentile performance = vesting of 100% of award.	All KMP Grants at target up to 100% of FR but may be above this, subject to Board discretion.	Ensures a strong link to the creation of long term shareholder value. Metrics were chosen as vesting hurdles as they provide a test of performance against market peers' relative performance over three year vesting period. TSR is a measure of the entire return a shareholder would derive from holding an entity's securities over a period, taking into account factors such as changes in the market value of the securities and dividends paid over the period. The Board uses relative TSR performance as a measure because it reflects the returns made to shareholders relative to other comparable securities and provides a meaningful reward for Executives where the Company outperforms peers.
= Target	Market competitive remuneration, with appropriately weighted at risk variable components aligned to shareholder interests.		

SECTION 3. REMUNERATION FRAMEWORK (CONTINUED)

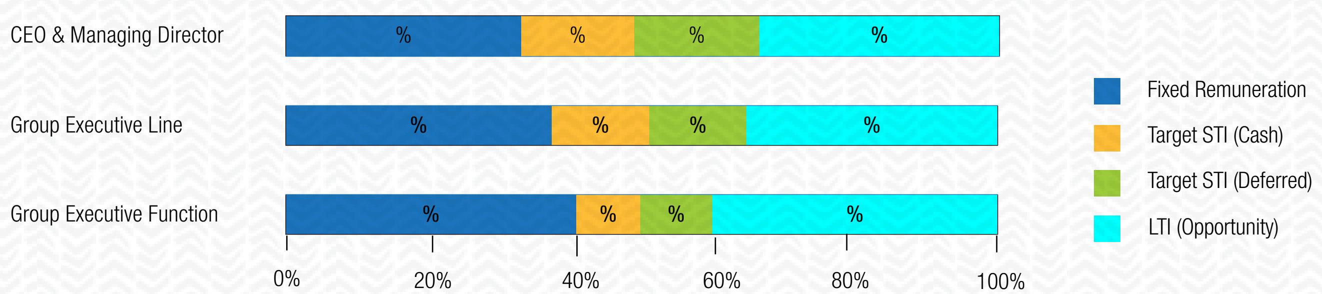
	BOQ Group Executive - Other Conditions Applying to STI and LTI
STI Performance Measurement Framework	The measurement framework for each of the four measures noted above has four levels of performance, i.e. threshold, target, superior and exceptional. Generally target level performance aligns to the budget. Performance below threshold does not trigger STI for that metric.

Threshold	Target	Superior	Exceptional
This is a point below the target (i.e. budget) - which still represents an improvement on the prior year and is considered a satisfactory performance for the year.	Target is defined by the business budget which is approved by the Board and must reflect the full set of financial and non-financial strategic measures.	Superior is when, on top of the approved Target, 'stretch' goals are delivered. Stretch goals are also approved by the Board.	When the individual and Consolidated Entity's performance is deemed exceptional across the board, the maximum of the STI range may apply.

1. STI Performance Period	Performance will be assessed over the financial year. Payments under the STI Plan will generally be made in October, following assessment of performance over the relevant performance period and based on audited results.
2. STI Deferral	For any STI payment to KMP exceeding $100,000, 50% of the total amount awarded is deferred as restricted shares (ordinary BOQ shares held by a trustee on behalf of participants and subject to disposal restrictions). The restricted shares will be released to the individual at the end of the deferral period subject to continued employment and the Board determining that no forfeiture events have occurred.
3. Dividends	Group Executives who hold restricted shares as part of deferred STI accrue dividends.
4. Forfeiture and Clawback applied to STI and LTI	The Board retains discretion to determine what constitutes a clawback event and such events can include breaches of risk KPIs and required behaviours, departure to a direct competitor and instances where there has been a material misstatement in the financial statements. The STI award and / or any deferred component or equity grant under LTI will only be awarded to Group Executives who are employed by the Consolidated Entity at the relevant STI payment date and who have not given notice of resignation prior to this date. Once awarded, restricted shares or LTI equity grants remain subject to disposal restrictions and will be forfeited where the participant: 1. Resigns in order to take up employment with a defined competitor; 2. Takes up employment with a direct competitor within three months of ceasing employment; 3. Ceases employment by reason of summary dismissal or for reasons associated with a breach of their Agreement or other employment terms or any policy of the Company or a related Company; 4. Is deemed by the Board to have committed an act of fraud, material misstatement, financial mismanagement, gross misconduct or a serious breach of their duties and obligations in relation to the Company's affairs; 5. The deferred portion of a Group Executive's STI award may also be forfeited where the Board determines that risk conditions have not been met during the deferral period. Advice may be sought from the Chief Risk Officer in making this determination; 6. Where an exiting Group Executive satisfies 'good leaver' conditions, unvested awards of deferred STI and LTI may remain on foot subject to forfeiture and clawback, future performance testing and vesting at the anniversary date.
5. Change of Control	In the event of a change of control, all STIs will either remain on foot or be paid out on a pro rata basis or in full (depending on the circumstances). The restriction on deferred STI (restricted shares) will either remain on foot or be lifted depending on the circumstances of the change in control. Any such decision will be at the Board's discretion.

3.2 REMUNERATION MIX ILLUSTRATION

The distribution of remuneration elements for Group Executives is designed to provide a balanced weighting between fixed, short term and long term variable at risk remuneration. The remuneration mix for the MD and the Group Executives differs. The targeted remuneration mix below is a representative illustration. The distribution between components is assessed by the Board annually against the targeted remuneration mix. The current remuneration mix is deemed appropriately weighted.



SECTION 3. REMUNERATION FRAMEWORK (CONTINUED)

3.3 CHANGES TO REMUNERATION FRAMEWORK 2017

Following a review of the Group Executive STI Plan commissioned by the HRRC, changes have been approved to the STI Plan for the financial year 2017. The table below provides a summary of the changes relative to the current Plan. The Plan design changes reflect contemporary market practice and improve the performance and reward link and alignment to shareholder interests.

Table 3- Changes to Remuneration Framework

Plan Component	Current KMP STI Plan Financial Year 2016	Revised KMP STI Plan Financial Year 2017
Eligible Participants	• Only KMP participate.	• Remains the same.
Plan Mechanics	• Additive model based on Group result plus individual result. • Each component assessed separately and added to determine final STI amount.	• Multiplicative model based on Group result multiplied by Individual result to determine STI outcome. • Change to multiplicative model allows for greater sensitivity of outcomes across the performance range and moderates the need for discretionary adjustment of final STI award. • Performance against Group results assessed and then individual assessed result acts as an accelerator/moderator to determine final STI amount. • Below Threshold outcome in either Group or Individual final performance rating results in zero STI payment.
STI Plan Gateway	• Achieve 90% of budgeted basic EPS and satisfy behavioural risk gateway to trigger plan operation.	• Gateways remain the same.
STI % Opportunity	• Expressed as a percentage of fixed remuneration. • Differentiated opportunity for MD, Line & Functional roles. • Earning opportunity expressed over a four point rating scale.	• Tested market relativity and STI % opportunity was determined to be competitive and consistent with market – no change to Target or maximum STI percentages. • Aligned to probability modelling with a minor change to STI opportunity at Superior performance level. • STI opportunity now expressed over a five point rating scale.
Performance Range – Determining Outputs	• Budget provides the reference point at target to develop Group performance outputs for metrics over the four point scale.	• Performance outputs defined across the five point performance ranges. • Outputs for Group metrics at each performance level are informed by market context, BOQ budget and overlayed with external analysts consensus forecasts and historical performance.
Performance Metrics	• Three Group performance metrics of Cash NPAT, Earnings per Share ('EPS') and Cash Cost to Income ('CTI') ratio. • Individual metrics set in consultation with MD and reflect area of focus aligned to business strategy. • Individual metrics include a diversity target.	• Group metrics have been expanded to five, equally weighted and shared to foster focus on collegiate achievement at Group Executive level. • Financial metrics include Cash NPAT, Return on Equity ('ROE'), CTI ratio and two credit risk measures under a Risk metric. • Non-financial Group metrics included for Customer Satisfaction, measured by a blended Net Promoter Score ('NPS'). • Individual metrics focus on Line or Functional area outputs and include a shared culture metric that includes assessment of engagement, diversity, safety and alignment to BOQ values.
Board Discretion	• Board has discretion over the Plan and its outcomes.	• Remains the same.

SECTION 4. REMUNERATION OUTCOMES

Linking company performance to remuneration outcomes is a key reward principle of BOQ. The following narrative and tables illustrate how the remuneration outcomes for the financial year 2016, including those that are cash and equity based, operate in alignment with performance of the Company and alignment with shareholder interests.

4.1 FIXED REMUNERATION CHANGES FINANCIAL YEAR 2016

Increases to fixed remuneration for individual KMP for the financial year 2016 are referenced in Table 4. Consultants Ernst & Young and Egan & Associates were commissioned to undertake a benchmarking review of Executive remuneration.

Fixed remuneration for select KMP was increased to reflect the following: change in size and scope of role; relativity to market benchmarks; and consideration of increases over the past few years.

Table 4- Fixed Remuneration Changes Financial Year 2016

	Position Title	Current Fixed Remuneration	Percentage Change in Fixed Remuneration	Revised Fixed Remuneration
Current- KMP				
Jon Sutton	Managing Director and Chief Executive Officer	1,300,000	-	1,300,000
Matthew Baxby	Group Executive Retail Banking	600,000	9%	655,000
Peter Deans (1)	Chief Risk Officer	675,000	-	675,000
Belinda Jefferys (2)	Group Executive People and Culture	525,000	-	525,000
Vimpi Juneja	Group Executive Product and Strategy	470,000	7%	505,000
Anthony Rose	Chief Financial Officer	650,000	9%	710,000
Michelle Thomsen	General Counsel and Company Secretary	395,000	2%	403,000
Donna-Maree Vinci	Group Executive Chief Operations, Digital & Information Officer	570,000	2%	580,000
Brendan White	Group Executive BOQ Business	640,000	8%	690,000
Former- KMP				
Karyn Munsie	Group Executive Corporate Affairs, Investor Relations & Government Relations	440,000	-	-

(1) Peter Deans Chief Risk Officer has been awarded an additional 10 days annual leave with a value of $25,962 which represents 4% of the current fixed remuneration.

(2) Belinda Jefferys Group Executive People and Culture has been awarded an additional 10 days annual leave with a value of $20,192 which represents 4% of the current fixed remuneration.

4.2 LINKING PERFORMANCE & REWARD OUTCOMES

The Board reviewed the Consolidated Entity's performance and the performance of each Group Executive against the Group and individual performance measures identified for 2016 STI Plan. While the key metric of Cash Cost to Income ratio did not meet target performance levels and Cash NPAT and EPS were just below target, overall performance of the Group was improved over the previous period in a difficult operating environment. Significant individual contributions ensured that key elements of the business strategy were delivered or exceeded.

The key financial and non-financial objectives for the Group Executives in the financial year 2016, with commentary on key highlights, are provided below. Table 5 provides a view of key business metrics over the past five years.

Table 5- Consolidated Entity Performance

5 Year Company Performance	2016	2015	2014	2013	2012
Statutory net profit/(loss) after tax	**$338m**	$318m	$261m	$186m	$(17m)
Cash net profit after tax ('NPAT') (1)	**$360m**	$357m	$301m	$251m	$31m
Cash Basic earnings per share ('EPS') (1)	**95.6c**	97.3c	89.5c	78.1c	7.9c
Cash cost to income ratio ('CTI') (1)	**46.8%**	46.0%	43.9%	44.3%	45.7%
Share price at balance sheet date	**$10.55**	$12.67	$12.58	$9.60	$7.55
Value of Dividends paid	**$300m**	$272m	$216m	$180m	$152m

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

SECTION 4. REMUNERATION OUTCOMES (CONTINUED)

4.3 LINKING PERFORMANCE & REWARD

Table 6 is a summary of the Group financial and non-financial measures that were assessed in determining STI amounts for Group Executives for the financial year 2016. It describes the link to BOQ strategic pillars, the measure and weightings that were used as inputs and an assessment of performances achieved to determine the financial year 2016 STI amounts earned by KMP.

Table 6- Linking Performance and Reward (1)

Strategic Pillar	Measure	STI Plan Weighting MD	STI Plan Weighting Group Executive	FY16 Key Achievements	KPI Outcomes Described
Grow the Right Way	Cash Basic EPS	20%	15%	Above Threshold **Triggered**	EPS result of 95.6c which is just below target and at the low end of consensus. This is affected by restructure provision taken above the line.
Grow the Right Way	Cash NPAT	20%	15%	Above Threshold – Close to Target **Triggered**	Full year Cash NPAT at $360m, is below Target and above FY15 result of $357m.
There's Always a Better Way	Cash CTI	10%	10%	Below Threshold **Did Not Trigger**	CTI ratio at 46.8%. Excluding one-off items the CTI result is 45.5% which is slightly below target performance.
Customer in Charge Loved Like No Other	Individual Measures including: • Net Promoter Score • Financial and nonfunctional metrics • Diversity • Safety Performance • Risk	50%	60%	Achieved between Target and Superior levels of performance across all individual Key Performance Indicators. **Triggered**	Net promoter score achieved above target. Diversity targets exceeded for full year at Group level. Other financial metrics such as loan impairment expense and funding ratio were achieved above target. Safety performance achieved at an exceptional level above Target. Individual measures related to implementation of improvement programs all achieved above target expectations with a time/cost bias.

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

Overall, the individual performances of Group Executives were judged to be in the range of Target to Superior. Based on this level of organisational and individual performance reported for the 2016 financial year, the Board approved Group Executive STI payments at between 43% and 60% of their maximum STI opportunity. Table 7 is a summary of the STI outcomes for disclosure of individual STI payments for the financial year 2016 and the percentage relative to STI maximums.

4.4 STI OUTCOMES FINANCIAL YEAR 2015 - FINANCIAL YEAR 2016

STI payments were based on achievement of Group financial performance metrics in the financial year 2016 and individual contribution. To reinforce the performance and reward link, STI awards for KMP for financial year 2016 are below those determined for financial year 2015. Data for both years is provided for comparative purposes. Note that new KMP in the 2016 financial year did not receive an STI award in financial year 2015.

SECTION 4. REMUNERATION OUTCOMES (CONTINUED)

Table 7- STI Outcomes

		Fixed Remuneration	STI Awarded FY15		STI Award FY16	
	Position Title	FY16	STI Award Total $ Value	STI as % of Maximum STI Potential	STI Award Total $ Value	STI as % of Maximum STI Potential
Current -KMP						
Jon Sutton	Managing Director and Chief Executive Officer	1,300,000	1,200,000	64%	1,000,000	51%
Matthew Baxby	Group Executive Retail Banking	600,000	470,000	59%	470,000	56%
Peter Deans	Chief Risk Officer	675,000	470,000	70%	375,000	56%
Belinda Jefferys (1)	Group Executive People and Culture	525,000	-	-	145,000	47%
Vimpi Juneja (1)	Group Executive Product and Strategy	470,000	-	-	200,000	53%
Anthony Rose	Chief Financial Officer	650,000	470,000	72%	375,000	58%
Michelle Thomsen (2)	General Counsel and Company Secretary	395,000	185,000	47%	170,000	43%
Donna-Maree Vinci	Group Executive Chief Operations, Digital & Information Officer	570,000	-	-	340,000	60%
Brendan White	Group Executive BOQ Business	640,000	610,000	68%	475,000	53%
Former -KMP						
Karyn Munsie	Group Executive Corporate Affairs, Investor Relations & Government Relations	440,000	320,000	73%	-	-

(1) STI as a percentage of maximum STI potential has been pro-rated for executives appointed during the period.

(2) FY15 STI award is a contractual obligation for the first year of employment.

4.5. LONG TERM INCENTIVE

VESTING OF LTI IN FINANCIAL YEAR 2016

A description of the LTI Plan and PARs including grants, vesting arrangements and performance testing conditions is summarised in Table 2 on page 48. PARs that were granted under the LTI Plan in prior years vested during the current financial year, in line with the relevant Plan Rules. Details are set out in the table below.

The 2012 LTI grant had only one performance hurdle of relative TSR. At the date of performance testing and at the vesting date, qualifying KMP were not subject to performance review due to any adverse risk behaviours. The statutory tables in Section 7 set out the LTI awards that vested to qualifying KMP during the period

LTI OUTCOMES FINANCIAL YEAR 2015 - FINANCIAL YEAR 2016

Grant Date	Performance Period	Vesting Hurdle	Performance Outcome	Vesting % of awards
18/12/12	3 years	TSR ranking of at least 50th percentile.	BOQ TSR achieved ranking above the 75th percentile triggering maximum vesting.	100%

LTI GRANTS FINANCIAL YEAR 2016

In accordance with remuneration policy and practice the following grants are proposed for the current year. The table below summarises LTI grants, dates and performance period. Note that the intended MD grant is subject to shareholder approval at the AGM. The number of PARs granted is determined by applying a five day volume weighted average price ('VWAP') to determine the face value of the PARs at grant date. The VWAP period commences on the day following announcement of the full year results.

Grant Date	Performance Period	Tranche %	Hurdle
18/10/16	3 years	TSR 80%	BOQ relative TSR ranking at or above 50th percentile triggers 50% vesting of the award tranche up to BOQ relative TSR ranking at or above the 75th percentile triggering 100% vesting of the award tranche.
	3 years	EPS 20%	BOQ relative EPS ranking at or above the 60th percentile triggers 50% vesting of the award tranche up to BOQ relative EPS ranking at or above the 90th percentile triggering 100% vesting of the award tranche.

SECTION 5. EXECUTIVE CONTRACTS

The remuneration and terms of Group Executives are formalised in their employment agreements. Each of these employment agreements provide for the payment of fixed and performance-based remuneration, superannuation and other benefits such as statutory leave entitlements.

Table 8 - Group Executives' Notice Periods

KMP	Position Title	Term of Agreement	Fixed Annual Remuneration $	Notice Period by Executive	Notice Period by the Consolidated Entity	Termination Payment
Jon Sutton	Managing Director and Chief Executive Officer	Open	1,300,000	9 months	9 months	9 months base pay (including notice period).
Matthew Baxby	Group Executive Retail Banking	Open	600,000	3 months	3 months	9 months base pay (including notice period).
Peter Deans	Chief Risk Officer	Open	675,000	3 months	3 months	6 months base pay (including notice period).
Belinda Jefferys	Group Executive People and Culture	Open	525,000	3 months	3 months	9 months base pay (including notice period).
Vimpi Juneja	Group Executive Product and Strategy	Open	470,000	3 months	3 months	9 months base pay (including notice period).
Anthony Rose	Chief Financial Officer	Open	650,000	3 months	3 months	9 months base pay (including notice period).
Michelle Thomsen	General Counsel and Company Secretary	Open	395,000	3 months	3 months	9 months base pay (including notice period).
Donna-Maree Vinci	Group Executive Chief Operations, Digital & Information Officer	Open	570,000	3 months	3 months	9 months base pay (including notice period).
Brendan White	Group Executive BOQ Business	Open	640,000	3 months	3 months	9 months base pay (including notice period).
Former KMP:						
Karyn Munsie	Group Executive Corporate Affairs, Investor Relations & Government Relations	Open	440,000	3 months	3 months	9 months base pay (including notice period).

SECTION 6. NON-EXECUTIVE DIRECTOR REMUNERATION

REMUNERATION FRAMEWORK

Non-Executive Directors' ('NEDs') fees are set to attract and retain individuals of appropriate calibre to the BOQ Board and Committees. Fees are reviewed annually by the HRRC having regard to advice provided by independent remuneration consultants.

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

In order to maintain independence and impartiality, Non-Executive Directors do not receive any performance-related remuneration.

FEE POOL

NED fees are determined within an aggregate fee pool limit. The pool currently stands at $2,600,000 (inclusive of superannuation) and was approved by shareholders on 27 November 2013. An increase in the fee pool is proposed and will be subject to shareholder approval at the 2016 AGM. This increase is proposed principally to allow the Board flexibility in dealing with changes to its size and composition, ensuring the best mix of experience and skills whilst providing competitively based reward. During the course of the 2016 year, two Directors resigned from the Board and two were appointed to the Board, bringing the Board membership to nine.

Fees paid to directors were last increased during the 2014 financial year (the first increase since 2010), in line with recommendations made by an independent remuneration specialist. These fees for the 2016 financial year are set out in the table below. The Board engaged Egan & Associates to provide a view of the current fee levels and based on this advice, will seek shareholder approval at the AGM for a 5% increase to Board and Committee fees for the 2017 year

DIRECTORS' ANNUAL FEES

The current NEDs' fees comprise:

Table 9 - Directors' annual fees

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

(1) Directors receive one fee for serving on Bank and subsidiary entity Committees. A separate fee is received for serving on the St Andrews Board.
(2) The Chairman receives no additional remuneration for involvement with Committees.
(3) David Willis is also a member of the St Andrew's Board of Directors.
(4) Per meeting.

NED REMUNERATION FRAMEWORK

NEDs do not receive shares, award rights or share options.

NEDs are not provided with retirement benefits apart from statutory superannuation.

SECTION 7. STATUTORY TABLES

7.1 STATUTORY DISCLOSURES

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

TABLE 10 - DIRECTOR'S REMUNERATION

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

		Short-Term					Long-Term					
								Share Based Payments				
		Salary and fees $	STI at risk $	Non-monetray benefits [2] $	Other short term benefits $	Total short term benefits $	Post-employment [3] $	Other long term [4] $	Rights[5] $	Shares and units [6] $	Total $	Proportion of remuneration performance related %	Value of options and rights as pro-portion of remuneration %
Executive Director [1]													
Jon Sutton - Managing Director & Chief Executive Officer	**2016**	**1,336,068**	**500,000**	**19,382**	**49,808**	**1,905,258**	**19,281**	**16,839**	**622,360**	**525,000**	**3,088,738**	**53%**	**20%**
	2015	1,157,897	600,000	-	49,808	1,807,705	18,792	11,735	466,094	477,917	2,782,243	51%	17%
Non-Executive Directors - Current [1]													
Roger Davis	**2016**	**400,000**	**-**	**19,382**	**-**	**400,000**	**19,334**	**-**	**-**	**-**	**419,334**	**-**	**-**
	2015	400,000	-	-	-	400,000	18,871	-	-	-	418,871	-	-
Bruce Carter	**2016**	**217,500**	**-**	**-**	**-**	**217,500**	**20,098**	**-**	**-**	**-**	**237,598**	**-**	**-**
	2015	208,125	-	-	-	208,125	19,772	-	-	-	227,897	-	-
Richard Haire	**2016**	**235,000**	**-**	**-**	**-**	**235,000**	**19,308**	**-**	**-**	**-**	**254,308**	**-**	**-**
	2015	235,000	-	-	-	235,000	18,871	-	-	-	253,871	-	-
John Lorimer	**2016**	**105,685**	**-**	**-**	**-**	**105,685**	**9,783**	**-**	**-**	**-**	**115,468**	**-**	**-**
Karen Penrose	**2016**	**125,386**	**-**	**-**	**-**	**125,386**	**12,268**	**-**	**-**	**-**	**137,654**	**-**	**-**
Margaret Seale	**2016**	**185,000**	**-**	**-**	**-**	**185,000**	**17,575**	**-**	**-**	**-**	**202,575**	**-**	**-**
	2015	185,000	-	-	-	185,000	17,575	-	-	-	202,575	-	-
Michelle Tredenick	**2016**	**235,000**	**-**	**-**	**-**	**235,000**	**21,119**	**-**	**-**	**-**	**256,119**	**-**	**-**
	2015	230,833	-	-	-	230,833	21,929	-	-	-	252,762	-	-
David Willis	**2016**	**262,500**	**-**	**-**	**-**	**262,500**	**19,308**	**-**	**-**	**-**	**281,808**	**-**	**-**
	2015	260,000	-	-	-	260,000	18,871	-	-	-	278,871	-	-
Non-Executive Directors - Former [1]													
Neil Berkett	**2016**	**138,750**	**-**	**-**	**-**	**138,750**	**10,688**	**-**	**-**	**-**	**149,438**	**-**	**-**
	2015	178,333	-	-	-	178,333	14,250	-	-	-	192,583	-	-
Carmel Gray	**2016**	**47,500**	**-**	**-**	**-**	**47,500**	**4,827**	**-**	**-**	**-**	**52,327**	**-**	**-**
	2015	194,167	-	-	-	194,167	18,871	-	-	-	213,038	-	-

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

TABLE 11 - GROUP EXECUTIVE REMUNERATION

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

		Short-Term					Long-Term						
									Share Based Payments				
		Salary and fees $	STI at risk (1) $	Non-monetary benefits (2) $	Other short term benefits $	**Total $**	Post-employment (3) $	Other long term (4) $	Rights(5) $	Shares and units (6) $	**Total $**	Proportion of remuneration performance related %	Value of options & rights as proportion of remuneration %
Executives - Current													
Matthew Baxby	**2016**	**586,680**	**235,000**	**-**	**-**	**821,680**	**18,763**	**7,959**	**334,321**	**241,667**	**1,424,390**	**56%**	**23%**
	2015	550,941	235,000	-	-	785,941	18,792	3,840	367,023	253,825	1,429,421	50%	26%
Peter Deans	**2016**	**646,964**	**187,500**	**-**	**49,808**	**884,272**	**18,615**	**8,626**	**388,726**	**217,708**	**1,517,947**	**52%**	**26%**
	2015	664,102	235,000	-	49,808	948,910	18,792	4,548	370,913	237,242	1,580,405	46%	23%
Belinda Jefferys (7)	**2016**	**330,364**	**72,500**	**14,400**	**-**	**417,264**	**11,673**	**529**	**68,159**	**30,208**	**527,833**	**19%**	**13%**
Vimpi Juneja (8)	**2016**	**355,292**	**100,000**	**7,200**	**-**	**462,492**	**15,890**	**1,582**	**56,269**	**41,667**	**577,900**	**34%**	**10%**
Anthony Rose	**2016**	**653,695**	**187,500**	**-**	**-**	**841,195**	**19,281**	**7,909**	**393,031**	**218,958**	**1,480,374**	**53%**	**27%**
	2015	644,707	235,000	-	-	879,707	18,792	4,168	424,638	240,833	1,568,139	47%	27%
Michelle Thomsen	**2016**	**382,173**	**85,000**	**-**		**467,173**	**19,281**	**944**	**60,226**	**88,125**	**635,749**	**37%**	**9%**
	2015	46,147	92,500 (9)	-	-	138,647	2,145	81	-	38,542	179,415	-	-
Donna-Maree Vinci	**2016**	**574,984**	**170,000**	**35,490**		**780,474**	**19,133**	**1,367**	**164,607**	**99,167**	**1,064,748**	**33%**	**15%**
	2015	44,699	-	-	-	44,699	2,670	85	-	-	47,454	-	-
Brendan White	**2016**	**617,148**	**237,500**	**19,382**	**-**	**874,030**	**19,281**	**8,142**	**377,819**	**282,708**	**1,561,980**	**57%**	**24%**
	2015	648,572	305,000	-	-	953,572	18,792	4,421	391,589	316,642	1,685,016	51%	23%
Executives - Former													
Karyn Munsie	**2016**	**75,464**	**-**	**-**	**-**	**75,464**	**3,181**	**240**	**(2,355)**	**94,167**	**170,696**	**9%**	**(1%)**
	2015	438,086	160,000	-	-	598,086	18,792	1,816	191,718	158,853	969,265	50%	20%

(1) STI at risk reflects 50% of the amounts paid or accrued in respect of the year ended 31 August 2016. Refer to Section 3.1 Current Remuneration Framework for a discussion of the Bank's short-term incentive arrangements.
(2) Relates to accomodation and parking expenses.
(3) This includes superannuation.
(4) Comprises long service leave accrued or utilised during the financial year.
(5) The fair value of the rights is calculated at the date of grant using an industry accepted option pricing model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the options and rights allocated to this reporting period.
(6) Represents restricted shares awarded through deferred STI payments.
(7) Appointed 27 January 2016.
(8) Appointed 9 November 2015.
(9) This is a contractual obligation only for the first year of employment.

REMUNERATION REPORT

FOR THE YEAR ENDED 31 AUGUST 2016

7.2 EQUITY HELD BY GROUP EXECUTIVES

The movement during the 2016 financial year in the number of rights over ordinary shares held by each Group Executive as part of their remuneration, are as follows:

TABLE 12 - MOVEMENT IN RIGHTS HELD BY GROUP EXECUTIVES DURING THE FINANCIAL YEAR 2016

					Movements during the 2016 Financial Year					
Group Executive	Type	Grant Date	Share Price at Grant Date $	Balance at 1 Sep 2015	Granted [1]	Exercised	Lapsed	Balance at 31 August 2016 [1] [2]	Vested during the Year [3] (%)	Forfeited during the Year (%)
Current										
Jon Sutton	2012 PARs	26/02/2012	7.48	74,627	-	74,627	-	-	100%	-
	2012 DARs	18/12/2012	7.26	3,505	-	3,505	-	-	50%	-
	2012 PARs	18/12/2012	7.26	56,075	-	56,075	-	-	100%	-
	2013 PARs	16/12/2013	11.43	60,189	-	-	-	60,189	-	-
	2013 DARs	16/12/2013	11.43	7,223	-	2,708	-	4,515	30%	-
	Restricted shares	16/12/2013	11.43	15,799	-	15,799	-	-	50%	-
	2014 PARs	16/12/2014	11.70	58,084	45,637	-	-	103,721	-	-
	Restricted Shares	16/12/2014	11.70	33,191	-	16,595	-	16,596	50%	-
	2015 PARs	15/12/2015	13.02	-	97,774	-	-	97,774	-	-
	Restricted Shares	15/12/2015	13.02	-	46,932	-	-	46,932	-	-
Matthew Baxby	2012 PARs	01/02/2012	7.44	73,964	-	73,964	-	-	100%	-
	2012 DARs	18/12/2012	7.26	2,629	-	2,629	-	-	50%	-
	2012 PARs	18/12/2012	7.26	42,056	-	42,056	-	-	100%	-
	2013 PARs	16/12/2013	11.43	45,142	-	-	-	45,142	-	-
	2013 DARs	16/12/2013	11.43	4,064	-	1,523	-	2,541	30%	-
	Restricted shares	16/12/2013	11.43	10,660	-	10,660	-	-	50%	-
	2014 PARs	16/12/2014	11.70	43,563	-	-	-	43,563	-	-
	Restricted Shares	16/12/2014	11.70	22,819	-	11,409	-	11,410	50%	-
	2015 PARs	15/12/2015	13.02	-	44,194	-	-	44,194	-	-
	Restricted Shares	15/12/2015	13.02	-	18,382	-	-	18,382	-	-
Peter Deans	2012 PARs	10/05/2012	6.89	69,061	-	69,061	-	-	100%	-
	2012 DARs	18/12/2012	7.26	3,087	-	3,087	-	-	50%	-
	2012 PARs	18/12/2012	7.26	48,064	-	48,064	-	-	100%	-
	2013 PARs	16/12/2013	11.43	51,591	-	-	-	51,591	-	-
	2013 DARs	16/12/2013	11.43	4,644	-	1,741	-	2,903	30%	-
	Restricted shares	16/12/2013	11.43	9,069	-	9,069	-	,	50%	-
	2014 PARs	16/12/2014	11.70	53,935	-	-	-	53,935	-	-
	Restricted Shares	16/12/2014	11.70	20,744	-	10,372	-	10,372	50%	-
	2015 PARs	15/12/2015	13.02	-	52,798	-	-	52,798	-	-
	Restricted Shares	15/12/2015	13.02	-	18,382	-	-	18,382	-	-
Belinda Jefferys	2016 PARs	29/02/2016	10.55	-	45,681	-	-	45,681	-	-
	Restricted Shares	29/02/2016	10.55	-	10,963	-	-	10,963	-	-
Vimpi Juneja	2015 DARs	15/12/2015	13.02	-	2,460	-	-	2,460	-	-
	2015 PARs	15/12/2015	13.02	-	23,466	-	-	23,466	-	-

(1) This represents the maximum number of award rights that may vest to each Executive.

(2) Balance amounts as at 31 August 2016 are unvested and not yet exercisable.

(3) Percentage of initial rights granted.

7.2 EQUITY HELD BY GROUP EXECUTIVES (CONTINUED)

TABLE 12 – MOVEMENT IN RIGHTS HELD BY GROUP EXECUTIVES DURING THE FINANCIAL YEAR 2016

					Movements during the 2016 Financial Year					
Group Executive	Type	Grant Date	Share Price at Grant Date $	Balance at 1 Sep 2015	Granted [1]	Exercised	Lapsed	Balance at 31 August 2016 [1] [2]	Vested during the Year [3] (%)	Forfeited during the Year (%)
Current										
Anthony Rose	2012 PARs	29/02/2012	7.34	75,075	-	75,075	-	-	100%	-
	2012 DARs	18/12/2012	7.26	3,129	-	3,129	-	-	50%	-
	2012 PARs	18/12/2012	7.26	50,067	-	50,067	-	-	100%	-
	2013 PARs	16/12/2013	11.43	53,740	-	-	-	53,740		-
	2013 DARs	16/12/2013	11.43	4,837	-	1,813	-	3,024	30%	-
	Restricted shares	16/12/2013	11.43	9,189	-	9,189	-	-	50%	-
	2014 PARs	16/12/2014	11.70	51,860	-	-	-	51,860	-	-
	Restricted shares	16/12/2014	11.70	21,366	-	10,683	-	10,683	50%	-
	2015 PARs	15/12/2015	13.02	-	50,843	-	-	50,843	-	-
	Restricted shares	15/12/2015	13.02	-	18,382	-	-	18,382	-	-
Michelle Thomsen	2015 PARs	15/12/2015	13.02	-	30,897	-	-	30,897	-	-
	Restricted shares	15/12/2015	13.02	-	7,235	-	-	7,235	-	-
Donna-Maree Vinci	2015 PARs	15/12/2015	13.02	-	44,585	-	-	44,585	-	-
	Restricted shares	15/12/2015	13.02	-	12,593	-	-	12,593	-	-
	2016 PARs	29/02/2016	10.55	-	52,076	-	-	52,076	-	
Brendan White	2012 PARs	10/02/2012	7.33	67,476	-	67,476	-	-	100%	-
	2012 DARs	18/12/2012	7.26	3,129	-	3,129	-	-	50%	-
	2012 PARs	18/12/2012	7.26	50,067	-	50,067	-	-	100%	-
	2013 PARs	16/12/2013	11.43	51,591	-	-	-	51,591	-	-
	2013 DARs	16/12/2013	11.43	4,644	-	1,741	-	2,903	30%	-
	Restricted shares	16/12/2013	11.43	12,354	-	12,354	-	-	50%	-
	2014 PARs	16/12/2014	11.70	49,786	-	-	-	49,786	-	-
	Restricted shares	16/12/2014	11.70	28,212	-	14,106	-	14,106	50%	-
	2015 PARs	15/12/2015	13.02	-	50,061	-	-	50,061	-	-
	Restricted shares	15/12/2015	13.02	-	23,857	-	-	23,857	-	-
Former										
Karyn Munsie	2013 PARs	16/12/2013	11.43	37,833	-	-	-	37,833	-	-
	2013 DARs	16/12/2013	11.43	4,540	-	-	4,540	-	-	100%
	Restricted shares	16/12/2013	11.43	5,541	-	5,541	-	-	50%	-
	2014 PARs	16/12/2014	11.70	36,510	-	-	-	36,510	-	-
	Restricted shares	16/12/2014	11.70	13,691	-	6,845	-	6,846	50%	-

(1) This represents the maximum number of award rights that may vest to each Executive.

(2) Balance amounts as at 31 August 2016 are unvested and not yet exercisable.

(3) Percentage of initial rights granted.

7.2 EQUITY HELD BY GROUP EXECUTIVES (CONTINUED)

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

TABLE 13 - VALUE OF RIGHTS HELD BY GROUP EXECUTIVES DURING THE FINANCIAL YEAR 2016

Group Executive	Grant	Grant Date	Fair Value per Right at Grant Date $	Value at Grant Date $ (1)	Exercise Date	Share Price at Exercise Date $ (2)	Value at Exercise Date $ (3)	Expiry / Lapsing Date	Value at Expiry / Lapsing Date $
Current									
Jon Sutton	2012 DARs	26/02/2012	6.60	413,734	01/05/2013	9.93	311,246	05/05/2017	-
					07/05/2014	11.95	374,549	05/05/2017	-
	2012 PARs	26/02/2012	5.18	386,568	27/10/2015	12.98	968,658	16/12/2017	-
	Restricted shares	26/02/2012	6.70	700,000	05/01/2013	7.61	227,166	09/01/2014	-
					07/07/2013	8.88	397,611	09/01/2014	-
					05/01/2014	12.23	365,078	09/01/2014	-
	2012 DARs	18/12/2012	6.20	43,456	05/02/2014	10.84	15.187	18/12/2017	-
					02/01/2015	12.20	25,657	18/12/2017	-
					18/12/2015	13.55	47,493	18/12/2017	-
	2012 PARs	18/12/2012	1.74 (4)	97,571	27/10/2015	13.76	771,592	18/12/2017	-
	2013 PARs	16/12/2013	7.63	459,242	-	-	-	16/12/2018	-
	2013 DARs	16/12/2013	10.38	93,711	02/01/2015	12.20	22,021	16/12/2018	-
					18/12/2015	13.55	36,693	16/12/2018	-
	Restricted shares	16/12/2013	11.43	361,177	16/12/2014	11.70	184,860	16/12/2015	-
					16/12/2015	13.31	210,285	16/12/2015	-
	2014 PARs	16/12/2014	6.13	635,810	-	-	-	16/12/2019	-
	Restricted shares	16/12/2014	11.70	388,335	16/12/2015	13.31	220,879	16/12/2024	-
	2015 PARs	15/12/2015	7.67	749,927	-	-	-	16/12/2020	-
	Restricted shares	15/12/2015	13.02	611,055	-	-	-	16/12/2025	
Matthew Baxby	2012 DARs	01/02/2012	6.60	244,081	30/10/2013	11.96	221,152	05/05/2017	-
					09/07/2014	12.15	224,666	05/05/2017	-
	2012 PARs	01/02/2012	5.18	383,134	27/10/2015	13.76	1,017,745	16/12/2017	-
	2012 DARs	18/12/2012	6.20	32,593	09/07/2014	12.15	12,770	18/12/2017	-
					30/12/2014	12.20	19,239	18/12/2017	-
					31/12/2015	13.94	36,648	18/12/2017	-
	2012 PARs	18/12/2012	1.74 (4)	73,177	27/10/2015	13.76	578,691	18/12/2017	-
	2013 PARs	16/12/2013	7.63	344,433	-	-	-	16/12/2018	-
	2013 DARs	16/12/2013	10.38	52,720	30/12/2014	12.20	12,383	16/12/2018	-
					31/12/2015	13.94	21,231	16/12/2018	-
	Restricted shares	16/12/2013	11.43	243,688	16/12/2014	11.70	124,722	16/12/2015	-
					16/12/2015	13.31	141,885	16/12/2015	-
	2014 PARs	16/12/2014	6.13	267,041	-	-	-	16/12/2019	-
	Restricted shares	16/12/2014	11.70	266,982	16/12/2015	13.31	151,854	16/12/2024	-
	2015 PARs	15/12/2015	7.67	338,968	-	-	-	16/12/2020	-
	Restricted shares	15/12/2015	13.02	239,334	-	-	-	16/12/2025	-

(1) Represents rights held at 1 September 2015 or granted during the 2016 financial year.

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

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

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

7.2 EQUITY HELD BY GROUP EXECUTIVES (CONTINUED)

TABLE 13- VALUE OF RIGHTS HELD BY GROUP EXECUTIVES DURING FY 2016

Group Executive		Grant Date	Fair Value per Right at Grant Date $	Value at Grant Date $ (1)	Exercise Date	Share Price at Exercise Date $ (2)	Value at Exercise Date $ (3)	Expiry / Lapsing Date	Value at Expiry / Lapsing Date $
Current									
Peter Deans	2012 PARs	10/05/2012	3.70	255,526	27/10/2015	13.76	950,279	16/12/2017	-
	2012 DARs	18/12/2012	6.20	38,273	30/10/2014	12.66	15,622	18/12/2017	-
					28/01/2015	12.37	22,909	18/12/2017	-
					18/12/2015	13.55	41,829	18/12/2017	-
	2012 PARs	18/12/2012	1.74 (4)	83,631	27/10/2015	13.76	661,361	16/12/2017	-
	2013 PARs	16/12/2013	7.63	393,639	-	-	-	16/12/2018	-
	2013 DARs	16/12/2013	10.38	60,246	28/01/2015	12.37	14,349	16/12/2018	-
					18/12/2015	13.55	23,591	16/12/2018	-
	Restricted shares	16/12/2013	11.43	207,317	16/12/2014	11.70	106,107	16/12/2015	-
					16/12/2015	13.31	120,708	16/12/2015	-
	2014 PARs	16/12/2014	6.13	330,622	-	-	-	16/12/2019	-
	Restricted shares	16/12/2014	11.70	242,705	16/12/2015	13.31	138,051	16/12/2024	-
	2015 PARs	15/12/2015	7.67	404,961	-	-	-	16/12/2020	-
	Restricted shares	15/12/2015	13.02	239,334	-	-	-	16/12/2025	-
Belinda Jefferys	2016 PARs	29/02/2016	7.67	350,373	-	-	-	16/12/2020	-
	Restricted shares	29/02/2016	13.02	142,738	-	-	-	16/12/2025	-
Vimpi Juneja	2015 DARs	15/12/2015	11.71	28,807	-	-	-	16/12/2020	-
	2015 PARs	15/12/2015	7.67	179,984	-	-	-	16/12/2025	-
Anthony Rose	2012 DARs	29/02/2012	6.60	198,198	30/10/2013	11.96	179,579	05/05/2017	-
					25/07/2014	12.57	188,739	05/05/2017	-
	2012 PARs	29/02/2012	5.18	388,888	27/10/2015	13.76	1,033,032	16/12/2017	-
	2012 DARs	18/12/2012	6.20	38,800	15/01/2014	11.89	14,874	18/12/2017	-
					08/01/2015	11.94	22,423	18/12/2017	-
					26/02/2016	10.55	33,011	18/12/2017	-
	2012 PARs	18/12/2012	1.74 (4)	87,117	28/10/2015	13.51	676,405	16/12/2017	-
	2013 PARs	16/12/2013	7.63	410,036	16/12/2014	11.70	107,523	16/12/2018	-
	2013 DARs	16/12/2013	10.38	62,757	08/01/2015	11.94	14,435	16/12/2018	-
					26/02/2016	10.55	19,127	16/12/2018	-
	Restricted shares	16/12/2013	11.43	210,072	16/12/2015	13.31	122,306	16/12/2015	-
	2014 PARs	16/12/2014	6.13	317,902	-	-	-	16/12/2019	-
	Restricted shares	16/12/2014	11.70	249,982	16/12/2015	13.31	142,191	16/12/2024	-
	2015 PARs	15/12/2015	7.67	389,966	-	-	-	16/12/2020	-
	Restricted shares	15/12/2015	13.02	239,334	-	-	-	16/12/2025	-
Michelle Thomsen	2015 PARs	15/12/2015	7.67	236,980	-	-	-	16/12/2020	-
	Restricted shares	15/12/2015	13.02	94,200	-	-	-	16/12/2025	-

(1) Represents rights held at 1 September 2015 or granted during the 2016 financial year.

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

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

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

7.2 EQUITY HELD BY GROUP EXECUTIVES (CONTINUED)

TABLE 13 – VALUE OF RIGHTS HELD BY GROUP EXECUTIVES DURING FY 2016 (CONTINUED)

Group Executive		Grant Date	Fair Value per Right at Grant Date $	Value at Grant Date $ (1)	Exercise Date	Share Price at Exercise Date $ (2)	Value at Exercise Date $ (3)	Expiry / Lapsing Date	Value at Expiry / Lapsing Date $
Current									
Donna-Maree Vinci	2015 PARs	15/12/2015	7.67	341,967	-	-	-	16/12/2020	-
	Restricted shares	15/12/2015	13.02	163,961	-	-	-	16/12/2025	-
	2016 PARs	29/02/2016	7.67	399,423	-	-	-	16/12/2020	-
Brendan White	2012 DARs	10/02/2012	6.60	498,788	01/05/2013	9.93	375,225	05/05/2017	-
					03/06/2014	12.00	453,444	05/05/2017	-
	2012 PARs	10/02/2012	5.18	349,526	27/10/2015	13.76	928,470	16/12/2017	-
	2012 DARs	18/12/2012	6.20	38,800	23/12/2014	12.08	37,798	18/12/2017	-
					18/12/2015	13.55	42,398	18/12/2017	-
	2012 PARs	18/12/2012	1.74 (4)	87,117	27/10/2015	13.76	688,922	18/12/2017	-
	2013 PARs	16/12/2013	7.63	393,639	-	-	-	16/12/2018	-
	2013 DARs	16/12/2013	10.38	60,246	23/12/2014	12.08	14,013	16/12/2018	-
					18/12/2015	13.55	23,591	16/12/2018	-
	Restricted shares	16/12/2013	11.43	282,412	16/12/2014	11.70	144,542	16/12/2015	-
					16/12/2015	13.31	164,432	16/12/2015	-
	2014 PARs	16/12/2014	6.13	305,188	-	-	-	16/12/2019	-
	Restricted shares	16/12/2014	11.70	330,080	16/12/2015	13.31	187,751	16/12/2024	-
	2015 PARs	15/12/2015	7.67	383,968	-	-	-	16/12/2020	-
	Restricted shares	15/12/2015	13.02	310,618	-	-	-	16/12/2025	-
Former									
Karyn Munsie	2013 PARs	16/12/2013	7.63	288,666	-	-	-	16/12/2018	-
	2013 DARs	16/12/2013	10.38	58,907	22/12/2014	12.16	13,802	29/10/2015	58,929
	Restricted shares	16/12/2013	11.43	126,679	16/12/2014	11.70	64,841	16/12/2015	-
					16/12/2015	13.31	73,751	16/12/2015	-
	2014 PARs	16/12/2014	6.13	223,806	-	-	-	16/12/2019	-
	Restricted shares	16/12/2014	11.70	160,185	16/12/2015	13.31	91,107	16/12/2024	-

(1) Represents rights held at 1 September 2015 or granted during the 2016 financial year.

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

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

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

7.3 EQUITY INSTRUMENTS - HOLDINGS AND MOVEMENTS

Movement in shares

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

Ordinary shares (1)	Held at 1 September 2015	Purchases / (Sales)	Received on Exercise of Award Rights / Restricted Shares	**Held at 31 August 2016**
Executive Director				
Jon Sutton	72,372	(130,702)	169,309	**110,979**
Directors - Current				
Roger Davis	17,627	416	-	**18,043**
Bruce Carter	13,407	2,930	-	**16,337**
Richard Haire	4,347	3,000	-	**7,347**
Karen Penrose (2)	2,500	6,000	**-**	**8,500**
Margaret Seale	9,543	1,500	-	**11,043**
Michelle Tredenick	10,635	-	-	**10,635**
David Willis	1,870	120	-	**1,990**
Directors - Former				
Carmel Gray	12,209	-	-	**-**
Neil Berkett	23,920	-	-	**-**
Executives - Current				
Matthew Baxby	21,194	(116,020)	142,241	**47,415**
Peter Deans	15,408	(136,566)	141,394	**20,236**
Anthony Rose	16,275	(161,289)	149,956	**4,942**
Brendan White	3,330	(148,873)	148,873	**3,330**
Executive - Former				
Karyn Munsie	1,279	-	-	**-**

(1) Directors and Group Executives with nil shareholding balances as at 31 August 2016 have been excluded from the table above.

(2) Opening balance relates to shares acquired prior to appointment as Director of BOQ.

7.4 TRANSACTIONS WITH DIRECTORS AND GROUP EXECUTIVES

Loan transactions

Loans to Directors and Group Executives are provided in the ordinary course of business. Normal terms and conditions are applied to all loans and any discounts are the same as those available to all employees of the Consolidated Entity. There have been no write downs or amounts recorded as provisions during the financial year 2016.

Details of loans outstanding at the reporting date to Group Executives, where the individual's aggregate loan balance exceeded $100,000 at any time in the reporting period, are as follows:

	Balance at 1 September 2015 $	Interest paid and payable during the year $	**Balance at 31 August 2016 $**	Highest balance during the year $
Executives				
Matthew Baxby	1,030,868	36,737	**1,052,990**	1,343,630
Michelle Thomsen	892,500	32,244	**352,876**	1,252,478
Brendan White	604,862	17,351	**251,009**	602,428

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

	Balance at 1 September 2015 $	**Balance at 31 August 2016 $**	Interest paid and payable $	**Number in group at 31 August 2016 #**
Executives	2,535,397	**1,690,202**	87,386	**4**

Other transactions

Transactions between the Consolidated Entity and Directors and Group Executives other than loans and shares during the financial year related to personal banking, investment and deposit transactions. All transactions were on normal commercial terms and conditions and are trivial or domestic in nature.

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

	Balance at 31 August 2016 $	Interest receivable $	Highest balance during the year $
Roger Davis	**200,000**	2,405	209,226
David Willis	**70,000**	842	73,229
Total	**270,000**	**3,247**	**282,455**

Transactions between the Consolidated Entity and other related parties of Directors and Group Executives relate to loans on normal commercial terms and conditions. Details of loans outstanding at the reporting date to other related parties of Directors and Group Executives are as follows:

	Balance at 1 September 2015 $	Interest paid and payable during the year $	**Balance at 31 August 2016 $**	Highest balance during the year $
Richard Haire Related Party	191,000	8,369	**191,000**	191,876
Jon Sutton Related Party	147,448	24,477	**762,899**	811,819
Total	**338,448**	**32,846**	**953,899**	**1,003,695**

Warwick Negus was appointed as a Director of the Bank on 22 September 2016. As at the date of his appointment, other related parties of Mr Negus had outstanding loan balances with the Consolidated Entity of $2,781,500.

INDEMNIFICATION OF OFFICERS

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

INSURANCE OF OFFICERS

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

DIRECTORS' INTERESTS

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

Roger Davis	18,043
Jon Sutton	110,979
Bruce Carter	16,337
Richard Haire	7,347
Karen Penrose	8,500
Margaret Seale	11,043
Michelle Tredenick	10,635
David Willis	1,990

AUDIT AND NON-AUDIT SERVICES

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

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

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

	Consolidated		Bank	
	2016 $000	2015 $000	**2016 $000**	2015 $000
Audit services – KPMG Australia				
- Audit and review of the financial reports	**1,215**	1,118	**860**	441
- Other regulatory and audit services	**277**	364	**160**	167
	1,492	1,482	**1,020**	608
Audit-related services – KPMG Australia				
- Other assurance services	**716**	445	**619**	445
- Regulatory assurance services	**144**	167	**144**	167
	860	612	**763**	612
Non-audit services – KPMG Australia				
- Taxation services	**120**	372	**120**	372
- Other	**70**	37	**70**	37
	190	409	**190**	409

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 AUGUST 2016

LEAD AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration is set out on page 67 and forms part of the Directors' report for the year ended 31 August 2016.

DIRECTOR AND MANAGEMENT CHANGES

On 26 November 2015, Karen Penrose was appointed as a Non-Executive Director. Carmel Gray retired from her position as a Non-Executive Director on 26 November 2015. John Lorimer was appointed as a Non-Executive Director on 29 January 2016. Warwick Negus was appointed as a Non-Executive Director on 22 September 2016.

During the year, Vimpi Juneja (Group Executive Product and Strategy) and Belinda Jefferys (Group Executive People and Culture) were appointed to the Executive Team and Karyn Munsie ceased employment as Group Executive Corporate Affairs, Investor Relations and Government Relations.

MANAGEMENT ATTESTATION

The Board has been provided with a written statement from the Group's Chief Executive Officer and Chief Financial Officer, confirming the accompanying financial statements and notes are in accordance with the *Corporations Act 2001* and they present a true and fair view in all material respects of the Group's financial position and performance as at and for the year ending 31 August 2016.

The Directors' declaration can be found on page 135 of the financial statements.

ENVIRONMENTAL REGULATION

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

SUBSEQUENT EVENTS

Dividends have been determined after 31 August 2016. The financial effect of the above transaction has not been brought to account in the financial statements for the year ended 31 August 2016. Further details with respect to the dividend amount per share, payment date and dividend re-investment plan can be obtained from Section 2.4 Dividends.

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

ROUNDING OF AMOUNTS

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

Signed in accordance with a resolution of the Directors:

Roger Davis

Chairman
5 October 2016

Jon Sutton

Managing Director
5 October 2016

LEAD AUDITOR'S INDEPENDENCE DECLARATION

UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

To: the Directors of Bank of Queensland Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 31 August 2016 there have been:

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

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

KPMG

Martin McGrath

Partner
Sydney
5 October 2016

2016 FINANCIAL STATEMENTS

INCOME STATEMENTS

FOR THE YEAR ENDED 31 AUGUST 2016

		Consolidated		Bank	
	Section	2016 $m	2015 $m	2016 $m	2015 $m
Interest income	2.1	**2,157**	2,227	**2,147**	2,072
Less: Interest expense	2.1	**1,221**	1,327	**1,370**	1,430
Net interest income	2.1	**936**	900	**777**	642
Other operating income	2.1	**155**	155	**295**	252
Net banking operating income		**1,091**	1,055	**1,072**	894
Premiums from insurance contracts		**70**	72	**-**	-
Investment revenue		**3**	4	**-**	-
Less: Claims and policyholder liability expense from insurance contracts		**47**	43	**-**	-
Net insurance operating income	2.1	**26**	33	**-**	-
Total operating income before impairment and operating expenses	2.1	**1,117**	1,088	**1,072**	894
Less: Expenses	2.2	**554**	552	**510**	442
Less: Impairment on loans and advances	3.4	**67**	74	**37**	43
Profit before income tax		**496**	462	**525**	409
Less: Income tax expense	2.3	**158**	144	**146**	117
Profit for the year		**338**	318	**379**	292
Profit attributable to:					
Equity holders of the parent		**338**	318	**379**	292
Basic earnings per share - Ordinary shares (cents)	2.6	**89.8**	86.8		
Diluted earnings per share - Ordinary shares (cents) [1]	2.6	**85.5**	84.7		

(1) The comparative figure has been restated, refer to Section 2.6.

The income statements should be read in conjunction with the accompanying notes.

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 AUGUST 2016

	Consolidated		Bank	
	2016 $m	2015 $m	**2016 $m**	2015 $m
Profit for the year	**338**	318	**379**	292
Other comprehensive income, net of income tax				
Items that may be reclassified subsequently to profit or loss				
Cash flow hedges:				
Net losses taken to equity	**(75)**	(73)	**(76)**	(72)
Net losses transferred to profit and loss	**12**	10	**12**	10
Foreign currency translation differences on foreign operations	**(1)**	-	**-**	-
Change in fair value of assets available for sale	**24**	35	**24**	35
Net gains transferred to profit and loss available for sale	**(10)**	(8)	**(10)**	(8)
Other comprehensive expense, net of income tax	**(50)**	(36)	**(50)**	(35)
Total comprehensive income for the year	**288**	282	**329**	257
Total comprehensive income attributable to:				
Equity holders of the parent	**288**	282	**329**	257

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

BALANCE SHEETS

AS AT 31 AUGUST 2016

		Consolidated		Bank	
	Section	**2016 $m**	2015 $m	**2016 $m**	Restated [1] 2015 $m
Assets					
Cash and liquid assets	3.1	**1,228**	1,103	**703**	553
Due from other financial institutions - Term deposits		**68**	91	**10**	19
Financial assets available-for-sale	3.3	**3,739**	2,827	**3,930**	2,996
Financial assets held for trading	3.3	**1,591**	1,940	**1,591**	1,940
Derivative financial assets	3.8	**180**	225	**180**	162
Loans and advances at amortised cost	3.4	**42,896**	40,703	**38,881**	36,834
Other assets		**127**	113	**229**	240
Shares in controlled entities	6.5	**-**	-	**872**	862
Property, plant and equipment		**60**	61	**51**	52
Deferred tax assets	2.3	**80**	89	**81**	74
Intangible assets	4.1	**869**	848	**802**	780
Investments in joint arrangements	6.7	**15**	18	**-**	-
Amounts due from controlled entities		**-**	-	**24**	-
Total assets		**50,853**	48,018	**47,354**	44,512
Liabilities					
Due to other financial institutions - Accounts payable at call		**209**	259	**209**	259
Deposits	3.2	**36,720**	34,732	**37,523**	35,378
Derivative financial liabilities	3.8	**498**	297	**490**	283
Accounts payable and other liabilities		**355**	390	**311**	345
Current tax liabilities		**14**	55	**14**	55
Provisions	4.2	**47**	62	**35**	50
Insurance policy liabilities	5.1	**25**	41	**-**	-
Borrowings including subordinated notes	3.5	**9,398**	8,713	**5,281**	3,900
Amounts due to controlled entities		**-**	-	**-**	911
Total liabilities		**47,266**	44,549	**43,863**	41,181
Net assets		**3,587**	3,469	**3,491**	3,331
Equity					
Issued capital		**3,243**	3,122	**3,250**	3,128
Reserves		**33**	90	**18**	75
Retained profits		**311**	257	**223**	128
Total Equity		**3,587**	3,469	**3,491**	3,331

(1) The comparative figures for the Bank have been restated, refer to Section 6.11.

The balance sheets should be read in conjunction with the accompanying notes.

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 AUGUST 2016

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

(1) On 26 October 2015, 1,130,000 ordinary shares were issued at $13.79 and on 9 February 2016, 374,000 ordinary shares were issued at $12.63 to the trustee of the Bank of Queensland Limited Employee Share Plans Trust to satisfy the exercise of award rights and issue of shares under the Award Rights Plan and issue of shares under the BOQ Restricted Share Plan and BOQ Employee Share Plan.

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

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

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 AUGUST 2016

Consolidated	Ordinary shares $m	Employee benefits reserve $m	Equity reserve for credit losses $m	Cashflow hedge reserve $m	Translation reserve $m	Available-for-sale reserve $m	Retained profits $m	Total equity $m
Year ended 31 August 2015								
Balance at beginning of the year	3,021	33	70	(27)	1	37	206	3,341
Total comprehensive income for the year								
Profit	-	-	-	-	-	-	318	318
Other comprehensive income, net of income tax								
Cash flow hedges:								
Net losses taken to equity	-	-	-	(73)	-	-	-	(73)
Net gains / (losses) transferred to profit and loss	-	-	-	10	-	-	-	10
Change in fair value of assets available-for-sale	-	-	-	-	-	35	-	35
Net gains transferred to profit and loss available for sale	-	-	-	-	-	(8)	-	(8)
Transfers to equity reserve for credit losses	-	-	11	-	-	-	(11)	-
Total other comprehensive income / (expense)	-	-	11	(63)	-	27	(11)	(36)
Total comprehensive income / (expense) for the year	-	-	11	(63)	-	27	307	282
Transactions with owners, recorded directly in equity								
Contributions by and distributions to owners								
Issues of ordinary shares (1)	11	-	-	-	-	-	-	11
Dividend reinvestment plan	93	-	-	-	-	-	-	93
Dividends to shareholders	-	-	-	-	-	-	(256)	(256)
Equity settled transactions	-	1	-	-	-	-	-	1
Treasury shares (2)	(3)	-	-	-	-	-	-	(3)
Total contributions by and distributions to owners	101	1	-	-	-	-	(256)	(154)
Balance at the end of the year	3,122	34	81	(90)	1	64	257	3,469

(1) On 24 October 2014, 900,000 ordinary shares were issued at $12.29 to the trustee of the Bank of Queensland Limited Employee Share Plans Trust to satisfy the exercise of award rights and issue of shares under the Award Rights Plan and issue of shares under the BOQ Restricted Share Plan and BOQ Employee Share Plan.

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

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

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 AUGUST 2016

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

(1) On 26 October 2015, 1,130,000 ordinary shares were issued at $13.79 and on 9 February 2016, 374,000 ordinary shares were issued at $12.63 to the trustee of the Bank of Queensland Limited Employee Share Plans Trust to satisfy the exercise of award rights and issue of shares under the Award Rights Plan and issue of shares under the BOQ Restricted Share Plan and BOQ Employee Share Plan.

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

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 AUGUST 2016

Bank	Ordinary shares	Employee benefits reserve	Equity reserve for credit losses	Cashflow hedge reserve	Available-for-sale reserve	Retained profits [2]	Total equity
Year ended 31 August 2015	$m	$m	$m	$m	$m	$m	$m
Balance at beginning of the year	3,024	33	57	(29)	37	103	3,225
Total comprehensive income for the year							
Profit	-	-	-	-	-	292	292
Other comprehensive income, net of income tax							
Cash flow hedges:							
Net losses taken to equity	-	-	-	(72)	-	-	(72)
Net gains transferred to profit and loss	-	-	-	10	-	-	10
Change in fair value of assets available-for-sale	-	-	-	-	35	-	35
Transfers to equity reserve for credit losses	-	-	11	-	-	(11)	-
Net gains transferred to profit and loss available for sale	-	-	-	-	(8)	-	(8)
Total other comprehensive income / (expense)	-	-	11	(62)	27	(11)	(35)
Total comprehensive income / (expense) for the year	-	-	11	(62)	27	281	257
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Issues of ordinary shares [1]	11	-	-	-	-	-	11
Dividend reinvestment plan	93	-	-	-	-	-	93
Dividends to shareholders	-	-	-	-	-	(256)	(256)
Equity settled transactions	-	1	-	-	-	-	1
Total contributions by and distributions to owners	104	1	-	-	-	(256)	(151)
Balance at the end of the year	3,128	34	68	(91)	64	128	3,331

(1) On 24 October 2014, 900,000 ordinary shares were issued at $12.29 to the trustee of the Bank of Queensland Limited Employee Share Plans Trust to satisfy the exercise of award rights and issue of shares under the Award Rights Plan and issue of shares under the BOQ Restricted Share Plan and BOQ Employee Share Plan.

(2) The comparative figures have been restated, refer to Section 6.11.

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

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 31 AUGUST 2016

		Consolidated		Bank	
	Section	2016 $m	2015 $m	2016 $m	2015 $m
Cash flows from operating activities					
Interest received		2,156	2,228	2,024	1,928
Fees and other income received		130	128	172	203
Dividends received		1	2	1	2
Interest paid		(1,263)	(1,325)	(1,403)	(1,425)
Cash paid to suppliers and employees		(502)	(516)	(482)	(416)
Operating income tax paid		(174)	(133)	(172)	(131)
		348	384	140	161
(Increase) / decrease in operating assets:					
Loans and advances at amortised cost		(2,259)	(2,621)	(2,147)	(4,571)
Other financial assets		(395)	1,593	(416)	892
Increase / (decrease) in operating liabilities:					
Deposits		1,925	691	2,088	3,085
Securitisation liabilities	3.5	(692)	(757)	-	-
Net cash outflow from operating activities	3.1	(1,073)	(710)	(335)	(433)
Cash flows from investing activities					
Payments for property, plant and equipment		(16)	(36)	(8)	(26)
Payments for intangible assets		(67)	(59)	(72)	(55)
Cash distribution received from equity accounted investments		3	3	-	-
Capital injection into controlled entities		-	-	(10)	(15)
Proceeds from sale of property, plant and equipment		12	6	-	1
Net cash outflow from investing activities		(68)	(86)	(90)	(95)
Cash flows from financing activities					
Proceeds from issue of ordinary shares		20	11	20	11
Proceeds from borrowings		2,392	1,473	2,392	1,522
Proceeds from foreign exchange instruments		57	30	-	30
Repayment of other financing activities		-	-	(703)	(398)
Proceeds from issue of capital notes		-	148	-	148
Repayments of borrowings	3.5	(1,003)	(623)	(1,003)	(483)
Payments for treasury shares		(20)	(11)	(20)	(11)
Dividends paid		(180)	(163)	(180)	(163)
Dividends received		-	-	69	28
Net cash inflow from financing activities		1,266	865	575	684
Net increase in cash and cash equivalents		125	69	150	156
Cash and liquid assets at beginning of year		1,103	1,034	553	397
Cash and liquid assets at end of year	3.1	1,228	1,103	703	553

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 AUGUST 2016

SECTION 1. BASIS OF PREPARATION

1.1 REPORTING ENTITY

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

The consolidated financial report of the Bank for the financial year ended 31 August 2016 comprises the Bank and its subsidiaries (together referred to as the 'Consolidated Entity') and the Consolidated Entity's interest in equity accounted investments. The Bank is a for profit entity primarily involved in providing retail banking, leasing finance, and insurance products, to its customers.

1.2 BASIS OF ACCOUNTING

(a) Statement of compliance

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and interpretations issued by the Australian Accounting Standards Board ('AASB') and the *Corporations Act 2001*. The consolidated financial statements and notes thereto also comply with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB'). The consolidated financial report was authorised for issue by the Directors on 5 October 2016.

(b) Basis of measurement

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

- derivative financial instruments;
- financial instruments designated at fair value;
- financial instruments classified as available-for-sale; and
- assets and liabilities acquired through business combinations.

(c) Functional and presentation currency

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

(d) Rounding

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

(e) Comparatives

Certain amounts in the comparative information have been restated to conform with current period financial statement presentations. Refer to Sections 2.6, 6.6 and 6.11 for further details.

1.3. USE OF ESTIMATES AND JUDGEMENTS

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

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

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

- Provisions for impairment - Section 3.4;
- Financial instruments - Section 3.7;
- Intangible assets - Section 4.1;
- Provisions - Section 4.2; and
- Contingent liabilities - Section 6.3.

SECTION 2. FINANCIAL PERFORMANCE

2.1 OPERATING INCOME

	Consolidated		Bank	
	2016 $m	2015 $m	**2016 $m**	2015 $m
Interest income				
Loans and advances	**2,002**	2,038	**1,729**	1,634
Securities at fair value	**155**	189	**418**	438
Total interest income	**2,157**	2,227	**2,147**	2,072
Interest expense				
Retail deposits	**662**	729	**656**	678
Wholesale deposits and borrowings	**559**	598	**714**	752
Total interest expense	**1,221**	1,327	**1,370**	1,430
Net interest income	**936**	900	**777**	642
Income from operating activities				
Other customer fees and charges	**98**	111	**122**	101
Share of fee revenue paid to Owner Managed Branches	**(10)**	(12)	**(10)**	(12)
Securitisation income	**-**	-	**50**	78
Net income from financial instruments and derivatives at fair value	**13**	15	**12**	14
Commission	**26**	28	**12**	13
Management fee – controlled entities	**-**	-	**27**	22
Foreign exchange income – customer based	**9**	9	**9**	11
Net profit / (loss) on sale of property, plant and equipment	**11**	1	**(1)**	(5)
Other income	**8**	3	**74**	30
Total income from operating activities	**155**	155	**295**	252
Net insurance operating income	**26**	33	**-**	-
Total operating income	**1,117**	1,088	**1,072**	894

Interest income and expense

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

Other operating income

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

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

2.2 EXPENSES

	Consolidated		Bank	
	2016 $m	2015 $m	**2016 $m**	2015 $m
Operating expenses				
Advertising	**23**	23	**17**	14
Commissions to Owner Managed Branches	**7**	7	**6**	6
Communications and postage	**21**	21	**20**	19
Printing and stationery	**4**	5	**4**	4
Processing costs	**20**	24	**20**	24
Other [(1)]	**24**	42	**21**	37
	99	122	**88**	104
Administrative expenses				
Professional fees	**12**	17	**9**	13
Directors fees	**2**	2	**2**	2
Other	**5**	5	**8**	8
	19	24	**19**	23
IT expenses				
Data processing	**67**	67	**62**	60
Amortisation – computer software (intangible)	**28**	17	**27**	15
Depreciation – IT equipment	**1**	1	**1**	1
	96	85	**90**	76
Occupancy expenses				
Lease rental	**34**	38	**32**	30
Depreciation - plant, furniture, equipment and leasehold improvements	**9**	9	**9**	9
Other	**3**	3	**2**	3
	46	50	**43**	42
Employee expenses				
Salaries, wages and superannuation contributions	**241**	223	**220**	168
Amounts set aside to provision for employee entitlements	**3**	3	**2**	3
Payroll tax	**14**	13	**13**	10
Equity settled transactions	**12**	10	**10**	8
Other	**8**	8	**9**	6
	278	257	**254**	195
Other				
Amortisation – acquired intangibles	**16**	14	**16**	2
Total expenses	**554**	552	**510**	442

(1) The prior year balance includes the impairment expense for the pilot Customer Relationship Management System.

2.3 INCOME TAX EXPENSE AND DEFERRED TAX

Income tax expense

The major components of income tax expense for the years ended 31 August 2016 and 2015 along with a reconciliation between pre-tax profit and tax expense are detailed below:

	Consolidated		Bank	
	2016 $m	2015 $m	**2016 $m**	2015 $m
Current tax expense				
Current year	**138**	130	**127**	111
Adjustments for prior years	**(4)**	(17)	**(2)**	(14)
	134	113	**125**	97
Deferred tax expense				
Origination and reversal of temporary differences	**24**	31	**21**	20
	24	31	**21**	20
Total income tax expense	**158**	144	**146**	117
Attributable to:				
Continuing operations	**158**	144	**146**	117
Deferred tax recognised in equity				
Cash flow hedge reserve	**(23)**	(17)	**(23)**	(17)
Other	**6**	12	**6**	12
	(17)	(5)	**(17)**	(5)
Numerical reconciliations between tax expense and pre-tax profit				
Profit before tax – continuing operations	**496**	462	**525**	409
Profit before tax	**496**	462	**525**	409
Income tax using the domestic corporate tax rate of 30% (2015: 30%)	**149**	139	**158**	123
Increase in income tax expense due to:				
Non-deductible expenses	**10**	9	**9**	6
Decrease in income tax expense due to:				
Other (1)	**(1)**	(3)	**(21)**	(11)
	158	145	**146**	118
Over provided in prior years	**-**	(1)	**-**	(1)
Income tax expense on pre-tax net profit	**158**	144	**146**	117

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

2.3 INCOME TAX EXPENSE AND DEFERRED TAX (CONTINUED)

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
Consolidated	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m
Accruals	4	6	-	-	4	6
Capitalised expenditure	-	-	(7)	(6)	(7)	(6)
Provision for impairment	77	82	-	-	77	82
Other provisions	19	23	-	-	19	23
Equity reserves	17	-	-	-	17	-
Other	3	6	(33)	(22)	(30)	(16)
Total tax assets / (liabilities)	120	117	(40)	(28)	80	89
Bank						
Accruals	1	3	-	-	1	3
Capitalised expenditure	-	-	(4)	(3)	(4)	(3)
Provision for impairment	62	66	-	-	62	66
Other provisions	18	22	-	-	18	22
Equity reserves	17	-	-	-	17	-
Other	3	5	(16)	(19)	(13)	(14)
Total tax assets / (liabilities)	101	96	(20)	(22)	81	74

Unrecognised deferred tax assets

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

	2016 $m	2015 $m
Gross income tax losses [(1)]	29	30
Gross capital gains tax losses	92	92

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

2.3 INCOME TAX EXPENSE AND DEFERRED TAX (CONTINUED)

Accounting for income tax

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

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

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

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

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

Tax Consolidation

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

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

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

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

Nature of tax funding and tax sharing arrangements

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

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

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

2.4 DIVIDENDS

	Bank 2016 Cents per share	2016 $m	2015 Cents per share	2015 $m
Ordinary shares				
Final 2015 dividend paid 24 November 2015 (2014: 27 November 2014)	**38**	**141**	34	124
Interim 2016 dividend paid 19 May 2016 (2015: 12 May 2015)	**38**	**143**	36	132
		284		256
Convertible preference shares				
Final CPS dividend paid on 15 October 2015 (2014: 15 October 2014)	**258**	**8**	275	8
Half-yearly CPS dividend paid on 15 April 2016 (2015: 15 April 2015)	**257**	**8**	273	8
		16		16

All dividends paid on ordinary and preference shares have been fully franked at 100%.

Since the end of the financial year, the Directors have determined the following dividends:

	Cents per share	$m
Final CPS dividend	268	8
Final – ordinary shares	38	145

The final dividend payment will be fully franked and paid on 22 November 2016 to owners of ordinary shares at the close of business on 28 October 2016 (record date). Shares will be quoted ex-dividend on 27 October 2016.

	Bank 2016 $m	2015 $m
30% franking credits available to shareholders of the Bank for subsequent financial years	**118**	121

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends.

All the franked dividends paid or declared by the Bank since the end of the previous financial year were franked at the tax rate of 30%.

The balance of the Bank of Queensland Limited dividend franking account at the date of this report, after adjusting for franking credits and debits that will arise on payment of income tax and dividends relating to the year ended 31 August 2016, is $118 million credit calculated at the 30% tax rate (2015: $121 million credit). It is anticipated, based on these franking account balances that the Bank will continue to pay fully franked dividends in the foreseeable future.

Dividend reinvestment plan

As resolved by the Board, the Bank of Queensland Dividend Reinvestment Plan ('DRP') provides shareholders with the opportunity to reinvest all or part of their entitlement to a dividend into new shares at a discount of 1.5%.

The discount rate applied is 1.5% of 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 Australian Securities Exchange 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.

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

The last date for election to participate in the DRP for the 2016 final dividend is 31 October 2016.

2.5 OPERATING SEGMENTS

Segment information

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

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

Segment results that are reported to the Managing Director and CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. The Bank has determined and presented the following two segments based on information provided to the chief operating decision maker.

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

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

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

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

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2016 or 2015.

The Consolidated Entity's business segments operate principally in Australia.

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

	Banking		Insurance		Total	
	2016 $m	2015 $m	**2016 $m**	2015 $m	**2016 $m**	2015 $m
Income						
External	**1,091**	1,055	**26**	33	**1,117**	1,088
Inter-segment	**2**	4	**(1)**	(2)	**1**	2
Total operating income	**1,093**	1,059	**25**	31	**1,118**	1,090
Segment profit before income tax	**479**	439	**17**	23	**496**	462
Income tax expense	**153**	137	**5**	7	**158**	144
Segment profit after income tax	**326**	302	**12**	16	**338**	318
Results						
Interest income	**2,157**	2,227	**-**	-	**2,157**	2,227
Interest expense	**1,221**	1,327	**-**	-	**1,221**	1,327
Depreciation and amortisation	**38**	27	**-**	-	**38**	27
Impairment losses on loans and advances	**67**	74	**-**	-	**67**	74
Assets	**50,807**	47,954	**92**	112	**50,899**	48,066
Liabilities	**47,262**	44,522	**47**	70	**47,309**	44,592

2.5 OPERATING SEGMENTS (CONTINUED)

The following table sets out the reconciliation between the operating segments and the consolidated entity:

	2016 $m	2015 $m	2016 $m	2015 $m
	Revenue		Profit before tax	
Segment total	**1,118**	1,090	**496**	462
Elimination of inter-segment revenue	**(1)**	(2)	**-**	-
Consolidated total	**1,117**	1,088	**496**	462
	Assets		Liabilities	
Segment total	**50,899**	48,066	**47,309**	44,592
Elimination of inter-segment bank accounts	**(46)**	(47)	**(46)**	(47)
Adjustment for other consolidation eliminations	**-**	(1)	**3**	4
Consolidated total	**50,853**	48,018	**47,266**	44,549

2.6 EARNINGS PER SHARE

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

	Consolidated 2016 $m	Consolidated 2015 $m
Earnings reconciliation		
Net profit	**338**	318
Basic earnings	**338**	318
Effect of distributions on CPS	**16**	16
Effect of capital notes	**7**	2
Diluted earnings	**361**	336

Weighted average number of shares used as the denominator	2016 Number	2015 (1) Number
Number for basic earnings per share		
Ordinary shares	**376,043,290**	366,717,875
Number for diluted earnings per share		
Ordinary shares	**376,043,290**	366,717,875
Effect of award rights	**1,270,402**	3,293,389
Effect of CPS	**29,553,372**	23,978,515
Effect of capital notes	**14,661,251**	3,269,940
	421,528,315	397,259,719

Basic earnings per share - Ordinary shares (cents)	**89.8**	86.8
Diluted earnings per share - Ordinary shares (cents)	**85.5**	84.7

(1) The comparative weighted average number of shares used as the denominator in the calculation of diluted EPS for the year ended 31 August 2015 has been restated. The reported line item 'Effect of capital notes' has been adjusted to pro rata for the period which Wholesale Capital Notes were on issue during the comparative period (26 May 2015 to the balance sheet date). 'Effect of capital notes' was previously reported as 12,304,413. The restatement increases the comparative diluted EPS from 82.8 cents to 84.7 cents.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 AUGUST 2016

SECTION 3. CAPITAL AND BALANCE SHEET MANAGEMENT

3.1 CASH AND LIQUID ASSETS

Components of cash and liquid assets

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

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

	Consolidated		Bank	
	2016 $m	2015 $m	**2016 $m**	2015 $m
Notes, coins and cash at bank	**957**	917	**432**	367
Remittances in transit	**271**	186	**271**	186
Total	**1,228**	1,103	**703**	553

Notes to the statements of cash flows

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

Profit from ordinary activities after income tax	**338**	318	**379**	292
Add / (less) items classified as investing / financing activities or non-cash items				
Depreciation	**10**	20	**10**	10
Amortisation	**16**	14	**16**	2
Dividends received from subsidiaries	**-**	-	**(70)**	(28)
Software amortisation and impairment	**29**	27	**28**	25
Equity settled transactions	**12**	10	**10**	8
Investments equity accounted	**3**	-	**-**	-
(Profit) / loss on sale of property, plant and equipment	**(5)**	(1)	**2**	5
(Increase) / decrease in due from other financial institutions	**23**	2	**9**	(4)
(Increase) / decrease in financial assets	**(418)**	1,592	**(440)**	907
Increase in loans and advances at amortised cost	**(2,177)**	(2,549)	**(2,038)**	(4,784)
Increase in derivatives	**(46)**	(20)	**(40)**	(14)
Decrease in provision for impairment	**(16)**	(18)	**(14)**	(11)
(Increase) / decrease in deferred tax asset	**28**	(10)	**14**	(1)
(Increase) / decrease in other assets	**(12)**	17	**6**	4
(Increase) / decrease in amounts due from controlled entities	**-**	-	**(222)**	112
Increase in due to other financial institutions	**(50)**	52	**(50)**	52
Increase in deposits	**1,989**	640	**2,146**	3,033
Increase / (decrease) in accounts payable and other liabilities	**(32)**	(2)	**(21)**	15
Increase / (decrease) in current tax liabilities	**(42)**	(17)	**(41)**	(16)
Decrease in provisions	**(15)**	(42)	**(15)**	(38)
Increase / (decrease) in deferred tax liabilities	**(2)**	42	**(4)**	(2)
Decrease in insurance policy liabilities	**(16)**	(22)	**-**	-
Decrease in borrowings including subordinated notes	**(690)**	(763)	**-**	-
Net cash outflow from operating activities	**(1,073)**	(710)	**(335)**	(433)

3.2 DEPOSITS

	Consolidated		Bank	
	2016 $m	2015 $m	**2016 $m**	2015 $m
Deposits at call	**12,797**	11,814	**13,557**	12,415
Term deposits	**18,589**	17,838	**18,632**	17,883
Certificates of deposit	**5,334**	5,080	**5,334**	5,080
Total deposits	**36,720**	34,732	**37,523**	35,378
Concentration of deposits:				
Customer deposits	**29,122**	26,914	**29,881**	27,514
Wholesale deposits	**7,598**	7,818	**7,642**	7,864
Total deposits	**36,720**	34,732	**37,523**	35,378

3.3 FINANCIAL ASSETS

	Consolidated		Bank	
	2016 $m	2015 $m	**2016 $m**	2015 $m
Available-for-sale				
Debt instruments	**3,730**	2,818	**3,921**	2,987
Unlisted equity instruments	**9**	9	**9**	9
Total available-for-sale	**3,739**	2,827	**3,930**	2,996
Held for trading				
Floating rate notes and bonds	**688**	595	**688**	595
Negotiable certificates of deposit	**903**	1,345	**903**	1,345
Total held for trading	**1,591**	1,940	**1,591**	1,940

3.4 LOANS AND ADVANCES AT AMORTISED COST

Loans and advances at amortised cost

Loans and advances are originated by the Bank and are recognised upon cash being advanced to the borrower. Loans and advances are initially recognised at fair value plus incremental direct transaction costs and subsequently measured at each reporting date at amortised cost using the effective interest method. Refer to the table below for impairment of loans and advances.

	Consolidated		Bank	
	2016 $m	2015 $m	**2016 $m**	2015 [(1)] $m
Residential property loans – secured by mortgages	**29,888**	28,378	**29,888**	28,378
Personal loans	**233**	260	**233**	260
Overdrafts	**255**	277	**255**	277
Commercial loans	**8,355**	7,786	**8,356**	7,793
Credit cards	**71**	64	**71**	64
Leasing finance	**4,745**	4,626	**323**	323
Gross loans and advances at amortised cost	**43,547**	41,391	**39,126**	37,095
Less:				
Unearned lease finance income	**(395)**	(416)	**(38)**	(41)
Specific provision for impairment	**(116)**	(126)	**(96)**	(106)
Collective provision for impairment	**(140)**	(146)	**(111)**	(114)
Total loans and advances at amortised cost	**42,896**	40,703	**38,881**	36,834

(1) The comparative figures for the Bank have been restated, refer to Section 6.11.

Loans and advances and other assets at amortised cost

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

(i) Specific impairment provisions

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

(ii) Collective impairment provisions

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

3.4 LOANS AND ADVANCES AT AMORTISED COST (CONTINUED)

Provision for impairment

	Consolidated		Bank	
	2016 $m	2015 $m	**2016 $m**	2015 $m
Specific provision:				
Balance at the beginning of the year	**126**	146	**106**	128
Add: Expensed during the year	**73**	72	**43**	38
Less: Bad debts written off net of recoveries	**(79)**	(84)	**(46)**	(52)
Transfers from collective provision	**2**	-	**(1)**	-
Unwind of discount	**(6)**	(8)	**(6)**	(8)
Balance at the end of the year	**116**	126	**96**	106
Collective provision:				
Balance at the beginning of the year	**146**	144	**114**	103
Add: Expensed / (Released) during the year	**(4)**	2	**(4)**	5
Transfer from BOQ Specialist (Aust) Limited (1)	**-**	-	**-**	6
Transfers to specific provision	**(2)**	-	**1**	-
Balance at the end of the year	**140**	146	**111**	114
Total provisions for impairment	**256**	272	**207**	220

(1) On 1 June 2015 BOQ Specialist (Aust) Limited (formerly known as the Professional Finance and Asset Finance & Leasing businesses of Investec Bank (Australia) Limited) surrendered its Authorised Deposit-taking Institutions license following its acquisition on 31 July 2014. Subsequently all loans and advances and provisions for impairment for BOQ Specialist Pty Ltd were transferred to the Bank.

Lease receivables

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

	Consolidated		Bank	
	2016 $m	2015 $m	**2016 $m**	2015 (1) (2) $m
Gross investment in finance lease receivables:				
Less than one year	**1,744**	1,714	**17**	16
Between one and five years	**2,879**	2,814	**256**	254
More than five years	**122**	98	**50**	53
	4,745	4,626	**323**	323
Unearned lease finance income	**(395)**	(416)	**(38)**	(41)
Net investment in finance leases	**4,350**	4,210	**285**	282
The net investment in finance leases comprise:				
Less than one year	**1,575**	1,532	**16**	16
Between one and five years	**2,669**	2,593	**228**	223
More than five years	**106**	85	**41**	43
	4,350	4,210	**285**	282

(1) On 1 June 2015 BOQ Specialist (Aust) Limited (formerly known as the Professional Finance and Asset Finance & Leasing businesses of Investec Bank (Australia) Limited) surrendered its Authorised Deposit-taking Institutions license following its acquisition on 31 July 2014. Subsequently all finance lease receivables for BOQ Specialist Pty Ltd were transferred to the Bank.

(2) The comparative figures for the Bank have been restated, refer to Section 6.11.

3.4 LOANS AND ADVANCES AT AMORTISED COST (CONTINUED)

Transfer of financial assets

The Bank conducts a loan securitisation program whereby mortgage loans are packaged and sold to the REDS Securitisation and Warehouse Trusts ('RMBS Trusts'). The Bank also securitises Hire Purchase, Chattel Mortgages and Finance Leases which are packaged and sold to the REDS EHP Securitisation Trusts ('REDS EHP Trusts') and the Nyala and Impala Securitisation Trusts. Refer to Section 6.10 (a)(ii) for further information.

The following table sets out the transferred financial assets that did not qualify for derecognition and associated liabilities from conducting the securitisation program.

	Consolidated		Bank	
	2016 $m	2015 (1) $m	**2016 $m**	2015 (1) (2) $m
Transferred financial assets				
Loans and advances at amortised cost	**2,859**	3,639	**3,005**	3,740
Lease receivables	**858**	750	**-**	-
	3,717	4,389	**3,005**	3,740
Associated financial liabilities				
Securitisation liabilities - external investors	**4,122**	4,819	**-**	-
Amounts due to controlled entities	**-**	-	**3,350**	4,120
	4,122	4,819	**3,350**	4,120
For those liabilities that have recourse only to transferred assets(3)				
Fair value of transferred assets	**3,746**	4,415	**3,021**	3,755
Fair value of associated liabilities	**(4,122)**	(4,819)	**(3,350)**	(4,120)
Net Position	**(376)**	(404)	**(329)**	(365)

(1) On 1 June 2015 BOQ Specialist (Aust) Limited (formerly known as the Professional Finance and Asset Finance & Leasing businesses of Investec Bank (Australia) Limited) surrendered its Authorised Deposit-taking Institutions license following its acquisition on 31 July 2014. At this time the securitisation trusts and the associated assets and liabilities transferred to being under control of the Bank. These have been included within the transfer of financial assets note for the 2015 financial year.

(2) The comparative figures for the Bank have been restated, refer to Section 6.11.

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

3.5 BORROWINGS INCLUDING SUBORDINATED NOTES

The Consolidated Entity recorded the following movements on borrowings including subordinated notes:

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

	Securitisation liabilities [1] $m	EMTN Program $m	ECP Program $m	Borrowings including subordinated notes $m	Transferable Certificates of Deposit $m	Convertible Preference Shares [2] $m	Capital Notes [3] $m	Total $m
Year ended 31 August 2015								
Balance at beginning of year	5,510	64	319	347	1,830	294	-	8,364
Proceeds from issues	2,284	29	88	-	1,356	-	150	3,907
Repayments	(3,041)	(18)	(355)	(22)	(228)	-	-	(3,664)
Deferred establishment costs	(5)	-	-	-	-	-	(2)	(7)
Amortisation of deferred costs	5	-	-	-	-	1	-	6
Foreign exchange translation	59	6	42	-	-	-	-	107
Balance at end of the year	**4,812**	**81**	**94**	**325**	**2,958**	**295**	**148**	**8,713**

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

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

(3) On 26 May 2015, the Bank issued 15,000 Wholesale Capital Notes ('WCN') at a price of $10,000 per note. WCN are non-cumulative and fully paid and are issued by the Bank on a perpetual, subordinated and unsecured basis. They are not guaranteed or secured. In a winding up of the Bank, if capital notes have not been converted or written-off on account of a non-viability trigger event or capital trigger event, WCN will rank for payment of capital ahead of ordinary shareholders, equally with other securities or instruments ranking equally with WCN, but behind all other securities or instruments ranking ahead of WCN, and behind all senior creditors. The WCN may covert to ordinary shares of the Bank in certain circumstances, which include the occurrence of a non-viability event or a capital trigger event.

3.5 BORROWINGS INCLUDING SUBORDINATED NOTES (CONTINUED)

The Bank recorded the following movements on borrowings including subordinated notes:

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

	EMTN Program $m	ECP Program $m	Borrowings including subordinated notes [(1)] [(4)] $m	Transferable Certificates of Deposit $m	Convertible Preference Shares[(2)] $m	Capital Notes [(3)] $m	Total [(4)] $m
Year ended 31 August 2015							
Balance at beginning of year	64	319	271	1,712	294	-	2,660
Proceeds from issues	29	88	-	1,356	-	150	1,623
Transfers from BOQ Specialist	-	-	53	-	-	-	53
Repayments	(18)	(355)	-	(110)	-	-	(483)
Deferred establishment costs	-	-	-	-	-	(2)	(2)
Amortisation of deferred costs	-	-	-	-	1	-	1
Foreign exchange translation	6	42	-	-	-	-	48
Balance at end of the year	**81**	**94**	**324**	**2,958**	**295**	**148**	**3,900**

(1) Convertible Notes were issued in 2014 in three tranches of $60 million ('Tranche 1'), $45 million ('Tranche 2') and $45 million ('Tranche 3'), and are cumulative, convertible, subordinated notes due June 2020, and pay, subject to a solvency condition, a monthly coupon equal to the 30 day bank bill rate plus 400 basis points. The Convertible Notes are unlisted with the final Tranche being Tranche 1, redeemed during the prior financial year.

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

(3) On 26 May 2015, the Bank issued 15,000 Wholesale Capital Notes ('WCN') at a price of $10,000 per note. WCN are non-cumulative and fully paid and are issued by the Bank on a perpetual, subordinated and unsecured basis. They are not guaranteed or secured. In a winding up of the Bank, if capital notes have not been converted or written-off on account of a non-viability trigger event or capital trigger event, WCN will rank for payment of capital ahead of ordinary shareholders, equally with other securities or instruments ranking equally with WCN, but behind all other securities or instruments ranking ahead of WCN, and behind all senior creditors. The WCN may covert to ordinary shares of the Bank in certain circumstances, which include the occurrence of a non-viability event or a capital trigger event.

(4) The comparative figures for the Bank have been restated, refer to Section 6.11.

3.6 RISK MANAGEMENT

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

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

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

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

Monitoring

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

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

(a) Market risk

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

(i) Interest rate risk management

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

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

	2016 %	2015 %	2016 $m	2015 $m
Exposure at the end of the year	**0.80**	0.68	**7**	6
Average monthly exposure during the year	**0.36**	(0.03)	**3**	-
High month exposure during the year	**1.32**	1.73	**12**	16
Low month exposure during the year	**(1.28)**	(1.17)	**(12)**	(11)

(ii) Foreign exchange risk

It is the Bank’s policy not to carry material foreign exchange rate exposures. At balance date there are no material foreign exchange rate exposures.

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

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

3.6 RISK MANAGEMENT (CONTINUED)

(a) Market risk (continued)

(iii) Traded market risk

Market risks attributable to trading activities are primarily measured using a parametric Value-at-Risk ('VaR') model based on historical data. The Bank estimates VaR as the potential loss in earnings from adverse market movements and is calculated over a 1-day time horizon to a 99% confidence level using 2 years of historical data. VaR takes account of all material market variables that may cause a change in the value of the trading portfolio. Although an important tool for the measurement of market risk, the assumptions underlying the model have some limitations:

- VaR typically understates the losses that may occur beyond the 99% confidence level;
- the reliance on historical data may prove insufficient to predict the severity of possible future outcomes; and
- a 1-day holding period assumes that it is possible to hedge or dispose of positions within that period. For certain illiquid assets or in certain market situations this might not be possible.

As VaR is a statistical measure and only attempts to cover losses to a 99% confidence level, the Bank supplements this analysis with stress testing. Stress testing attempts to adequately assess the risks inherent in its trading activities by applying appropriate scenario analyses, whilst not addressing the likelihood of those outcomes.

As an overlay, the individual market risks of interest rate, foreign exchange, credit and equity sensitivities are monitored and measured against limits delegated by the Asset-Liability Committee ('ALCO') and approved by the Board Risk Committee.

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

Trading VaR	2016 $m	2015 $m
Average	**0.53**	0.71
Maximum	**1.79**	1.61
Minimum	**0.20**	0.23

(b) Credit risk

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

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

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

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

(i) Maximum exposure to credit risk

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

3.6 RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

(i) Maximum exposure to credit risk (continued)

The carrying amount of the Consolidated Entity's and Bank's financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Consolidated		Bank	
	2016 $m	2015 $m	2016 $m	2015 [(2)] $m
Cash and liquid assets	**1,228**	1,103	**703**	553
Due from other financial institutions	**68**	91	**10**	19
Other financial assets (including accrued interest)	**5,389**	4,826	**5,579**	4,993
Derivative financial instruments	**180**	225	**180**	162
Financial assets other than loans and advances	**6,865**	6,245	**6,472**	5,727
Gross loans and advances at amortised cost	**43,547**	41,391	**39,126**	37,095
Total financial assets	**50,412**	47,636	**45,598**	42,822
Customer commitments [(1)]	**1,476**	1,498	**888**	624
Total potential exposure to credit risk	**51,888**	49,134	**46,486**	43,446

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

(2) The comparative figures for the Bank have been restated, refer to Section 6.11.

Distribution of financial assets by credit quality

	Consolidated		Bank	
	2016 $m	2015 $m	2016 $m	2015 [(1)] $m
Neither past due or impaired				
Gross loans and advances at amortised cost	**42,267**	40,056	**37,992**	35,903
Financial assets other than loans and advances	**6,865**	6,245	**6,472**	5,727
Past due but not impaired				
Gross loans and advances at amortised cost	**1,048**	1,098	**935**	987
Impaired				
Gross loans and advances at amortised cost	**232**	237	**199**	205
Total financial assets	**50,412**	47,636	**45,598**	42,822

(1) The comparative figures for the Bank have been restated, refer to Section 6.11.

There is no individual exposure included in impaired assets which exceeds 5% of shareholders' equity (2015: nil).

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

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

	Consolidated		Bank	
	2016 $m	2015 $m	2016 $m	2015 $m
Held against past due but not impaired assets	**1,522**	1,482	**1,442**	1,415
Held against impaired assets	**156**	159	**139**	142

3.6 RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

(ii) Credit quality

The credit quality of financial assets has been determined based on Standard & Poor's credit ratings, APRA risk weightings and the Bank's standard risk grading.

The table below presents an analysis of the credit quality of financial assets:

CONSOLIDATED

	2016 $m				2015 $m			
	Gross loans & advances				Gross loans & advances			
	Retail	Commercial	Total loans & advances	Financial assets other than loans & advances	Retail	Commercial	Total loans & advances	Financial assets other than loans & advances
High Grade	**24,611**	**3,919**	**28,530**	**6,856**	23,736	3,346	27,082	6,236
Satisfactory	**4,987**	**7,998**	**12,985**	**-**	4,461	7,771	12,232	-
Weak	**506**	**1,235**	**1,741**	**9**	404	1,316	1,720	9
Unrated [(1)]	**88**	**203**	**291**	**-**	314	43	357	-
	30,192	**13,355**	**43,547**	**6,865**	28,915	12,476	41,391	6,245

BANK

	2016 $m				2015 $m			
	Gross loans & advances				Gross loans & advances			
	Retail	Commercial	Total loans & advances	Financial assets other than loans & advances	Retail	Commercial	Total loans & advances	Financial assets other than loans & advances
High Grade	**24,611**	**3,050**	**27,661**	**6,272**	23,736	2,634	26,370	5,549
Satisfactory	**4,987**	**5,141**	**10,128**	**122**	4,461	4,911	9,372	108
Weak	**506**	**540**	**1,046**	**78**	404	588	992	70
Unrated [(1)]	**88**	**203**	**291**	**-**	314	43	357	-
	30,192	**8,934**	**39,126**	**6,472**	28,915	8,176	37,091	5,727

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

3.6 RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

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

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

		Consolidated		Bank	
		2016 $m	2015 $m	2016 $m	2015 $m
Less than 30 days	- Retail	**359**	385	**359**	385
	- Commercial	**228**	235	**146**	156
31 to 90 days	- Retail	**163**	148	**163**	148
	- Commercial	**64**	73	**38**	47
More than 90 days	- Retail	**156**	163	**156**	163
	- Commercial	**78**	94	**73**	88
		1,048	1,098	**935**	987

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

Concentration of credit risk exists when a number of counterparties are engaged in similar activities, or operate in the same geographical areas or industry sectors and have similar economic characteristics so that their ability to meet contractual obligations is similarly affected by changes in economic, political or other conditions.

The Bank monitors concentrations of credit risk by geographical location for loans and advances. An analysis of these concentrations of credit risk at the reporting date is shown below:

	Consolidated		Bank	
Geographical concentration of credit risk for loans and advances at amortised cost (before provisions and unearned income):	2016 $m	2015 $m	2016 $m	2015 [(1)] $m
Queensland	**20,992**	20,954	**19,429**	19,524
New South Wales	**9,531**	8,253	**8,331**	7,091
Victoria	**6,950**	6,608	**6,012**	5,683
Northern Territory	**318**	306	**312**	301
Australian Capital Territory	**319**	315	**294**	280
Western Australia	**4,359**	4,040	**4,079**	3,675
South Australia	**613**	481	**481**	355
Tasmania	**203**	192	**188**	186
International (New Zealand)	**262**	242	**-**	-
	43,547	41,391	**39,126**	37,095

(1) The comparative figures for the Bank have been restated, refer to Section 6.11.

3.6 RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk

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

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

Consolidated 2016	Carrying amount $m	At Call $m	3 months or less $m	3 to 12 months $m	1 to 5 years $m	Over 5 years $m	Policyholder $m	Total contractual cash flows $m
Financial liabilities								
Due to other financial institutions	209	209	-	-	-	-	-	209
Deposits	36,720	14,926	11,463	9,847	842	48	-	37,126
Derivative financial instruments (1)	19	-	6	4	4	1	-	15
Accounts payable and other liabilities	355	-	355	-	-	-	-	355
Securitisation liabilities (2)	4,117	-	336	1,283	2,223	558	-	4,400
Borrowings including subordinated notes	5,281	-	856	955	3,119	796	-	5,726
Insurance policy liabilities	25	-	-	-	-	-	25	25
Total financial liabilities	46,726	15,135	13,016	12,089	6,188	1,403	25	47,856
Derivative financial instruments (hedging relationship)								
Contractual amounts payable	-	-	1,082	436	771	229	-	2,518
Contractual amounts receivable	-	-	(1,100)	(405)	(593)	(105)	-	(2,203)
	334	-	(18)	31	178	124	-	315
Off balance sheet positions								
Guarantees, indemnities and letters of credit	-	293	-	-	-	-	-	293
Customer funding commitments	-	1,183	-	-	-	-	-	1,183
	-	1,476	-	-	-	-	-	1,476

Consolidated 2015	Carrying amount $m	At Call $m	3 months or less $m	3 to 12 months $m	1 to 5 years $m	Over 5 years $m	Policyholder $m	Total contractual cash flows $m
Financial liabilities								
Due to other financial institutions	259	259	-	-	-	-	-	259
Deposits	34,732	11,984	12,406	9,794	990	12	-	35,186
Derivative financial instruments (1)	21	-	9	7	10	2	-	28
Accounts payable and other liabilities	390	-	390	-	-	-	-	390
Securitisation liabilities (2)	4,812	-	311	1,343	2,667	931	-	5,252
Borrowings including subordinated notes	3,901	-	40	1,083	3,112	-	-	4,235
Insurance policy liabilities	41	-	-	-	-	-	41	41
Total financial liabilities	44,156	12,243	13,156	12,227	6,779	945	41	45,391

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

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

3.6 RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (continued)

Consolidated 2015	Carrying amount $m	At Call $m	3 months or less $m	3 to 12 months $m	1 to 5 years $m	Over 5 years $m	Policyholder $m	Total contractual cash flows $m
Derivative financial instruments (hedging relationship)								
Contractual amounts payable	-	-	447	559	757	339	-	2,102
Contractual amounts receivable	-	-	(438)	(534)	(666)	(313)	-	(1,951)
	86	-	9	25	91	26	-	151
Off balance sheet positions								
Guarantees, indemnities and letters of credit	-	287	-	-	-	-	-	287
Customer funding commitments	-	1,211	-	-	-	-	-	1,211
	-	1,498	-	-	-	-	-	1,498

Bank 2016	Carrying amount $m	At Call $m	3 months or less $m	3 to 12 months $m	1 to 5 years $m	Over 5 years $m	Total contractual cash flows $m
Financial liabilities							
Due to other financial institutions	209	209	-	-	-	-	209
Deposits	37,523	15,729	11,463	9,847	842	48	37,929
Derivative financial instruments (1)	19	-	6	4	4	1	15
Accounts payable and other liabilities	311	-	311	-	-	-	311
Borrowings including subordinated notes	5,281	-	856	955	3,119	796	5,726
Total financial liabilities	43,343	15,938	12,636	10,806	3,965	845	44,190
Derivative financial instruments (hedging relationship)							
Contractual amounts payable	-	-	1,077	371	769	229	2,446
Contractual amounts receivable	-	-	(1,095)	(349)	(592)	(105)	(2,141)
	325	-	(18)	22	177	124	305
Off balance sheet positions							
Guarantees, indemnities and letters of credit	-	293	-	-	-	-	293
Customer funding commitments	-	595	-	-	-	-	595
	-	888	-	-	-	-	888

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

3.6 RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (continued)

Bank 2015	Carrying amount (2) $m	At Call (2) $m	3 months or less $m	3 to 12 months $m	1 to 5 years (2) $m	Over 5 years $m	Total contractual cash flows (2) $m
Financial liabilities							
Due to other financial institutions	259	259	-	-	-	-	259
Deposits	35,378	12,626	12,406	9,794	990	12	35,828
Derivative financial instruments (1)	21	-	9	7	10	2	28
Accounts payable and other liabilities	345	-	345	-	-	-	345
Borrowings including subordinated notes	3,900	-	40	1,083	3,116	-	4,239
Amounts due to controlled entities	911	911	-	-	-	-	911
Total financial liabilities	40,814	13,796	12,800	10,884	4,116	14	41,610
Derivative financial instruments (hedging relationship)							
Contractual amounts payable	-	-	437	447	660	162	1,706
Contractual amounts receivable	-	-	(431)	(433)	(577)	(75)	(1,516)
	135	-	6	14	83	87	190
Off balance sheet positions							
Guarantees, indemnities and letters of credit	-	287	-	-	-	-	287
Customer funding commitments	-	337	-	-	-	-	337
	-	624	-	-	-	-	624

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

(2) The comparative figures for the Bank have been restated, refer to Section 6.11.

(d) Insurance risk

(i) Risk management objectives and policies for risk mitigation

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

(ii) Strategy for managing insurance risk

Portfolio of risks

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

Risk strategy

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

Prudential capital requirements

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

3.6 RISK MANAGEMENT (CONTINUED)

(d) Insurance risk (continued)

(iii) Methods to limit or transfer insurance risk exposures

Reinsurance

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

Underwriting procedures

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

Claims management

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

Asset and liability management techniques

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

(e) Concentration of insurance risk

(i) Insurance risks associated with human life events

The Bank's insurance subsidiaries aim to maintain a stable age profile and mix of the sexes within its portfolio of policyholders. This policy maintains a balance between the current and future profitability of the life business, and exposure to the significant external events. The age profile and mix of sexes within the population of policyholders is sufficiently spread so that the risk concentration in relation to any particular age group is minimal.

3.7 FINANCIAL INSTRUMENTS

(a) Financial instrument classifications

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

(i) Financial assets held for trading

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

(ii) Available-for-sale financial assets

Assets that are intended to be held for an indefinite period of time but which may be sold in response to changes in interest rates, exchange rates and liquidity needs are classified as available-for-sale. These assets are initially measured at fair value plus any directly attributable transaction costs, with any changes in fair value other than impairment losses (refer section 3.4), being recognised in other comprehensive income and accumulated in reserves in equity until the asset is sold. Interest income received on these assets is recorded as net interest income and any realised gains or losses recorded in other income in the Income Statement.

(iii) Receivables due from other financial institutions

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

(iv) Derivative financial instruments

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

(b) Fair value of financial instruments

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

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

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

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

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

Loans and advances

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

Deposits

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

Borrowings including subordinated notes

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

3.7 FINANCIAL INSTRUMENTS

(c) Comparison of fair value to carrying amounts

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

		Consolidated Entity			
		Carrying value		Fair value	
	Section	**2016 $m**	2015 $m	**2016 $m**	2015 $m
Assets carried at amortised cost					
Loans and advances at amortised cost	3.4	**42,896**	40,703	**43,069**	40,829
		42,896	40,703	**43,069**	40,829
Liabilities carried at amortised cost					
Deposits	3.2	**(36,720)**	(34,732)	**(36,760)**	(34,769)
Borrowings including subordinated notes	3.5	**(9,398)**	(8,713)	**(9,400)**	(8,715)
		(46,118)	(43,445)	**(46,160)**	(43,484)

		Bank			
		Carrying value		Fair value	
	Section	**2016 $m**	2015 [(1)] $m	**2016 $m**	2015 [(1)] $m
Assets carried at amortised cost					
Loans and advances at amortised cost	3.4	**38,881**	36,834	**38,983**	36,893
		38,881	36,834	**38,983**	36,893
Liabilities carried at amortised cost					
Deposits	3.2	**(37,523)**	(35,378)	**(37,563)**	(35,415)
Borrowings including subordinated notes	3.5	**(5,281)**	(3,900)	**(5,284)**	(3,901)
		(42,804)	(39,278)	**(42,847)**	(39,312)

(1) The comparative figures for the Bank have been restated, refer to Section 6.11.

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

3.7 FINANCIAL INSTRUMENTS (CONTINUED)

(d) Fair value hierarchy

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

- Level 1: This category includes assets and liabilities for which the valuation is determined from inputs that are quoted market prices (unadjusted) 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, such as the use of discounted cash flow analysis, option pricing models and other market accepted valuation models.
- Level 3: Inputs that are unobservable i.e. there is no observable market data.

The table below analyses financial instruments carried at fair value, by valuation method. The fair value hierarchy classification of instruments in Section 3.7 (c) is Loans and advances level 3, Deposits and Borrowings including subordinated notes level 2.

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

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

	2015			
Consolidated Entity	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Instruments carried at fair value				
Available-for-sale financial assets	1,149	1,669	9	2,827
Financial assets designated at fair value through profit and loss	-	1,940	-	1,940
Derivative financial assets	-	225	-	225
	1,149	3,834	9	4,992
Derivative financial liabilities	-	(297)	-	(297)
	1,149	3,537	9	4,695

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

3.7 FINANCIAL INSTRUMENTS (CONTINUED)

(d) Fair value hierarchy (continued)

Bank	2015 Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Instruments carried at fair value				
Available-for-sale financial assets	1,149	1,838	9	2,996
Financial assets designated at fair value through profit and loss	-	1,940	-	1,940
Derivative financial assets	-	162	-	162
	1,149	3,940	9	5,098
Derivative financial liabilities	-	(283)	-	(283)
	1,149	3,657	9	4,815

(e) Master netting or similar arrangements

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

(f) Impairment of financial instruments policy

Financial assets other than loans and advances at amortised cost

The Consolidated Entity assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets, not carried at fair value through profit and loss, is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flow of that asset that can be estimated reliably. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss in the Income Statement - is reclassified from equity and recognised in profit or loss in the Income Statement as a reclassification adjustment. Impairment losses recognised in profit or loss in the Income Statement on equity instruments classified as available-for-sale are not reversed through the profit or loss in the Income Statement.

For available-for-sale debt securities, if any increase in the fair value can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed through profit of loss in the Income Statement.

3.8 DERIVATIVE FINANCIAL INSTRUMENTS

(a) Fair value of derivatives

The following table summarises the notional and fair value of the Consolidated Entity's and Bank's commitments to derivative financial instruments at reporting date. Fair value in relation to derivative financial instruments is estimated using net present value techniques. The table below sets out the fair values of the derivative financial instruments at 31 August 2016.

	Consolidated					
	2016			2015		
	Notional Amount	Fair Value		Notional Amount	Fair Value	
	$m	Asset $m	Liability $m	$m	Asset $m	Liability $m
Derivatives at fair value through income statement						
Interest Rate Swaps	**19,899**	**25**	**(17)**	16,023	22	(15)
Foreign Exchange Forwards	**113**	**1**	**(2)**	249	7	(6)
Futures	**6,726**	**9**	**-**	15,331	6	-
	26,738	**35**	**(19)**	31,603	35	(21)
Derivatives held as cash flow hedges						
Interest Rate Swaps	**36,859**	**136**	**(293)**	35,243	111	(125)
Cross Currency Swaps	**279**	**4**	**(20)**	421	70	(15)
Foreign Exchange Forwards	**829**	**5**	**(8)**	344	9	-
	37,967	**145**	**(321)**	36,008	190	(140)
Derivatives designated as fair value hedges						
Interest Rate Swaps	**700**	**-**	**(157)**	835	-	(136)
Derivatives designated as net investment hedges						
Foreign Exchange Forwards	**21**	**-**	**(1)**	29	-	-
	65,426	**180**	**(498)**	68,475	225	(297)

3.8 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

(a) Fair value of derivatives (continued)

	Bank					
	2016			2015		
	Notional Amount	Fair Value		Notional Amount	Fair Value	
	$m	Asset $m	Liability $m	$m	Asset $m	Liability $m
Derivatives at fair value through income statement						
Interest Rate Swaps	**19,899**	**25**	**(17)**	16,023	22	(15)
Foreign Exchange Forwards	**133**	**1**	**(3)**	278	7	(6)
Futures	**6,726**	**9**	**-**	15,331	6	-
	26,758	**35**	**(20)**	31,632	35	(21)
Derivatives held as cash flow hedges						
Interest Rate Swaps	**36,667**	**136**	**(293)**	34,877	110	(119)
Cross Currency Swaps	**211**	**4**	**(12)**	153	8	(7)
Foreign Exchange Forwards	**829**	**5**	**(8)**	344	9	-
	37,707	**145**	**(313)**	35,374	127	(126)
Derivatives designated as fair value hedges						
Interest Rate Swaps	**700**	**-**	**(157)**	835	-	(136)
	65,165	**180**	**(490)**	67,841	162	(283)

(b) Accounting for derivatives

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

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

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

Cash flow hedges

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

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

Fair value hedges

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

3.8 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

(b) Accounting for derivatives (continued)

Net investment hedge

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

Derivatives that do not qualify for hedge accounting

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

(c) Master netting or similar arrangements

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

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

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

	2015			
Consolidated	Gross amounts as presented in the Balance Sheets $m	Net amounts of recognised assets and liabilities available for offset $m	Cash collateral $m	Net amounts if offsetting applied in the Balance Sheets $m
Derivative financial assets	225	(102)	(10)	113
Derivative financial liabilities	(297)	102	162	(33)

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

	2015			
Bank	Gross amounts as presented in the Balance Sheets $m	Net amounts of recognised assets and liabilities available for offset $m	Cash collateral $m	Net amounts if offsetting applied in the Balance Sheets $m
Derivative financial assets	162	(102)	(10)	50
Derivative financial liabilities	(283)	102	162	(19)

3.9 CAPITAL MANAGEMENT

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

The Board has set the Common Equity Tier 1 capital target range to be between 8.0% and 9.0% of risk weighted assets and the total capital range to be between 11.5% and 12.5% of risk weighted assets. As at August 2016:

- Common Equity Tier 1 capital was 9.0%; and
- Total capital adequacy ratio was 12.3%.

	Consolidated	
Qualifying capital	**2016 $m**	2015 $m
Common Equity Tier 1 Capital		
Paid-up ordinary share capital	**3,243**	3,122
Reserves	**(18)**	36
Retained profits, including current year profits	**311**	254
Total Common Equity Tier 1 Capital	**3,536**	3,412
Regulatory adjustments		
Goodwill and intangibles	**(869)**	(848)
Deferred expenditure	**(158)**	(142)
Other deductions	**15**	(76)
Total Regulatory adjustments	**(1,012)**	(1,066)
Net Common Equity Tier 1 Capital	**2,524**	2,346
Additional Tier 1 Capital	**450**	450
Net Tier 1 Capital	**2,974**	2,796
Tier 2 Capital		
Tier 2 Capital	**253**	324
General Reserve for Credit Losses	**221**	227
Net Tier 2 Capital	**474**	551
Capital Base	**3,448**	3,347
Risk Weighted Assets	**28,054**	26,321
Capital Adequacy Ratio	**12.3%**	12.7%

Prepared in accordance with *APS 110 Capital Adequacy.*

3.10 CAPITAL AND RESERVES

(a) Ordinary shares

Ordinary shares

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

Treasury shares

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

	Consolidated		Bank	
	2016 Number	2015 Number	**2016 Number**	2015 Number
Movements during the year				
Balance at the beginning of the year – fully paid	**370,768,776**	362,516,835	**370,768,776**	362,516,835
Dividend reinvestment plan	**8,722,926**	7,351,941	**8,722,926**	7,351,941
Issues of ordinary shares (1) (2)	**1,504,000**	900,000	**1,504,000**	900,000
Balance at the end of the year – fully paid	**380,995,702**	370,768,776	**380,995,702**	370,768,776
Treasury shares (included in ordinary shares above)				
Balance at the beginning of the year	**489,515**	297,579	**-**	-
Net acquisitions and disposals during the year	**47,822**	191,936	**-**	-
Balance at the end of the year	**537,337**	489,515	**-**	-

(1) On 26 October 2015, 1,130,000 ordinary shares were issued at $13.79 and on 9 February 2016, 374,000 ordinary shares were issued at $12.63 to the trustee of the Bank of Queensland Limited Employee Share Plans Trust to satisfy the exercise of award rights and issue of shares under the Award Rights Plan and issue of shares under the BOQ Restricted Share Plan and BOQ Employee Share Plan.

(2) On 24 October 2014, the Bank issued 900,000 ordinary shares at $12.29 to the trustee of the Bank of Queensland Employee Share Plans Trust to satisfy the exercise of award rights and issue of shares under the Award Rights Plan and issue of shares under the BOQ Restricted Share Plan and BOQ Employee Share Plan.

Terms and conditions

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

(b) Nature and purpose of reserves

Employee benefits reserve

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

Equity reserve for credit losses

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

Available-for-sale reserve

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

Cash flow hedge reserve

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

SECTION 4. OTHER ASSETS AND LIABILITIES

4.1 INTANGIBLE ASSETS

	Consolidated					Bank				
	Goodwill $m	Customer related intangibles and brands $m	Computer software $m	Other $m	Total $m	Goodwill (2) $m	Customer contracts (2) $m	Computer software (2) $m	Other $m	Total (2) $m
Cost										
Balance as at 1 September 2014	675	130	282	10	1,097	432	72	262	5	771
Additions	-	-	59	3	62	187	17	59	3	266
Disposals	-	-	(31)	-	(31)	-	-	(29)	-	(29)
Balance as at 31 August 2015	675	130	310	13	1,128	619	89	292	8	1008
Balance as at 1 September 2015	675	130	310	13	1,128	619	89	292	8	1008
Additions	-	-	60	6	66	-	-	60	6	66
Disposals	-	-	(5)	-	(5)	-	-	-	-	-
Balance as at 31 August 2016	**675**	**130**	**365**	**19**	**1,189**	**619**	**89**	**352**	**14**	**1,074**
Amortisation and impairment losses										
Balance as at 1 September 2014	-	84	177	8	269	-	57	169	4	230
Amortisation for the year	-	11	17	2	30	-	-	15	2	17
Disposals	-	-	(29)	-	(29)	-	-	(29)	-	(29)
Impairment (1)	-	-	10	-	10	-	-	10	-	10
Balance as at 31 August 2015	-	95	175	10	280	-	57	165	6	228
Balance as at 1 September 2015	-	95	175	10	280	-	57	165	6	228
Amortisation for the year	-	10	28	6	44	-	10	27	6	43
Disposals	-	-	(5)	-	(5)	-	-	-	-	-
Impairment	-	-	1	-	1	-	-	1	-	1
Balance as at 31 August 2016	**-**	**105**	**199**	**16**	**320**	**-**	**67**	**193**	**12**	**272**
Carrying amounts										
Carrying amount as at 1 September 2014	675	46	105	2	828	432	15	93	1	541
Carrying amount as at 31 August 2015	675	35	135	3	848	619	32	127	2	780
Carrying amount as at 31 August 2016	**675**	**25**	**166**	**3**	**869**	**619**	**22**	**159**	**2**	**802**

(1) Impairment of customer relationship management system

(2) The comparative figures for the Bank have been restated, refer to Section 6.11.

4.1 INTANGIBLE ASSETS (CONTINUED)

Initial recognition and measurement

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

Subsequent expenditure

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

Amortisation

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

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

Impairment

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

Goodwill

Goodwill is the excess of the cost of acquisition over the fair value of the Bank's share of the identifiable net assets of the acquired subsidiary. Any goodwill is tested annually for impairment, with any impairment taken directly to the profit or loss in the Income Statement.

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

	Consolidated		Bank	
	2016 $m	2015 $m	**2016 $m**	2015 [(1)] $m
BOQ Equipment Finance Limited	**13**	13	**-**	-
Orix debtor finance division	**8**	8	**8**	8
Pioneer Permanent Pty Ltd	**24**	24	**24**	24
BOQ Home Limited	**400**	400	**400**	400
Virgin Money (Australia) Pty Limited	**43**	43	**-**	-
BOQ Specialist (Aust) Limited	**187**	187	**187**	187
Total	**675**	675	**619**	619

(1) The comparative figures for the Bank have been restated, refer to Section 6.11.

Impairment testing of the cash generating units containing goodwill

Goodwill on acquisition of all of the above entities has been allocated to the Banking cash generating unit ('CGU'). The impairment test for goodwill is performed by comparing the CGU's carrying amount with its recoverable amount. The recoverable amount is based on the CGU's value in use. The excess of the recoverable amount over the carrying amount was $903 million (2015: $1,231 million).

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

- Cash flows were initially based on the banking segment's 3 year projections (2015: 5 years);
- Subsequent cash flows were extrapolated beyond the 3 year projections at a medium term growth rate of 5% (2015: 5%);
- An exit value has been calculated at the end of year 10 based on an implied terminal value earnings multiple of 11.5 (2015: 12.0) and a long term growth rate of 3% (2015: 3%); and
- A post-tax discount rate of 10.0% (2015: 10.0%) and a pre-tax discount rate of 14.3% (2015: 14.3%) was used.

4.2 PROVISIONS

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

	Consolidated		Bank	
	2016 $m	2015 $m	**2016 $m**	2015 $m
Employee benefits [1]	**24**	23	**21**	20
Leases [2]	**3**	3	**1**	2
Product Review [3]	**-**	3	**-**	3
Provision for non-lending loss [4]	**8**	25	**8**	25
Other [5]	**12**	8	**5**	-
Total provisions	**47**	62	**35**	50

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

(2) Lease provisions are classified as current.

(3) Prior year included product reviews for customer refunds and review costs.

(4) Included within the Non-lending losses provision is $6 million (2015: $21 million) in respect of the Storm Financial settlement. The remaining balance is classified as current.

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

Movements in provisions

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

	Consolidated				Bank			
2016	Leases $m	Product Review $m	Non-lending loss $m	Other $m	Leases $m	Product Review $m	Non-lending loss $m	Other $m
Carrying amount at beginning of year	3	3	25	8	2	3	25	-
Additional provision recognised	-	-	1	8	-	-	1	9
Amounts utilised during the year	-	(3)	(18)	(4)	(1)	(3)	(18)	(4)
Carrying amount at end of year	**3**	**-**	**8**	**12**	**1**	**-**	**8**	**5**

SECTION 5. INSURANCE BUSINESS

5.1 INSURANCE BUSINESS

(a) Basis of preparation

The effective date of the actuarial report on life insurance policy liabilities and regulatory capital requirements is 31 August 2016. The actuarial report was prepared by Mr Stephen Jones, Fellow of the Institute of Actuaries of Australia. This report indicates that Mr Jones is satisfied as to the accuracy of the data upon which policy liabilities have been determined.

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

Accumulation methods have been used to estimate the policy liabilities, as the provision for unearned premium reserve less a deferred acquisition cost component. Outstanding claims liabilities and Incurred But Not Reported ('IBNR') liabilities are included in provisions.

Premium earning pattern

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

For regular premium products, the UPR is based on the unearned proportion of premium for the given premium payment frequency.

Mortality and morbidity

Mortality and morbidity assumptions used in determining IBNR, pending and continuing claims provisions have been based on the experience of similar products issued by the Company and recent experience. The disputed claims provision is based on individual claim estimates and an assumed 50% probability of disputed claims being incurred.

(b) Processes used to determine actuarial assumptions

Sensitivity analysis

As a result of using an accumulation approach in the determination of policy liabilities, changes of assumptions will not affect the policy liabilities in the current period. As at 31 August 2016, no Related Product Groups were in loss recognition. Changes in the underlying variables and assumptions will give rise to a difference in the emergence of profit margins in the future.

Changes in assumptions relating to claims provisions would affect policy liabilities in the current period.

Variable	Impact of movement in underlying variable
Mortality rates	For contracts providing death benefits, greater mortality rates would lead to higher levels of claims occurring sooner than anticipated, increasing associated claims cost and therefore reducing profit and shareholder's equity.
Morbidity rates	The cost of disability related claims depends on both the incidence of policyholders becoming disabled and the duration which they remain so. Higher than expected incidence and duration would be likely to increase claim costs, reducing profit and shareholder equity.

5.1 INSURANCE BUSINESS (CONTINUED)

(c) Reconciliation of movements

	2016 $m	2015 $m
Reconciliation of movements in insurance policy liabilities		
Life Insurance contract policy liabilities		
Gross life insurance contract liabilities at the beginning of the financial year	**32**	52
Decrease in life insurance contract policy liabilities (i)	**(15)**	(20)
Gross life insurance contract liabilities at the end of the financial year	**17**	32
Liabilities ceded under reinsurance		
Opening balance at the beginning of the financial year	**(1)**	(2)
Decrease in life reinsurance assets (ii)	**-**	1
Closing balance at the end of the financial year	**(1)**	(1)
Net life policy liabilities at the end of the financial year	**16**	31
(i) plus (ii) = change in life insurance contract liabilities reflected in the Income Statement	**(15)**	(19)
Components of net life insurance contract liabilities		
Future policy benefits	**41**	55
Future charges for acquisition costs	**(25)**	(24)
Total net life insurance contract policy liabilities	**16**	31
Components of general insurance liabilities		
Unearned Premium Liability	**7**	8
Outstanding Claims Liability	**2**	2
	9	10
Total Insurance Policy Liabilities	**25**	41

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

5.1 INSURANCE BUSINESS (CONTINUED)

(d) Life Insurance Regulatory Capital requirements

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

The methodology and bases for determining the Capital Base and regulatory capital requirements are in accordance with relevant Prudential Requirements.

	2016		2015	
	Statutory Fund No. 1 $m	**Shareholders' Fund $m**	Statutory Fund No. 1 $m	Shareholders' Fund $m
Capital Base				
Net Assets	**29**	**1**	28	1
Add / (subtract) regulatory adjustments to Net Assets	**(13)**	**-**	(9)	-
Total capital base	**16**	**1**	19	1
Asset risk charge	**1**	**-**	1	-
Operational risk charge	**2**	**-**	2	-
Total prescribed capital amount	**3**	**-**	3	-
Assets in excess of prescribed capital amount	**13**	**1**	16	1
Capital adequacy multiple	**6**	**57**	6	60

	2016 $m	2015 $m
Composition of Capital Base		
Common equity tier 1 capital	**30**	29
Subtract regulatory adjustments to common equity tier 1 capital	**(13)**	(9)
Total capital base	**17**	20
Prescribed Capital Amount		
Statutory Fund No. 1	**3**	3
Additional amount to meet company minimum	**7**	7
Total prescribed capital amount	**10**	10
Assets in excess of prescribed capital amount	**7**	10
Capital adequacy multiple	**2**	2

5.1 INSURANCE BUSINESS (CONTINUED)

(d) Life Insurance Regulatory Capital requirements (continued)

Disaggregated information life insurance (before consolidation adjustments)

Summarised Statement of Profit and Loss and Other Comprehensive Income	2016 $m	2015 $m
Revenue		
Life insurance premium revenue	**46**	41
Investment income	**2**	3
Net life insurance revenue	**48**	44
Expenses		
Net claims and other liability expense from insurance contracts	**25**	18
Other expenses	**7**	5
	32	23
Profit before income tax	**16**	21
Income tax expense	**(5)**	(6)
Profit after income tax	**11**	15
Statement of Sources of Profit for Statutory Funds		
Operating profit after income tax arose from:		
Components of profit related to movement in life insurance liabilities:		
Planned margins of revenues over expenses released	**11**	15
Difference between actual and assumed experience	**(1)**	(1)
Investment earnings on assets in excess of life insurance policy liabilities and provision	**1**	1
Summarised Balance Sheet		
Assets		
Investment assets	**64**	82
Other assets	**3**	3
	67	85
Liabilities		
Net life insurance liabilities	**15**	28
Liabilities other than life insurance liabilities	**22**	28
	37	56
Issued capital, reserves and retained profits		
Directly attributable to shareholders	**30**	29
	30	29

The life insurance business has no life investment contracts.

(e) Accounting policy

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

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

5.1 INSURANCE BUSINESS (CONTINUED)

(e) Accounting policy (continued)

Any products sold that do not meet the definition of a life insurance contract are classified as life investment contracts. Insurance contracts include those where the insured benefit is payable on the occurrence of a specified event such as death, injury or disability caused by accident or illness. The insured benefit is either not linked or only partly linked to the market value of the investments held by the Consolidated Entity, and the financial risks are substantially borne by the Consolidated Entity.

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

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

Insurance contract liability

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

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

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

Under MoS, insurance contract liabilities may be valued using an accumulation approach where this does not result in a material difference to the projection approach. The accumulation approach is deemed appropriate by the Directors and the appointed actuary. Under this approach, premiums received are deferred and earned in accordance with the underlying incidence of risk. Costs of acquiring insurance contracts, both direct and indirect, are deferred to the extent that related product groups are expected to be profitable. Where a related product group is not expected to be profitable, the insurance contract liability is increased by the excess of the present value of future expenses over future revenues.

Revenue Recognition

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

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

Claims expense – insurance contracts

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

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

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

Deferred acquisition costs - Life insurance contracts

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

Critical accounting judgements and estimates

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

Policy liabilities

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

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

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

SECTION 6. OTHER NOTES

6.1 EMPLOYEE BENEFITS

(a) Superannuation commitments

Superannuation plan

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

Basis of contributions

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

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

Total contributions for the year have been disclosed in Section 2.2.

(b) Share based payments

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

(i) Description of share based payments

Long-Term Incentives - Award Rights

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

PARs

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

One half of an employee's PARs will vest if the Bank's TSR performance over the three year period is in the top 50% of the Peer Group. All of the PARs vest if the Bank's TSR performance is in the top 25%. For TSR performance between those targets, a relative proportion of the PARs between 50% and 100% would vest.

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

Vested PARs are generally exercisable within 3 years after they are granted (approximately 2 years after vesting).

DARs

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

Restricted Shares

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

6.1 EMPLOYEE BENEFITS (CONTINUED)

(b) Share based payments (continued)

(ii) Award rights on issue

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

	Deferred Award Rights		Performance Award Rights		Restricted Shares	
	2016 '000	2015 '000	**2016 '000**	2015 '000	**2016 '000**	2015 '000
Balance at beginning of the year	**1,086**	941	**2,513**	2,198	**262**	197
Granted during the year	**553**	621	**954**	809	**157**	163
Forfeited / expired during the year	**(184)**	(122)	**(538)**	(223)	**-**	-
Exercised during the year	**(421)**	(354)	**(868)**	(271)	**(180)**	(98)
Outstanding at the end of the year	**1,034**	1,086	**2,061**	2,513	**239**	262

(iii) Measurement of fair values

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

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

The weighted average of the inputs used in the measurements at grant date of the long-term incentive award rights were as follows:

	Deferred award rights		Performance award rights		Restricted shares	
	2016	2015	**2016**	2015	**2016**	2015
Fair value at grant date	**$10.96**	$9.28	**$7.04**	$5.28	**$12.35**	$11.65
Share price at grant date	**$12.17**	$10.57	**$12.09**	$10.11	**$12.45**	$11.65
Expected volatility	**25.3%**	30.4%	**22.6%**	28.1%	**21.3%**	23.8%
Risk free interest rate	**2.5%**	2.7%	**2.5%**	2.8%	**2.4%**	2.7%
Dividend yield	**5.8%**	6.3%	**5.2%**	5.8%	**5.3%**	5.0%

6.2 COMMITMENTS

	Consolidated		Bank	
	2016 $m	2015 $m	**2016 $m**	2015 $m
(a) Lease commitments				
Future rentals in respect of operating leases (principally in respect of premises) not provided for in these financial statements comprise amounts payable:				
Within 1 year	**28**	39	**28**	39
Between 1 year and 5 years	**85**	81	**85**	81
Later than 5 years	**73**	90	**73**	90
	186	210	**186**	210
(b) Customer funding commitments				
Guarantees, indemnities and letters of credit	**293**	287	**293**	287
Customer funding commitments	**1,183**	1,211	**595**	337
	1,476	1,498	**888**	624

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

6.3 CONTINGENT LIABILITIES

As previously disclosed in the Bank's half-year results, the Bank was served with class action proceedings commenced in the New South Wales Registry of the Federal Court on 11 March 2016. The proceedings were commenced by Petersen Superannuation Fund Pty Ltd (the Applicant) on behalf of an open class against Bank of Queensland Limited and DDH Graham Limited and relate to the affairs of the Sherwin group of companies, including Wickham Securities Limited (in Liquidation), Sherwin Financial Planners Pty Ltd (in Liquidation), DIY Superannuation Services Pty Ltd (in Liquidation) and certain of their related entities, with respect to the operation of some of the Bank's Money Market Deposit Accounts. The Bank intends to defend the proceeding and has filed a defence and cross-claims. It is currently not practicable for the Bank to provide an estimate of any potential liability in relation to the proceedings.

6.4 RELATED PARTIES INFORMATION

(a) Controlled entities

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

During the year there have been transactions between the Bank and all of its controlled entities. The Bank conducted normal banking business with its operating controlled entities. Amounts owing to or from controlled entities do not attract interest, except in respect of BOQ Equipment Finance Limited, St Andrew's Australia Services Pty Ltd, BOQ Finance (Aust) Ltd, BOQ Finance (NZ) Ltd, Dell Financial Services Pty Ltd, and Virgin Money (Australia) Pty Limited where interest is charged on normal terms and conditions.

The Bank receives management fees from B.Q.L. Management Pty. Ltd. and BOQ Equipment Finance Limited.

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

(b) Key management personnel compensation

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

Key management personnel compensation included in 'administrative expenses' and 'employee expenses' (refer to Section 2.2) is as follows:

	Consolidated and Bank	
	2016 $	2015 $
Short-term employee benefits	**9,501,005**	8,694,677
Post-employment benefits	**318,687**	298,656
Long-term employee benefits	**54,137**	30,694
Termination benefits	**-**	762,892
Share based employment benefits	**4,302,538**	4,001,545
	14,167,367	13,788,464

Individual Directors and Executives compensation disclosures

Information regarding individual Directors and Executives compensation and some equity instruments disclosures as permitted by Regulation 2M.3.03 of the *Corporations Regulation 2011* is provided in the Remuneration Report section of the Directors' report.

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

6.4 RELATED PARTIES INFORMATION (CONTINUED)

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

A number of key management personnel or their related parties hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities. Financial instrument transactions with key management personnel and personally-related entities during the financial year arise out of the provision of banking services, the acceptance of funds on deposit, the granting of loans and other associated financial activities. The terms and conditions of the transactions with key management personnel 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-Director related entities on an arm's length basis.

The following are transactions undertaken between the Consolidated Entity and key management personnel up to the 31 August 2016:

	Balance as at		For the period (1)		
	1 September 2015 $	31 August 2016 $	Total Loan Drawdowns / (Repayments) $	Total Loan / Overdraft interest $	Total Fees on Loans / Overdraft $
Term Products (Loans / Advances)	**(2,535,149)**	**(1,690,202)**	**(428,207)**	**87,386**	**560**

	Balance as at		For the period (1)		
	1 September 2014 $	31 August 2015 $	Total Loan Redraws / Further Advances $	Total Loan / Overdraft interest $	Total Fees on Loans / Overdraft $
Term Products (Loans / Advances)	(1,479,341)	(2,535,149)	1,278,465	62,105	360

(1) Amounts are included only for the period that the Director / Executive is classified as a member of the key management personnel.

Other transactions

Transactions between the Consolidated Entity and key management personnel (other than loans/advances and shares) during the financial year related to personal banking, investment and deposit transactions. These transactions are considered trivial or domestic in nature, were on normal commercial terms and conditions and in the ordinary course of business. No amounts have been written down or recorded as impaired during the year (2015: nil).

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

	Balance at 31 August 2016 $	Interest receivable $	Highest balance during the year $
Roger Davis	**200,000**	2,405	209,226
David Willis	**70,000**	842	73,229
Total	**270,000**	**3,247**	**282,455**

Transactions between the Consolidated Entity and other related parties of key management personnel relate to loans on normal commercial terms and conditions. Details of loans outstanding at the reporting date to other related parties of Directors and Group Executives are as follows:

	2016				2015			
	Balance at 1 September 2015 $	Interest paid & payable during the year $	Balance at 31 August 2016 $	Highest balance during the year $	Balance at 1 September 2014 $	Interest paid & payable during the year $	Balance at 31 August 2015 $	Highest balance during the year $
Richard Haire Related Party	**191,000**	**8,369**	**191,000**	**191,876**	191,000	9,148	191,000	191,777
Jon Sutton Related Party	**147,448**	**24,477**	**762,899**	**811,819**	-	3,023	147,448	150,000

6.5 CONTROLLED ENTITIES

(a) Particulars in relation to material controlled entities

The Group's principal subsidiaries at 31 August 2016 are set out below. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly by the Group. The Bank owns 100% of all subsidiaries with nil ownership interest held by non-controlling interests. The country of incorporation or registration is also their principal place of business.

	Place of business/ country of incorporation	Parent entity's interest		Amount of investment (at cost)		Principal activities
Controlled entities:		2016 %	2015 %	2016 $m	2015 [(1)] $m	
B.Q.L. Management Pty. Ltd.	Australia	**100%**	100%	**-**	-	Trust management
B.Q.L. Nominees Pty. Ltd.	Australia	**100%**	100%	**5**	5	Dormant
B.Q.L. Properties Pty Ltd	Australia	**100%**	100%	**-**	-	Dormant
Queensland Electronic Switching Pty Ltd	Australia	**100%**	100%	**-**	-	Dormant
BOQ Equipment Finance Limited	Australia	**100%**	100%	**15**	15	Asset Finance & Leasing
St Andrew's Australia Services Pty Ltd	Australia	**100%**	100%	**-**	-	Insurance
Series 2006-1E REDS Trust	Australia	**-**	100%	**-**	-	Securitisation
Series 2007-1E REDS Trust	Australia	**100%**	100%	**-**	-	Securitisation
Series 2007-2 REDS Trust	Australia	**100%**	100%	**-**	-	Securitisation
Series 2008-1 REDS Trust	Australia	**100%**	100%	**-**	-	Securitisation
Series 2008-2 REDS Trust	Australia	**100%**	100%	**-**	-	Securitisation
Series 2009-1 REDS Trust	Australia	**100%**	100%	**-**	-	Securitisation
REDS Warehouse Trust No.3	Australia	**100%**	100%	**-**	-	Securitisation
Series 2010-1 REDS Trust	Australia	**100%**	100%	**-**	-	Securitisation
Series 2010-2 REDS Trust	Australia	**100%**	100%	**-**	-	Securitisation
Series 2012-1E REDS Trust	Australia	**100%**	100%	**-**	-	Securitisation
Series 2013-1 EHP REDS Trust	Australia	**100%**	100%	**-**	-	Securitisation
Series 2013-1 REDS Trust	Australia	**100%**	100%	**-**	-	Securitisation
Pioneer Permanent Pty Ltd [(1)]	Australia	**100%**	100%	**31**	31	Dormant
BOQ Home Pty Ltd [(1)]	Australia	**100%**	100%	**157**	157	Investment holding entity
Home Financial Planning Pty Ltd	Australia	**100%**	100%	**-**	-	Dormant
Home Credit Management Pty Ltd	Australia	**100%**	100%	**-**	-	Investment holding entity
Statewest Financial Services Pty Ltd	Australia	**100%**	100%	**-**	-	Dormant
Statewest Financial Planning Pty Ltd	Australia	**100%**	100%	**-**	-	Dormant
BOQ Share Plans Nominee Pty Ltd	Australia	**100%**	100%	**-**	-	Trust management
Bank of Queensland Limited Employee Share Plans Trust	Australia	**100%**	100%	**-**	-	Trust management
St Andrew's Life Insurance Pty Ltd	Australia	**100%**	100%	**-**	-	Life Insurance
St Andrew's Insurance (Australia) Pty Ltd	Australia	**100%**	100%	**-**	-	General Insurance
BOQ Finance (Aust) Limited	Australia	**100%**	100%	**230**	230	Asset Finance & Leasing
BOQ Credit Pty Limited	Australia	**100%**	100%	**-**	-	Asset Finance & Leasing
BOQ Funding Pty Limited	Australia	**100%**	100%	**-**	-	Asset Finance & Leasing
BOQ Finance (NZ) Limited	New Zealand	**100%**	100%	**22**	22	Asset Finance & Leasing
Newcourt Financial (Australia) Pty Limited	Australia	**100%**	100%	**-**	-	Dormant

(1) The comparative figures for the Bank have been restated, refer to Section 6.11.

6.5 CONTROLLED ENTITIES (CONTINUED)

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

Controlled entities:	Place of business/ country of incorporation	Parent entity's interest 2016 %	Parent entity's interest 2015 %	Amount of investment (at cost) 2016 $m	Amount of investment (at cost) 2015 [1] $m	Principal activities
Dell Financial Services Pty Ltd	Australia	**100%**	100%	**-**	-	Asset Finance & Leasing
Hunter Leasing Pty Ltd	Australia	**100%**	100%	**-**	-	Dormant
Virgin Money (Australia) Pty Limited	Australia	**100%**	100%	**53**	43	Financial services
Virgin Money Home Loans Pty Limited	Australia	**100%**	100%	**-**	-	Dormant
Virgin Money Financial Services Pty Ltd	Australia	**100%**	100%	**-**	-	Financial services
BOQ Specialist (Aust) Limited [1] [2]	Australia	**100%**	100%	**358**	358	Professional Finance and Asset Finance & Leasing
BOQ Specialist Pty Ltd	Australia	**100%**	100%	**1**	1	Professional Finance
BOQ Asset Finance and Leasing Pty Ltd	Australia	**100%**	100%	**-**	-	Asset Finance & Leasing
Impala Trust No. 1	Australia	**100%**	100%	**-**	-	Securitisation
Nyala Funding Trust CMBS 2013-1	Australia	**100%**	100%	**-**	-	Securitisation
Series 2014-1 EHP REDS Trust	Australia	**100%**	100%	**-**	-	Securitisation
Series 2015-1 REDS Trust	Australia	**100%**	100%	**-**	-	Securitisation
Series 2015-1 EHP REDS Trust	Australia	**100%**	-	**-**	-	Securitisation
				872	862	

(1) The comparative figures for the Bank have been restated, refer to Section 6.11.

(2) Following the surrender of its Authorised Deposit-taking Institution license on 1 June 2015, this entity was renamed from BOQ Specialist Bank Limited to BOQ Specialist (Aust) Limited.

(b) Significant restrictions

In accordance with Prudential Standard APS 222 *Associations with related entities*, the Bank and its subsidiaries that form part of the Extended Licensed Entities are restricted from having unlimited exposures to related entities, including general guarantees. These related entities are as follows:

- Virgin Money (Australia) Pty Limited;
- Virgin Money Home Loans Pty Limited;
- Virgin Money Financial Services Pty Ltd;
- St Andrew's Australia Services Pty Ltd;
- St Andrew's Life Insurance Pty Ltd;
- St Andrew's Insurance (Australia) Pty Ltd;
- BOQ Specialist (Aust) Limited (Formerly BOQ Specialist Bank Limited);
- BOQ Specialist Pty Ltd; and
- BOQ Asset Finance and Leasing Pty Ltd.

(c) Acquisition of controlled entities

(i) Accounting for business combinations

Acquisitions on or after 1 July 2009

The Consolidated Entity has adopted revised AASB 3 *Business Combinations (2008)* for business combinations occurring in the financial year starting 1 July 2009. All business combinations occurring on or after 1 July 2009 are accounted for by applying the acquisition method. The Consolidated Entity has also adopted AASB 10 *Consolidated Financial Statements (2013)* which has superseded AASB 127 *Consolidated and Separate Financial Statements (as amended in 2008).* For every business combination, the Group identifies the acquirer, which is the combining entity that obtains control of the other combining entities or businesses. The Group controls an entity if it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the investee.

Contingent Liabilities

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

Transactions Costs

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

6.5 CONTROLLED ENTITIES (CONTINUED)

(c) Acquisition of controlled entities (continued)

(ii) Entities acquired during the prior year

The following entities were established during the financial year:

- Series 2015-1 EHP REDS Trust was opened on 24 September 2015.

(d) Disposal of controlled entities

The following entities were closed during the financial year:

- Series 2006-1E REDS Trust was closed on 17 February 2016.

6.6 DEED OF CROSS GUARANTEE

Pursuant to *ASIC Class Order 98/1418 (as amended)* dated 19 August 2005, certain wholly-owned subsidiaries are relieved from the *Corporations Act 2001* requirements for preparation, audit and lodgement of financial reports, and Directors' reports.

It is a condition of the Class Order that the Bank and each of the subsidiaries enter into a Deed of Cross Guarantee. The effect of the Deed is that the Bank guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the *Corporations Act 2001*. If a winding up occurs under other provisions of the Act, the Bank will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the Bank is wound up

The subsidiaries to the Deed are:

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

A summarised consolidated Income Statement and consolidated Balance Sheet, comprising the Bank and its controlled entities which are a party to the Deed, after eliminating all transactions between parties to the Deed of Cross Guarantee, at 31 August 2016 is set out as follows:

Summarised income statement and retained profits

	Consolidated 2016 $m	Consolidated 2015 $m
Profit before tax	**463**	428
Less: Income tax expense	**(146)**	(126)
Profit for the year	**317**	302
Retained profits at beginning of year (1)	**155**	203
Removal of entities revoked from Deed (2)	**-**	(83)
Dividends to shareholders	**(274)**	(256)
Transfers to equity reserve for credit losses	**-**	(11)
Retained profits at end of year	**198**	155
Profit attributable to:		
Equity holders of the parent	**317**	302
Profit for the year	**317**	302

(1) Prior year comparatives have been restated to exclude balances related to entities that were formerly part of the BOQ Specialist Group (including securitisation trusts Impala and Nyala). These companies are not a party to the Deed of Cross Guarantee. The table on the next page reflects the restatement relating to Note 6.6 only and has no impact on the Bank or Consolidated balance sheet.

(2) Represents the retained profits balances as at 1 March 2015 of those entities revoked from the Deed in the prior year

6.6 DEED OF CROSS GUARANTEE (CONTINUED)

Balance Sheet

	Consolidated	
Assets	2016 $m	2015 [(1)] $m
Cash and liquid assets	633	530
Due from other financial institutions	10	19
Financial assets available-for-sale	1,591	1,940
Financial assets held for trading	3,739	2,996
Derivative assets	372	162
Loans and advances at amortised cost	42,717	40,491
Other assets	237	237
Shares in controlled entities	409	608
Property, plant and equipment	48	52
Deferred tax assets	92	90
Intangible assets	657	422
Investments in joint arrangements	9	9
Total assets	50,514	47,556
Liabilities		
Due to other financial institutions - Accounts payable at call	209	258
Deposits	36,784	34,791
Derivative liabilities	487	290
Accounts payable and other liabilities	328	374
Current tax liabilities	14	56
Provisions	36	51
Borrowings including subordinated notes	5,281	3,890
Amounts due to controlled entities	4,207	4,796
Total liabilities	47,346	44,506
Net assets	3,168	3,050
Equity		
Issued capital	2,940	2,810
Reserves	30	85
Retained profits	198	155
Total equity	3,168	3,050

(1) Prior year comparatives have been restated to exclude balances related to entities that were formerly part of the BOQ Specialist Group (including securitisation trusts Impala and Nyala). These companies are not a party to the Deed of Cross Guarantee. The table below reflects the restatement relating to Note 6.6 only and has no impact on the Bank or Consolidated balance sheet.

	Reported 2015 $m	Increase/ (Decrease) $m	Restated 2015 $m
Assets			
Cash and liquid assets	561	(31)	530
Liabilities			
Borrowings including subordinated notes	4,282	(392)	3,890
Amounts due to controlled entities	4,435	361	4,796
Equity			
Reserves	80	5	85
Retained profits	160	(5)	155

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 AUGUST 2016

6.7 INVESTMENTS IN JOINT ARRANGEMENTS

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

(a) Accounting for joint arrangements

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

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

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

(b) Joint venture details

Set out below are the joint ventures of the Consolidated Entity as at 31 August 2016 which, in the opinion of the directors, are immaterial to the Consolidated Entity. Australia is the place of business and also the country of incorporation for all joint ventures. The proportion of ownership interest is the same as the proportion of voting rights held.

	Ownership Interest		Carrying amount	
	2016 (%)	2015 (%)	**2016 $m**	2015 $m
Ocean Springs Pty Ltd (Brighton)	**9.31**	9.31	**6**	9
Dalyellup Beach Pty Ltd (Dalyellup)	**17.08**	17.08	**8**	9
East Busselton Estate Pty Ltd (Provence)	**25.00**	25.00	**1**	-
Coastview Nominees Pty Ltd (Margaret River)	**5.81**	5.81	**-**	-
Provence 2 Pty Ltd (Provence 2)	**25.00**	25.00	**-**	-
Total equity accounted investments			**15**	18

Summary financial information for equity accounted joint ventures, not adjusted for the percentage of ownership held by the consolidated entity and fair value adjustments on acquisition, is contained below:

	2016 $m	2015 $m
Profit from continuing operations	**12**	26
Post-tax profit from discontinued operations	**-**	-
Other comprehensive income	**-**	-
Total comprehensive income	**12**	26

6.8 AUDITOR'S REMUNERATION

	Consolidated		Bank	
	2016 $000	2015 $000	**2016 $000**	2015 $000
Audit services – KPMG Australia				
- Audit and review of the financial reports	**1,215**	1,118	**860**	441
- Other regulatory and audit services	**277**	364	**160**	167
	1,492	1,482	**1,020**	608
Audit related services – KPMG Australia				
- Other assurance services	**716**	445	**619**	445
- Regulatory assurance services	**144**	167	**144**	167
	860	612	**763**	612
Non-audit services – KPMG Australia				
- Taxation services	**120**	372	**120**	372
- Other	**70**	37	**70**	37
	190	409	**190**	409

6.9 EVENTS SUBSEQUENT TO BALANCE DATE

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

6.10 SIGNIFICANT ACCOUNTING POLICIES & NEW ACCOUNTING STANDARDS

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial report, and have been applied consistently across the Consolidated Entity.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to benefit from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial report from the date that control commences until the date that control ceases. In the Bank's financial statements, investments in subsidiaries are carried at cost.

(ii) Securitisation

The Bank conducts a loan securitisation program whereby mortgage loans are packaged and sold to the REDS Securitisation and Warehouse Trusts ('RMBS Trusts') and the Nyala and Impala Trusts. The Bank also securitises Hire Purchase, Chattel Mortgages and Finance Leases which are packaged and sold to REDS EHP Securitisation Trusts ('REDS EHP Trusts').

Consolidated Entity

The Consolidated Entity receives the residual income distributed by the RMBS and REDS EHP Trusts after all payments due to investors and associated costs of the program have been met and as a result the Consolidated Entity is considered to retain the risks and rewards of the RMBS Trusts and as a result do not meet the de-recognition criteria of AASB 139 *Financial Instruments: Recognition and Measurement* ("AASB 139").

The RMBS Trusts fund their purchase of the loans by issuing floating-rate debt securities. The securities are issued by the RMBS Trusts. These are represented as borrowings of the Consolidated Entity however the Consolidated Entity does not stand behind the capital value or the performance of the securities or the assets of the RMBS Trusts. The Consolidated Entity does not guarantee the payment of interest or the repayment of principal due on the securities. The loans subject to the securitisation program have been pledged as security for the securities issued by the RMBS Trusts. The Consolidated Entity is not obliged to support any losses that may be suffered by investors and does not intend to provide such support.

The Bank does however provide the securitisation programs with arm's length services and facilities including the management and servicing of the leases securitised. The Bank has no right to repurchase any of the securitised assets and no obligation to do so, other than in certain circumstances where there is a breach of warranty within 120 days of the sale or when certain criteria are met under the Clean up Provision per the Trust Deed Supplement.

The transferred assets are equitably assigned to the securitisation trusts. The investors in the securities issued by the Trusts have full recourse to the assets transferred to the Trusts. The Bank receives the residual income distributed by the Trusts after all payments due to investors and associated costs of the program have been met and as a result the Bank is considered to retain the risks and rewards of the Trusts.

Bank

Interest rate risk from the RMBS and REDS EHP Trusts is transferred back to the Bank by way of interest rate and basis swaps. Accordingly, under AASB 139 the original sale of the mortgages from the Bank to the RMBS Trusts does not meet the de-recognition criteria set out in AASB 139. The Bank continues to reflect the securitised loans in their entirety and also recognises a financial liability to the RMBS Trusts. The interest payable on the intercompany financial asset / liability represents the return on an imputed loan between the Bank and the Trusts and is based on the interest income under the mortgages, the fees payable by the Trusts and the interest income or expense not separately recognised under the interest rate and basis swaps transactions between the Bank and the Trusts.

All transactions between the Bank and the Trusts are eliminated on consolidation.

(iii) Transactions eliminated on consolidation

Intra-group balances, and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(iv) Derecognition of financial assets and liabilities

Financial assets are derecognised when the contractual rights to receive cash flows from the assets have expired, or where the Bank has transferred its contractual rights to receive the cash flows of the financial assets and substantially all the risks and rewards of ownership. Financial liabilities are derecognised when they are extinguished, i.e. when the obligation is discharged, cancelled or expired.

6.10 SIGNIFICANT ACCOUNTING POLICIES & NEW ACCOUNTING STANDARDS (CONTINUED)

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into Australian dollars at the foreign exchange rate ruling at that date. Non-monetary items in a foreign currency that are measured at historical cost are translated using the exchange rate at the date of the transaction. Foreign exchange differences arising on translation are recognised in the profit and loss.

Where a foreign currency transaction is part of a hedge relationship it is accounted for as above, subject to the Hedge Accounting rules set out in Section 3.8, Derivative financial instruments.

(ii) Foreign operations

The consolidated entity has no foreign operations, all overseas activities are carried out through non-incorporated branches.

(c) New accounting standards

The following, are the amendments to standards and interpretations applicable for the first time to the current year:

- AASB 2013-9 *Amendments to Australian Accounting Standards - Conceptual Framework, Materiality and Financial Instruments* - This standard contains three main parts and makes amendments to a number of Standards and Interpretations. The key amendments arising from this standard are the updating of references to the Framework for the Preparation and Presentation of Financial Statements, the deleting of references to AASB 1031 and the incorporation of Chapter 6 Hedge Accounting into AASB 9 Financial Instruments. The Bank has reviewed this standard and determined there to be no material impact on the Consolidated Entity.
- AASB 2014-1 *Part A* - This standard sets out amendments to a number of standards and addresses the following items:
  - AASB 2 *Share Based Payments* - Clarifies the definition of 'vesting conditions' and 'market condition' and introduces the definition of 'performance condition' and 'service condition'.
  - AASB 3 *Business Combinations* - Clarifies the classification requirements for contingent consideration in a business combination by removing all references to AASB 137.
  - AASB 8 *Operating Segments* - Requires entities to disclose factors used to identify the entity's reportable segments when operating segments have been aggregated. An entity is also required to provide a reconciliation of total reportable segment assets to the entity's total assets.
  - AASB 116 *Property, Plant & Equipment &* AASB 138 *Intangibles* - Clarifies that the determination of accumulated depreciation does not depend on the selection of the valuation technique and that it is calculated as the difference between the gross and net carrying amounts.
  - AASB 124 *Related Party Disclosures* - Defines a management entity providing KMP services as a related party of the reporting entity. The amendments added an exemption from the detailed disclosure requirements in paragraph 17 of AASB 124 Related Party Disclosures for KMP services provided by a management entity. Payments made to a management entity in respect of KMP services should be separately disclosed.

The Bank has reviewed the impact of the above and determined there to be no material impact on the Consolidated Entity.

All other amendments to standards applicable for the 2016 year end do not impact the Consolidated Entity.

The following standards and amendments have been identified as those which may impact the Consolidated Entity and the majority were available for early adoption at 31 August 2016 but have not been applied in these financial statements.

- AASB 9 *Financial Instruments* - This standard introduces changes in the classification and measurement of financial assets and liabilities, including a new expected loss model for impairment and simplifications to hedge accounting. This standard becomes mandatory for the Group's 31 August 2019 financial statements and a program for implementation has commenced. The potential financial impact has not yet been determined.
- AASB 2014-4 *Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to AASB 116 and AASB 138)* - Establishes the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset. The potential effects of this standard is yet to be determined.
- AASB 15 *Revenue from contracts with customers* - The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The model features a contract based five-step analysis of transactions to determine whether, how much and when revenue is recognised. The potential effects of this standard is yet to be determined.
- AASB 16 *Leases* - This standard makes changes to the accounting for leases by Lessees. Lessees are required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee measures right-of-use assets similarly to other non-financial assets and lease liabilities similarly to other financial liabilities. Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. AASB 16 substantially carries forward the lessor accounting requirements in AASB 117. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The potential effects of this standard is yet to be determined.

6.10 SIGNIFICANT ACCOUNTING POLICIES & NEW ACCOUNTING STANDARDS (CONTINUED)

(d) Impairment of non-financial assets

Non-financial assets other than deferred tax assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. For goodwill, and intangible assets with an indefinite life, the recoverable amount is estimated each year at the same time.

The Bank conducts an annual internal review of non-financial asset values to assess for any indicators of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets - Cash Generating Units ('CGU'). An impairment loss is recognised in profit or loss in the Income Statement for the amount by which the asset's carrying amount exceeds its recoverable amount. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit on a pro rata basis.

This grouping is subject to an operating segment ceiling test. Non-financial assets, other than goodwill, that suffered impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed. An impairment loss in respect of goodwill is not reversed.

(i) Calculation of recoverable amount

The recoverable amount of a non-financial asset or CGU is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(e) Leases

(i) Finance leases

Finance leases in which the Bank is the lessor, are recorded in the Balance Sheet as loans and advances at amortised cost. They are recorded on the commencement of the lease as the net investment in the lease, being the present value of the minimum lease payments.

The Consolidated Entity does not have finance leases as lessee.

(ii) Operating leases

Operating leases in which the Bank is the lessee, are expensed on a straight-line basis over the term of the lease, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased property. When an operating lease terminates before the lease period expires, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

(f) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax ('GST'), except where the amount of GST incurred is not recoverable from the Australian Tax Office ('ATO'). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or current liability in the Balance Sheet.

Cash flows are included in the Statements of Cash Flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(g) Property, plant & equipment

(i) Recognition and initial measurement

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation and accumulated impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

(ii) Subsequent costs

Subsequent additional costs are only capitalised when it is probable that future economic benefits in excess of the originally assessed performance of the assets will flow to the Bank in future years. Where these costs represent separate components, they are accounted for as separate assets and are separately depreciated over their useful lives. Costs that do not meet the criteria for subsequent capitalisation are expensed as incurred.

(iii) Subsequent measurement

The Bank has elected to use the cost model to measure property, plant and equipment after recognition. The carrying value is the initial cost less accumulated depreciation and any accumulated impairment losses.

(iv) Depreciation

Depreciation is charged to the profit or loss in the Income Statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated.

The estimated useful lives are as follows:

	Years
IT Equipment	3-10
Plant, furniture and equipment	3-20
Leasehold improvements (1)	12

(1) Or term of lease if less.

The residual value if significant, is reassessed annually.

6.11 CHANGES TO COMPARATVIES

Certain amounts reported as comparative information have been restated for the Bank as a result of a review of the accounting for investments in subsidiaries in the Bank entity following transfer of businesses under the *Financial Sector (Business Transfer and Group Restructure) Act 1999*. This process was undertaken as part of the Authorised Deposit-taking Institution ('ADI') hand back following the acquisitions of BOQ Specialist (Aust) Limited, BOQ Home Pty Ltd and Pioneer Permanent Pty Ltd.

During the year, the classification of the Bank's Balance Sheet has changed to reflect the transfer of certain assets and liabilities from the Consolidated Entity to the Bank relating to the ADI licence handback. This was offset by a reduction in the carrying value of shares in controlled entities. The Consolidated Entity was not impacted by the internal transfer and there was no loss of value in the Consolidated Entity. The key changes for the Bank include:

- A reduction of $681 million in the carrying value of shares in controlled entities.
- Transfer of $647 million of intangibles from the Consolidated Entity to the Bank comprising $611 million of Goodwill, $32 million of customer contracts net of amortisation and $4 million of computer software net of amortisation.
- Amortisation of the customer contracts and computer software of $38 million in retained profits in the Bank.

The following changes impacted the Bank's Statements of Changes in Equity. There was no impact to the Consolidated Entity:

Bank	Ordinary shares	Employee benefits reserve	Equity reserve for credit losses	Cash-flow hedge reserve	Available-for-sale reserve	Reported Retained profits	Increase/ (Decrease)	Restated Retained profits	Total equity
Year ended 31 August 2015	$m	$m	$m	$m	$m	$m	$m	$m	$m
Balance at beginning of the year	3,024	33	57	(29)	37	141	(38)	103	3,225
Total comprehensive income for the year									
Profit	-	-	-	-	-	292	-	292	292
Other comprehensive income, net of income tax									
Cash flow hedges:									
Net losses taken to equity	-	-	-	(72)	-	-	-	-	(72)
Net gains transferred to profit and loss	-	-	-	10	(8)	-	-	-	2
Change in fair value of assets available-for-sale	-	-	-	-	35	-	-	-	35
Transfers to equity reserve for credit losses	-	-	11	-	-	(11)	-	(11)	-
Total other comprehensive income / (expense)	-	-	11	(62)	27	(11)	-	(11)	(35)
Total comprehensive income / (expense) for the year	-	-	11	(62)	27	281	-	281	257
Transactions with owners, recorded directly in equity									
Contributions by and distributions to owners									
Issues of ordinary shares	11	-	-	-	-	-	-	-	11
Dividend reinvestment plan	93	-	-	-	-	-	-	-	93
Dividends to shareholders	-	-	-	-	-	(256)	-	(256)	(256)
Equity settled transactions	-	1	-	-	-	-	-	-	1
Total contributions by and distributions to owners	104	1	-	-	-	(256)	-	(256)	(151)
Balance at the end of the year	3,128	34	68	(91)	64	166	(38)	128	3,331

6.11 CHANGES TO COMPARATVIES (CONTINUED)

The following changes impacted the Bank Balance Sheet. There was no impact to the Consolidated Entity:

	Reported Bank 2015 $m	Increase/ (Decrease) $m	Restated Bank 2015 $m
Assets			
Cash and liquid assets	553	-	553
Due from other financial institutions - Term deposits	19	-	19
Financial assets available-for-sale	2,996	-	2,996
Financial assets held for trading	1,940	-	1,940
Derivative financial assets	162	-	162
Loans and advances at amortised cost	36,830	4	36,834
Other assets	240	-	240
Shares in controlled entities	1,543	(681)	862
Property, plant and equipment	52	-	52
Deferred tax assets	74	-	74
Intangible assets	133	647	780
Total assets	44,542	(30)	44,512
Liabilities			
Due to other financial institutions - Accounts payable at call	259	-	259
Deposits	35,378	-	35,378
Derivative financial liabilities	283	-	283
Accounts payable and other liabilities	345	-	345
Current tax liabilities	55	-	55
Provisions	50	-	50
Borrowings including subordinated notes	3,896	4	3,900
Amounts due to controlled entities	907	4	911
Total liabilities	41,173	8	41,181
Net assets	3,369	(38)	3,331
Equity			
Issued capital	3,128	-	3,128
Reserves	75	-	75
Retained profits	166	(38)	128
Total Equity	3,369	(38)	3,331

DIRECTORS' DECLARATION

1. In the opinion of the Directors of Bank of Queensland Limited (the 'Bank'):

   (a) the consolidated financial statements and notes and the remuneration report included within the Directors' report set out on pages 44 to 134, are in accordance with the *Corporations Act 2001*, including:

      (i) giving a true and fair view of the financial position of the Bank and Consolidated Entity as at 31 August 2016 and of their performance, for the year ended on that date; and

      (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

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

2. There are reasonable grounds to believe that the Bank and the Controlled Entities identified in Section 6.5 (a) will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Bank and those Controlled Entities pursuant to ASIC Class Order 98/1418.

3. The Directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the Chief Executive Officer and Chief Financial Officer for the financial year ended 31 August 2016.

4. The Directors draw attention to Section 1.2 (a) to the financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the Directors:

Roger Davis
Chairman

5 October 2016

Jon Sutton
Managing Director and CEO

5 October 2016

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF BANK OF QUEENSLAND LIMITED

REPORT ON THE FINANCIAL REPORT

We have audited the accompanying financial report of Bank of Queensland Limited (the 'Bank'), which comprises the Balance Sheets as at 31 August 2016 and the Income Statements, Statements of Comprehensive Income, Statements of Changes in Equity and Statements of Cash Flows for the year ended on that date, Sections 1 to 6 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Bank and the Consolidated Entity comprising the Bank and the entities it controlled at the year's end or from time to time during the financial year.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL REPORT

The directors of the Bank are responsible for the preparation of the 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 financial report that is free from material misstatement whether due to fraud or error. In Section 1.2 (a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report of the Bank and the Consolidated Entity comply with International Financial Reporting Standards.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Bank's and the Consolidated Entity's financial position and of their performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF BANK OF QUEENSLAND LIMITED

KPMG

INDEPENDENCE

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

AUDITOR'S OPINION

In our opinion:

(a) the financial report of Bank of Queensland Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Bank's and the Consolidated Entity's financial position as at 31 August 2016 and of their performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

(b) the financial report of the Bank and the Consolidated Entity also complies with International Financial Reporting Standards as disclosed in Section 1.2 (a).

REPORT ON THE REMUNERATION REPORT

We have audited the Remuneration Report included on pages 45 to 64 of the directors' report for the year ended 31 August 2016. The directors of the Bank are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

AUDITOR'S OPINION

In our opinion, the remuneration report of Bank of Queensland Limited for the year ended 31 August 2016, complies with Section 300A of the *Corporations Act 2001*.

KPMG

Martin McGrath
Partner
Sydney
5 October 2016

Robert Warren
Partner
Sydney
5 October 2016

SHAREHOLDING DETAILS

As at Tuesday 27 September 2016, the following shareholding details applied:

1. TWENTY LARGEST ORDINARY SHAREHOLDERS

Shareholder	No. of ordinary shares	%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	64,243,627	16.86
J P MORGAN NOMINEES AUSTRALIA LIMITED	37,242,050	9.78
NATIONAL NOMINEES LIMITED	29,043,536	7.62
CITICORP NOMINEES PTY LIMITED	27,776,642	7.29
MILTON CORPORATION LIMITED	7,306,078	1.92
BNP PARIBAS NOMS PTY LTD	4,862,056	1.28
CITICORP NOMINEES PTY LIMITED	3,452,902	0.91
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED	3,248,901	0.85
JBWERE (NZ) NOMINEES LTD	1,423,870	0.38
WASHINGTON H SOUL PATTINSON AND COMPANY LIMITED	1,344,347	0.35
UBS NOMINEES PTY LTD	1,113,526	0.29
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	984,998	0.26
BNP PARIBAS NOMINEES PTY LTD	921,328	0.24
AMP LIFE LIMITED	863,195	0.23
BKI INVESTMENT COMPANY LIMITED	810,000	0.21
CARLTON HOTEL LIMITED	767,873	0.20
KARATAL HOLDINGS PTY LTD	692,344	0.18
THE MANLY HOTELS PTY LIMITED	655,540	0.17
MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	630,781	0.17
THE TRUST COMPANY SUPERANNUATION LIMITED	620,600	0.16
Total	188,004,194	49.35

Voting rights

On a show of hands every person present who is a holder of ordinary shares or a duly appointed representative of a holder of ordinary shares has one vote, and on a poll each member present in person or by proxy or attorney has one vote for each share that person holds.

SHAREHOLDING DETAILS

As at Tuesday 27 September 2016, the following shareholding details applied:

2. TWENTY LARGEST CPS SHAREHOLDERS

Shareholder	No. of ordinary shares	%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	120,132	4.00%
J P MORGAN NOMINEES AUSTRALIA LIMITED	85,071	2.84%
BNP PARIBAS NOMS PTY LTD	58,357	1.95%
MILTON CORPORATION LIMITED	50,000	1.67%
NULIS NOMINEES (AUSTRALIA) LIMITED	35,310	1.18%
NAVIGATOR AUSTRALIA LTD	33,669	1.12%
DOMER MINING CO PTY LTD	32,200	1.07%
THE TRUST COMPANY SUPERANNUATION LIMITED	31,695	1.06%
HAVENFLASH PTY LTD	21,000	0.70%
MR GERHARD JANSSEN & MRS GABRIELE MALUGA	13,181	0.44%
MR JOHN HARRISON VALDER & MRS KAY ORMONDE VALDER	10,000	0.33%
SOUTHERN METROPOLITAN CEMETERIES	10,000	0.33%
EASTCOTE PTY LTD	10,000	0.33%
BCITF (QLD)	10,000	0.33%
F & B INVESTMENTS PTY LIMITED	10,000	0.33%
JILRIFT NO 2 PTY LTD	9,482	0.32%
AUSTRALIAN EXECUTOR TRUSTEES LIMITED	9,098	0.30%
JILLIBY PTY LTD	9,000	0.30%
BAPTIST INVESTMENTS AND FINANCE LTD	8,546	0.28%
WINCHELADA PTY LIMITED	8,140	0.27%
Total	574,881	19.15%

Voting rights

The CPS do not give the holders any voting rights at any general shareholders meetings, except in certain circumstances.

3. DISTRIBUTION OF EQUITY SECURITY HOLDERS

	Ordinary Shares		CPS	
Category	**2016**	2015	**2016**	2015
1 - 1,000	**58,885**	57,787	**5,850**	6,099
1,001 - 5,000	**29,088**	27,587	**342**	340
5,001 - 10,000	**5,336**	5,051	**27**	23
10,001 - 100,000	**2,713**	2,500	**9**	13
100,000 - and over	**70**	71	**1**	-
Total	**96,092**	92,996	**6,229**	6,475

The number of ordinary shareholders holding less than a marketable parcel is 3,428.

The number of convertible preference shareholders holding less than a marketable parcel is nil.

SHAREHOLDING DETAILS

4. PARTLY PAID SHARES

There are no partly paid shares.

5. THE NAMES OF SUBSTANTIAL SHAREHOLDERS IN THE BANK AND THE NUMBER OF SHARES IN WHICH EACH HAS AN INTEREST AS DISCLOSED IN SUBSTANTIAL SHAREHOLDER NOTICES GIVEN TO THE BANK ARE:

Substantial shareholders	No. of ordinary shares in which interest is held (at date of notification)	Date of notification
BlackRock Group	19,145,139	26 July 2016

6. SECURITIES EXCHANGE LISTING

The shares of Bank of Queensland Limited ('BOQ') and CPS ('BOQPD') are quoted on the Australian Securities Exchange.

7. OPTIONS

At 31 August 2016 there were no options over unissued ordinary shares.

8. ON MARKET BUY-BACK

There is no current on market buy-back.

9. OTHER INFORMATION

Bank of Queensland Limited is a publicly listed company limited by shares and is incorporated and domiciled in Australia.

SHAREHOLDER INFORMATION

SHARE REGISTRY

Link Market Services Limited
Level 15
324 Queen Street
Brisbane Qld 4000

Australia: 1800 779 639
International: +61 2 8280 7626
Facsimile: +61 2 9287 0303

Email: boq@linkmarketservices.com.au
linkmarketservices.com.au

COMPANY DETAILS

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CUSTOMER SERVICE

1300 55 72 72 (within Australia)
+61 7 3336 2420 (overseas)

ABN 32 009 656 740
CAN 009 656 740

KEY SHAREHOLDER DATES

Dividend dates for ordinary shares only

2016

Final ex-dividend date	27 October 2016
Final dividend record date	28 October 2016
Final dividend payment date	22 November 2016
Annual General Meeting	30 November 2016

2017

Financial half year end	28 February 2017
Interim results and dividend announcement	30 March 2017
Interim ex-dividend date	20 April 2017
Interim dividend record date	21 April 2017
Interim dividend payment date	17 May 2017
Financial full year end	31 August 2017
Full year results and dividend announcement	12 October 2017
Final ex-dividend date	2 November 2017
Final dividend record date	3 November 2017
Final dividend payment date	23 November 2017
Annual General Meeting	30 November 2017

5 YEAR FINANCIAL SUMMARY

$ millions (unless otherwise stated)	**2016 $m**	2015 $m	2014 $m	2013 $m	2012 $m
Financial performance					
Net interest income	**937**	907	761	695	656
Non interest income	**173**	180	169	163	161
Total income	**1,110**	1,087	930	858	817
Operating expenses	**(520)**	(500)	(408)	(380)	(373)
Underlying profit before tax (1)	**590**	587	522	478	444
Loan impairment expense	**(67)**	(74)	(86)	(115)	(401)
Cash earnings before tax	**523**	513	436	363	43
Cash earnings after tax attributable to ordinary shareholders (2)	**360**	357	301	248	21
Statutory net profit (loss) after tax	**338**	318	261	186	(17)
Financial position (3)					
Gross loans and advances (4)	**43,152**	40,975	38,426	35,302	34,560
Total assets	**50,853**	48,018	46,905	42,528	41,758
Customer deposits	**29,122**	26,914	26,266	23,968	22,270
Total liabilities	**47,266**	44,549	43,564	39,711	38,859
Total equity	**3,587**	3,469	3,341	2,817	2,899
Shareholder performance					
Market capitalisation at balance date	**4,020**	4,698	4,560	3,070	2,331
Share price at balance date ($)	**10.55**	12.67	12.58	9.60	7.55
Basic cash earnings per share (cents) (5)	**95.6**	97.3	89.5	78.1	7.9
Diluted cash earnings per share (cents) (5)	**90.7**	92.2	87	75.1	7.9
Fully franked ordinary dividend per share (cents)	**76**	74	66	58	52
Dividend payout ratio to ordinary shareholders	**80%**	77%	87%	99%	n/a
Cash earnings ratios (6)					
Net interest margin (%) (7)	**1.94%**	1.97%	1.82%	1.69%	1.67%
Cost-to-income ratio (%)	**46.8%**	46.0%	43.9%	44.3%	45.7%
Return on average ordinary equity (%)	**10.3%**	10.7%	10.4%	9.4%	1.3%
Capital adequacy					
Common equity tier 1 ratio (%)	**9.00%**	8.91%	8.63%	8.63%	8.58%
Total capital adequacy ratio (%)	**12.29%**	12.72%	12.02%	12.24%	12.56%

(1) Underlying profit before tax is profit before impairment on loans and advances, significant items and tax.
(2) Cash earnings after tax exclude significant items (tax effected).
(3) Includes BOQ Specialist (Aust) Limited.
(4) Before specific and collective provisions.
(5) Basic and diluted earnings per share for FY12 and FY13 have been adjusted for the effect of the rights issue that occurred during the current financial year.
(6) Excludes impact of significant items.
(7) Excluding amortisation of fair value adjustments (acquisitions).

Term	Description
Alternative Liquid Asset ('ALA')	Qualifying Collateral for the Committed Liquid Facility comprising of all assets eligible for repurchase transactions with the RBA under normal market conditions and any other assets nominated by the RBA.
APRA Prudential Standard ('APS')	Prudential Standards issued by APRA applicable to ADIs.
Australian Accounting Standards ('AASB')	A series of technical pronouncements that set out the measurement and recognition requirements when accounting for particular types of transactions and events, along with the preparation and presentation requirements of an entity's financial statements.
Australian Equipment Lessors Association ('AELA')	AELA is the national association for the equipment leasing and financing industry.
Australian Prudential Regulation Authority ('APRA')	APRA is the prudential regulator of banks, insurance companies and superannuation funds, credit unions, building societies and friendly societies.
Australian Securities Exchange ('ASX')	Australian Securities Exchange or ASX Limited ABN 98 008 624 691 and the market operated by ASX Limited.
Authorised Deposit-Taking Institution ('ADI')	A corporations which is authorised under the *Banking Act 1959* and includes banks, building societies and credit unions.
Available for Sale ('AFS')	Available for sale is an accounting term used to classify financial assets. AFS assets represent securities and other financial investments that are neither held for trading, nor held to maturity. Under IFRS, AFS assets are defined as being all financial assets that do not fall into one of the other IFRS financial asset classifications.
Average Interest Earning Assets	Average balance over the period for a bank's assets that accrue interest income.
Bank of Queensland Limited ('the Bank') ('BOQ')	The Bank is a for profit entity primarily involved in providing retail banking, leasing finance, and insurance products, to its customers.
BASEL III	A global regulatory framework to improve the regulation, supervision and risk management within the banking system developed by the Basel Committee on Banking Supervision.
Basis points ('bps')	One per cent of one per cent (0.01%)
Cash Earnings	Cash Earnings is a non-Accounting Standards measure commonly used in the banking industry to assist in presenting a clear view of the bank's underlying earnings
Committed Liquidity Facility ('CLF')	The Reserve Bank provides a CLF as part of Australia's implementation of the Basel III liquidity reforms. The facility, which is required because of the limited amount of government debt in Australia, is designed to ensure that participating ADIs have enough access to liquidity to respond to an acute stress scenario, as specified under the relevant APS.
Common Equity Tier 1 ('CET1')	Capital that is recognised as the highest quality component of capital under APRA Prudential Standards.
Common Equity Tier 1 ratio ('CET1 ratio)	CET1 capital divided by total risk-weighted assets calculated in accordance with relevant APS.
Consolidated Entity ('the Group')	The Bank and its' subsidiaries.
Convertible Preference Shares ('CPS')	CPS are fully paid, non-cumulative, perpetual, convertible, unguaranteed and unsecured preference shares with preferred, discretionary dividends, issued by companies.
Cost to Income ratio	Operating expenses divided by net operating income.
Days past due ('dpd')	A loan or lease payment that has not been made by a customer by the due date.
Dividend Payout ratio	Dividends paid on ordinary shares divided by earnings per share.
Dividend reinvestment plan ('DRP')	Provides shareholders with the opportunity to convert all or part of their entitlement to a dividend into new shares at a current plan discount of 1.5%.
Dividend Yield	Dividend shown as a percentage of the share price.
Earnings per Share ('EPS')	Measures of earnings attributed to each equivalent ordinary share over a twelve month period. Calculated by dividing the company's earnings by the weighted average number of shares on issue in accordance with AASB 133 *Earnings per share*.
Equipment Hire Purchase ('EHP')	EHP trust under the REDS securitisation program, issuing ABS to the term market.
Effective tax rate	Income tax expense divided by profit before tax.
Full Time Equivalent ('FTE')	A calculation based on number of hours worked by full and part time employees as part of their normal duties.

GLOSSARY

Term	Description
General Reserve for Credit Losses ('GRCL')	An estimate of the reasonable and prudent expected credit losses over the remaining life of the portfolio and on non-defaulted assets, not covered by provisions for impairment.
Gross Loans and Advances ('GLA')	Initially recognised at fair value plus incremental direct transaction costs and subsequently measured at each reporting date at amortised cost using the effective interest method.
High Quality Liquid Asset ('HQLA1')	Comprises of the Bank's notes and coins and marketable securities representing claims on or guaranteed by the Australian Government or Semi-Government authorities.
Impaired Assets	Exposures that have deteriorated to the point where full collection of principal and interest is in doubt.
Interest bearing liabilities	The bank's liabilities that accrue interest expense.
International Accounting Standard ('IAS')	A set of accounting standards developed by the International Accounting Standards Board stating how particular types of transactions and other events should be reflected in financial statements. These standards are currently being phased out and replaced by IFRS (see below)
International Financial Reporting Standards ('IFRS')	International Financial Reporting Standards and interpretations issued by the International Accounting Standards Board.
Issued Capital	Value of securities allotted in a company to its shareholders.
Line of Credit ('LOC')	A flexible facility that allows a customer to draw down on their approved available credit at any time, as long as the customer does not exceed the approved credit limit.
Liquid assets	All unencumbered RBA repurchase eligible liquid assets including HQLA1 and assets able to be pledged as collateral to the RBA under the CLF.
Liquidity Coverage Ratio ('LCR')	The ratio of high quality liquid assets that can be converted into cash easily and immediately in private markets, to total net cash flows required to meet the Group's liquidity needs for a 30 day calendar liquidity stress scenario as determined in accordance with APRA's prudential standards.
Net Interest Margin ('NIM')	Net interest income divided by average interest-earning assets.
Net Tangible Assets ('NTA')	Net tangible assets are calculated as the total assets of a company minus any intangible assets such as goodwill, less all liabilities and the par value of preferred stock.
Non-interest earning assets	The bank's assets that do not accrue interest income.
Owner Managed Branch ('OMB')	A branch which is run locally by a franchisee and delivers personal service to their customers.
Real Estate Debt Securities ('REDS')	An acronym to describe the BOQ securitisation programs.
Residential Mortgage Backed Securities ('RMBS')	A reference to a financial debt security that is secured by a pool of mortgages on residential property. Mortgages with varying credit ratings are grouped together and sold in tranches to investors by issuers as a source of funding.
Return on Average Equity ('ROE')	Net Profit attributable to the owners of the company divided by average ordinary equity.
Return on Average Tangible Equity ('ROTE')	Net profit attributable to the owners of the company divided by average ordinary equity less goodwill and identifiable intangible assets.
Risk Weighted Assets ('RWA')	A quantitative measure of various risks including credit, operational, market and securitisation as defined by APRA's prudential standards.
Share Capital	Company's issued and paid-up capital.
Total Capital Adequacy Ratio	Total capital divided by total risk-weighted assets 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')	Virgin Money (Australia) Pty Ltd and its subsidiaries. The VMA entities are subsidiaries of the Group that engages in the provision of financial services (e.g. insurance, superannuation and home lending) on behalf of business partners, including BOQ.
Weighted Average Number of Shares ('WANOS')	Calculated in accordance with AASB 133 *Earnings per Share*.
Wholesale Capital Notes ('WCN')	WCNs are similar to CPS as the notes may convert into common shares in certain circumstances as described in the offer documentation of the notes.

{Inside Back Cover}

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