

BOQ Covered Bond Trust

ABN 29 218 800 859

**Annual Financial Report for the year ended - 31 August
2022**

BOQ Covered Bond Trust
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31 August 2022

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**BOQ Covered Bond Trust
Trust Manager's Report
31 August 2022**

For the purposes of this report, the 'Trust Manager' refers to B.Q.L. Management Pty Ltd in its capacity as Manager of BOQ Covered Bond Trust (the Trust). The Trust Manager has prepared this general purpose financial report.

The Trust Manager presents its report together with the financial statements of the Trust for the financial year ended 31 August 2022.

Principal activities

The Trust was established with the purpose of carrying on a business to provide funds for the purchase of a cover pool of assets by equitable assignment and to guarantee the covered bonds issued by Bank of Queensland Limited (BOQ).

There have been no significant changes in the nature of the principal activities of the Trust during the year.

Operating and financial review

The operating loss after income tax for the financial year ended 31 August 2022 was \$(22,694) thousand (2021: \$16,299 thousand). As the income unitholders are presently entitled to all taxable profits, no income tax is payable by the Trust.

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since the end of the financial year and up until the date of this report, that has significantly affected, or may significantly affect the Trust's operations, the results of those operations, or the Trust's state of affairs in future financial years.

Likely developments and expected results of operations

Information on likely developments in the operations of the Trust and the expected results of operations have not been included in this report because the Trust Manager believes it would be likely to result in unreasonable prejudice to the Trust.

Environmental regulation

The Trust's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation.

Rounding

Amounts in this financial report have been rounded to the nearest thousand Australian dollars, unless otherwise stated.

**BOQ Covered Bond Trust
Statement by Trust Manager
31 August 2022**

In the opinion of the Trust Manager:

- (a) the financial report set out on pages 4 to 22 is drawn up so as to present fairly in all material respects in accordance with notes 2 and 3, the results and cash flows for the year ended 31 August 2022, and the state of affairs at 31 August 2022 of the BOQ Covered Bond Trust.
- (b) the Trust has operated during the year ended 31 August 2022 in accordance with the provisions of the BOQ Covered Bond Trust Deed ('Trust Deed') dated 4 May 2017.
- (c) at the date of this statement, there are reasonable grounds to believe that the Trust ('the Trust') will be able to pay its debts as and when they become due and payable.

Dated in Brisbane this 16th day of December 2022.

Signed on behalf of the Manager, B.Q.L. Management Pty Ltd,



Racheal Kellaway
Director of the Manager

BOQ Covered Bond Trust
Trustee's report
31 August 2022

The financial statements for the financial year ended 31 August 2022 have been prepared by the Trust Manager, B.Q.L. Management Pty Ltd, as required by the Covered Bond Trust Establishment Deed ('Establishment Deed') dated 24 April 2017.

The auditors of the Trust, PricewaterhouseCoopers, who have been appointed by the Trust Manager in accordance with the Establishment Deed, have conducted an audit of the financial statements.

Based on our ongoing program of monitoring the Trust, we believe that:

- (a) the Trust has been conducted in accordance with the Trust Deed and the Establishment Deed.
- (b) The Financial Report has been appropriately prepared and contains all relevant and required disclosures.

In making this statement, the Trustee has relied upon information, representations and warranties provided by the Trust Manager.

We are not aware of any material matters or significant changes in the state of affairs of the Trust occurring up to the date of this report that require disclosure in the financial statements and the notes thereto that have not already been disclosed.

Signed for and on behalf of
Perpetual Corporate Trust Limited



Nathan Gale
Senior Client Service Manager

Dated in Sydney this 16th day of December 2022.

BOQ Covered Bond Trust
Statement of profit or loss and other comprehensive income
For the year ended 31 August 2022

	Note	2022 \$'000	2021 \$'000
<i>Transactions with ultimate parent entity</i>			
Interest income on demand note loan		87,369	55,043
Interest income on cash and cash equivalents		658	-
<i>Transactions with ultimate parent entity</i>			
Interest expense		(40,018)	(25,329)
Net Interest Income		48,009	29,714
Other income		1,994	1,547
Total income		50,003	31,261
Operating expenses	5	(72,697)	(14,962)
Operating (loss)/profit before income tax		(22,694)	16,299
Income tax expense		-	-
Operating (loss)/profit after income tax		(22,694)	16,299
Profit/(loss) attributable to unitholders		22,694	(16,299)
Net profit and total comprehensive income for the year		-	-

The statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

BOQ Covered Bond Trust
Statement of financial position
As at 31 August 2022

	Note	2022 \$'000	2021 \$'000
Assets			
Cash and cash equivalents	14(a)	187,563	109,004
Receivables	6	15,912	16,049
Derivative financial assets	7	-	62,378
Demand note loan	8	4,339,592	3,078,114
Total assets		4,543,067	3,265,545
Liabilities			
Demand Note liability (Intercompany with ultimate parent entity)		1,856,615	884,670
Payables	9	29,217	14,147
Derivative financial liabilities	10	176,011	11,245
Interest bearing liabilities	11	2,548,675	2,362,329
Total liabilities (excluding net assets attributable to unitholders)		4,610,518	3,272,391
Represented by:			
Units on issue	12	-	-
Net liabilities attributable to unit holders	13	(67,451)	(6,846)
Total unitholders' funds		(67,451)	(6,846)

The statement of financial position should be read in conjunction with the accompanying notes.

BOQ Covered Bond Trust
Statement of changes in unitholders' funds
As at 31 August 2022

	Units on Issue \$'000	Net liabilities attributable to unitholders \$'000	Total \$'000
Balance at 31 August 2020	-	(1,985)	(1,985)
Profit / (loss) attributable to unitholder		16,299	16,299
Distributions during the period	-	(21,160)	(21,160)
Balance at 31 August 2021	-	(6,846)	(6,846)
Profit / (loss) attributable to unitholder		(22,694)	(22,694)
Distributions during the period	-	(37,911)	(37,911)
Balance at 31 August 2022	-	(67,451)	(67,451)

The statement of changes in unitholders' funds should be read in conjunction with the accompanying notes.

BOQ Covered Bond Trust
Statement of cash flows
For the year ended 31 August 2022

	Note	2022 \$'000	2021 \$'000
Cash flows from operating activities			
Interest and fees received		85,138	56,566
Interest and fees paid		(44,742)	(35,652)
Net cash inflow from operating activities	14(b)	40,396	20,914
Cash flows from investing activities			
Payment for demand note loan		-	-
Principal issuance of demand note loan		(1,258,294)	(124,306)
Net cash outflow from investing activities		(1,258,294)	(124,306)
Cash flows from financing activities			
Principal issuance of demand note liability		1,324,829	137,445
Cash received from funding of interest bearing liabilities		-	-
Distribution paid to income unit holder		(28,372)	(21,666)
Net cash inflow from financing activities		1,296,457	115,779
Net increase in cash and cash equivalents		78,559	12,387
Cash and cash equivalents at the beginning of the financial year		109,004	96,617
Cash and cash equivalents at the end of the financial year	14(a)	187,563	109,004

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

BOQ Covered Bond Trust
Notes to the financial statements
31 August 2022

Note 1. Reporting entity

The Trust was established by the Establishment Deed between the Trust Manager (B.Q.L. Management Pty Ltd), Issuer, Seller and Servicer (Bank of Queensland Limited – “the Bank”), the Covered Bond Guarantor (Perpetual Corporate Trust Limited) and the Security Trustee (P.T Limited) and the Trust Deed between the Issuer (Bank of Queensland Limited – “the Bank”), the Trust Manager (B.Q.L. Management Pty Ltd) , the Covered Bond Guarantor (Perpetual Corporate Trust Limited) and the Bond Trustee (BNY Trust Company of Australia Limited).

The Trust was established with the purpose of carrying on a business to provide funds for the purchase of a cover pool of assets by equitable assignment and to guarantee the covered bonds issued by Bank of Queensland Limited (**BOQ**).

The Trust is domiciled in Australia. The registered office of the Manager, B.Q.L. Management Pty Ltd, is Level 6, BOQ Village, 100 Skyring Terrace, Newstead, Queensland, 4006.

Note 2. Basis of preparation

Statement of compliance

The Trust is a for-profit entity for the purpose of preparing the financial statements and the financial report of the Trust has been drawn up to satisfy the requirements of the Establishment Deed.

The Trust in the current year, has prepared general purpose financial statements. The Trust has adopted AASB 1 First Time Adoption of Australian Accounting Standards (**AASB 1**) as at 1 September 2020, as the Trust was previously reporting under a ‘special purpose’ financial reporting framework in Australia.

The Trust prepares general purpose financial report as it was incorporated in reference to the Bank of Queensland Covered Bond program, under which debt issued by Bank of Queensland Limited was listed on the London Stock Exchange. The general purpose financial report has been prepared in accordance with Australian Accounting Standards (**AAS**) and Interpretations as issued by the Australian Accounting Standards Board.

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented unless otherwise stated.

The financial report also complies with International Financial Reporting Standards (**IFRSs**) as issued by the International Accounting Standards Board (**IASB**).

In accordance with the Establishment Deed, the Trust was constituted on 24 April 2017.

The Trust entered into an Intercompany Note Subscription Agreement dated 4 May 2017 with BOQ to fund the purchase of the Demand Note by equitable assignment. The Intercompany Note and the Demand Note loan collectively represent the debt of the Trust.

The financial report was authorised for issue by the Manager on 16 December 2022.

BOQ Covered Bond Trust
Notes to the financial statements
31 August 2022

Note 2. Basis of preparation (continued)

Basis of measurement

The financial report has been prepared on the historical cost basis except for certain assets and liabilities as described in the accounting policies below, if applicable.

Balance sheet presentation

Assets and liabilities have been presented in order of liquidity on the face of the balance sheet.

Functional and presentational currency

The financial report is presented in Australian dollars, which is the Trust's functional currency.

Accounting estimates and judgements

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods if affected.

Except as noted in 3(k) below there are no other areas which involve significant estimation, uncertainty and critical judgements in applying accounting policies that have a significant effect on the amounts recognised in the financial statements.

Note 3. Significant accounting policies

Consistency of accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Revenue recognition

Interest revenue

Interest income is recognised using effective interest rate on the financial asset. The effective interest rate is the rate that discounts estimated future receipts through the expected life of the financial asset or, where appropriate, a shorter period, to the net carrying amount of the financial asset. When calculating the effective interest rate, the Trust estimates cash flows considering all contractual terms of the financial instrument but not future credit losses. The calculation includes all amounts paid or received by the Trust that are an integral part of the effective interest rate, including transaction costs and all other premiums or discounts. Transaction costs include mortgage loan acquisition costs such as commissions paid to intermediaries.

(b) Income and expenses

Income and expenses are brought to account on an accruals basis. The Trust Manager and the Covered Bond Guarantor are entitled under the Bond Trust Deed, to be paid for certain expenses incurred in administering the Trust. The basis on which the expenses are paid is defined in the Establishment Deed. The amount paid is disclosed in the statement of profit or loss and other comprehensive income and was calculated in accordance with the Establishment Deed.

(c) Income tax

Under current legislation the Trust is not subject to income tax as the taxable income, including the assessable realised capital gains, is distributed in full to the unitholder. The Trust fully distributes its distributable income, calculated in accordance with the Establishment Deed (as amended) and applicable taxation legislation, to the unitholder who is presently entitled to the income.

Note 3. Significant accounting policies (continued)

(d) Cash and cash equivalents

Cash and cash equivalents include deposits held at call with a bank or financial institution and highly liquid investments with short periods to maturity which are readily convertible to cash at the Trust Manager's option and are subject to insignificant risk of changes in value.

(e) Demand Note Loan

The Demand Note Loan represents the Trust's interest in the cover pool assets purchased from the Bank by equitable assignment. The sale of the cover pool assets from the Bank to the Trust does not qualify for derecognition in accordance with AASB 9 *Financial Instruments* because the sale is deemed to have failed to transfer substantially all the risks and rewards of ownership. Consequently, the Bank continues to recognise the covered pool assets and recognises a corresponding financial liability to the Trust on its statement of financial position. In turn, the Trust recognises a financial asset due from the Bank, comprising of its interest in the residential mortgages and a corresponding financial liability to the Bank under the Intercompany Note Subscription Agreement.

The transfer of substantially all the risks and rewards of ownership is evaluated by comparing the entity's exposure, before and after the transfer, with the variability in the amounts and timing of the net cash flows of the transferred asset. An entity has retained substantially all the risks and rewards of ownership of a financial asset if its exposure to the variability of the future net cash flows from the financial asset does not change significantly as a result of the transfer.

Under the sale agreement, the Trust assumes any variability of principal cash flows from the cover pool, while the variability of the revenue cash flows, as a result of the interest rate swap agreement (refer note 3(f)) and the ownership of the income unit (refer note 12), remains with the Bank.

As a result, after considering all reasonably possible variability in net cash flows, with greater weight being given to those outcomes that are more likely to occur, the Bank is deemed to have failed to transfer substantially all of the risk and rewards. The Covered Bond has a Pass Through structure which has the feature of "Dual Recourse", meaning that in the event of a default of the Bank, an investor has recourse on the Bank and on the underlying mortgages.

Loans and receivables – expected credit loss

The Trust recognises a loss allowance for forward looking expected credit losses (**ECL**) on financial assets which are measured at amortised cost. The ECL allowance is based on the credit losses expected to arise over the next 12 months of the financial asset, unless there has been a significant increase in credit risk (**SICR**) since origination. In this case, the allowance is based on the ECL for the life of the financial asset. The 12 month ECL is the portion of lifetime ECLs resulting from default events on a financial asset that are possible within the 12 months after the reporting date.

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

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

- Stage 1 – For financial assets where there has not been a SICR since initial recognition and that are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default (**PD**) occurring within the next 12 months is recognised as the 12 month ECL, adjusted for forward-looking information. Stage 1 includes facilities where the credit risk has improved and the loan has been reclassified from Stage 2 or Stage 3.

Note 3. Significant accounting policies (continued)

(e) Demand Note Loan (continued)

- Stage 2 – When there has been a SICR, the lifetime ECL is determined with reference to the financial asset's lifetime PD and the lifetime losses associated with that PD, adjusted for forward-looking information. The Trust assesses whether there has been a SICR since initial recognition based on qualitative, quantitative, and reasonable and supportable forward-looking information that includes significant management judgement. Use of alternative criteria could result in significant changes to the timing and amount of ECL to be recognised. Lifetime ECL considers the expected behaviour of the asset as well as forward looking macro-economic forecasts. Stage 2 also includes facilities where the credit risk has improved and the loan has been reclassified from Stage 3.

- Stage 3 - This includes financial assets that are deemed to be credit impaired, which generally correspond to the APRA definition of default and include exposures that are at least 90 days past due. The provision is also equivalent to the lifetime ECL. Financial assets in Stage 3 will have a collective provision determined by the ECL model, although some loans are individually covered by a specific provision. A specific provision is calculated based on estimated future cash flows discounted to their present value, net of any collateral held against that financial asset.

Write-offs

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

Definition of default

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

Significant increase in credit risk

SICR for financial assets is assessed by comparing the risk of a default occurring over the expected life of a financial asset at the reporting date compared to the corresponding risk of default at origination. In determining what constitutes a significant increase in credit risk, the Trust considers qualitative and quantitative information.

For most of the Trust's asset mortgage portfolio, SICR is assessed using PD based triggers, by comparing the PD at the reporting date to the PD at origination. PD's are primarily assigned through either a Customer Risk Rating or statistical models, utilising account behaviours. For all loan portfolios, the primary indicator is in addition to the secondary SICR indicator, which is based on 30 days past due arrears information and other qualitative criteria.

Calculation of ECL

Both 12 month ECLs and lifetime ECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial assets. Where ECL is modelled collectively for portfolios of exposures, it is modelled primarily as the product of the PD, the loss given default (**LGD**) and the exposure at default (**EAD**). These parameters are generally derived from internally developed statistical models combined with historical, current, and forward-looking information, including macro-economic data:

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

Note 3. Significant accounting policies (continued)

(e) Demand Note Loan (continued)

Incorporation of forward-looking information

The credit risk factors described above are point in time estimates based on the probability weighted forward-looking economic scenarios. The inclusion of a forward-looking component in the model anticipates changes in the economic outlook and is an important component of the provisioning process. The Company considers four forward-looking macro-economic scenarios (base, upside, downside and severe downside) over the next three years. The scenarios are then probability weighted based on the likelihood of the scenario occurring to ensure ECL appropriately captures forward looking effects and considers the range of possible economic outcomes.

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

Economic outlook factors that are taken into consideration include, unemployment, interest rates, gross domestic product, commercial and residential property price indexes, and require an evaluation of both the current and forecast direction of the macro-economic cycle.

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

- **Base case scenario:** This scenario reflects the Company's forward looking economic assumptions where inflation remains high from supply chain effects causing further increases in cash rates. Base case assumptions are supported by RBA forecasts where available. Unemployment remains low for the short term, with modest increases occurring in later years as a result of higher cash rates having a slowing effect on the broader economy. Lower GDP growth is seen in late 2023 and 2024 due to the interest rate effects. Property prices declines are experienced aligning to rising interest rates.

- **Upside scenario:** This scenario represents a slight improvement on the economic conditions from the Base case.

- **Downside scenario:** This scenario represents stagflation effects, with rises in interest rates, no GDP growth and rising unemployment. Compared to the base case scenario, interest rate rises are not able to constrain inflation as early and therefore reach a higher peak. Other economic variables experience more stressed outcomes as a result.

- **Severe downside scenario:** This scenario also represents stagflationary economic outcomes and accounts for the potential impact of lower likelihood but higher severity macroeconomic conditions.

Governance

The parent entity's Executive Credit Committee has the delegation for reviewing and approving the methodology, and any judgements and assumptions. A Quarterly Economic Forum is held by the parent entity to discuss and approve future economic forecasts, and the associated probability weights and economic scenarios which are then incorporated into the Trust ECL model. Where applicable, management adjustments or overlays may be made to account for situations where known or expected risks and information have not been considered in the modelling process. Key areas of judgement, as determined by the parent entity and applied to the Trust's provision for impairment on loans and receivables, are reported to the parent entity's Audit Committee and Board at each reporting period.

BOQ Covered Bond Trust
Notes to the financial statements
31 August 2022

Note 3. Significant accounting policies (continued)

(f) Derivative financial instruments

The Trust enters into interest rate swaps with the Bank. The purpose of these swaps is to align the basis of revenue from the cover pool assets purchased under equitable assignment from the Bank (note 3(e)) to the interest expense under the financial liabilities. The interest rate swaps convert the revenue from the variable and fixed rate mortgages to a floating rate basis.

As a consequence of the Bank's sale of cover pool assets to the Trust not qualifying for derecognition (note 3(e)), *AASB 9 Financial Instruments* also denies the Trust from separately recognising derivatives that prevent a transfer of financial assets. Therefore, the Trust has not separately recognised internal interest rate swaps in the statement of financial position and no gains or losses have been recognised in the profit or loss.

The Trust enters into external cross currency swaps to manage its exposure to interest rate and currency risk. These derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately.

(g) Receivables

Receivables are carried at their amortised cost.

(h) Payables

Liabilities are recognised for amounts to be paid in the future for services received. Accounts payable are non-interest bearing, stated at amortised cost and are normally settled within 30 days.

(i) Interest bearing liabilities

Interest bearing liabilities are initially recognised at fair value. Subsequent measurement is at amortised cost using the effective interest rate method.

(j) 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 (or portion of GST incurred) is not recoverable from the Australian Taxation Office ('ATO'). In these circumstances the irrecoverable 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 liability in the statement of financial position.

Cash flows are included in the statement 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.

(k) Critical accounting assumptions and estimates

Applying the Trust's accounting policies requires the use of judgement, assumptions and estimates which impact the financial information.

Provision for ECL-The Trust's operating procedures removes delinquent loans from the underlying pool of residential mortgages, which is assumed to continue for future periods, hence no provision for ECL has been recorded on the deemed loan from ultimate parent.

Management have not made any other significant accounting judgements, estimates or assumptions in preparing these financial statements.

BOQ Covered Bond Trust
Notes to the financial statements
31 August 2022

Note 4. Auditor's remuneration

The auditor's remuneration for the Trust is paid by the parent entity, the Bank. The following amounts were attributable to the Trust in relation to the audit, transaction testing and the securitisation set up fees for the Trust.

Fees paid to the Auditor of the Trust, PricewaterhouseCoopers (2021: KPMG Australia):

	2022	2021
	\$	\$
Audit services:		
Audit of financial reports	10,000	16,896
Other Services:		
Other Services	-	26,522
	10,000	43,418

Note 5. Operating expenses

	2022	2021
	\$'000	\$'000
Unrealised loss on derivatives	(60,605)	(4,861)
Servicing fee with related entities	(7,723)	(6,331)
Management fee with related entities	(3,089)	(2,532)
Guarantor fee	(578)	(475)
Other expenses	(702)	(763)
	(72,697)	(14,962)

Note 6. Receivables

Transactions with ultimate parent

Interest receivable from mortgagors	6,493	3,473
Interest collections receivable from servicer	397	378
Principal collections receivable from servicer	9,014	12,198
Other receivables	8	-
	15,912	16,049

Receivables to be recovered within 12 months. As at 31 August 2022, there were no overdue amounts from receivables (2021: nil)

Note 7. Derivative Financial Assets

Cross currency swap	-	62,378
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BOQ Covered Bond Trust
Notes to the financial statements
31 August 2022

	2022	2021
	\$'000	\$'000

Note 8. Demand Note loan

Demand Note loan with ultimate parent entity	4,339,592	3,078,114
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The balance of the Demand Note loan represents the outstanding balance of the mortgage loans in the cover pool. The collateral against the cover pool held by BOQ is in the form of mortgage interests over Australian residential property. Estimates of fair value are based on the value of collateral assessed at the time of origination, and generally are not updated except when a loan is individually assessed as impaired.

The potential for impairment of the secured loan reflects the potential impairment of the underlying cover pool assets managed by BOQ. Given the credit quality of the mortgage loans including the current level of collateral held against the cover pool, no assets are deemed impaired for the Trust as at balance date. No allowance for impairment is currently deemed necessary for the Trust. Interest on all loans continues to be taken to income, including those which are past due but not impaired.

Note 9. Payables

Distribution payable to income unitholder the ultimate parent entity	17,028	7,489
Interest payable to noteholders	10,573	3,479
Interest rate swap payable	448	2,293
Other	1,168	886
	29,217	14,147

Payables to be settled within 12 months. As at 31 August 2022, there were no overdue amounts from payables (2021: nil)

Note 10. Derivative financial liabilities

Cross currency swap	176,011	11,245
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Note 11. Interest bearing liabilities

Covered bond liability ⁽¹⁾	2,548,675	2,362,329
	2,548,675	2,362,329

(1) The Covered bond liability represents the Australian equivalent of EUR 1.1bn issued by the Bank (2021: EUR 1bn) with the remaining balance being AUD issuances.

BOQ Covered Bond Trust
Notes to the financial statements
31 August 2022

Note 12. Units on issue

	No. of units	2022 \$	2021 \$
Income Unit	1	10	10
Capital Unit	10	100	100
	11	110	110

Interest of Income unitholder

The income unit holder in the Trust is the Bank. The interest of the Income Unitholder in the Trust comprises its entitlement to the net Trust income in respect of a financial year under Clause 10.6 *Entitlement of Income Unitholder* of BOQ Covered Bond Trust Establishment Deed.

Interest of Capital Unitholders

The capital unit holder in the Trust is the Bank. The interest of a Capital unitholder in the Trust comprises an interest in its proportion (being the proportion the number of capital units in respect of which it is capital unitholder bears to the total number of capital units in the Trust) of any assets of the Trust remaining after payment of any amount due to the income unitholder in satisfaction of the income unitholder's entitlement under Clause 5.3 *Interest of Income Unitholder* of BOQ Covered Bond Trust Establishment Deed.

Note 13. Net liabilities attributable to unitholders

	2022 \$'000	2021 \$'000
Net liabilities attributable to unitholders	(67,451)	(6,846)
Total net liabilities attributable to unitholders	(67,451)	(6,846)
Movements in net liabilities attributable to unitholders		
Opening Balance	(6,846)	(1,985)
Profit / (loss) attributable to unitholder	(22,694)	16,299
Distributions during the period	(37,911)	(21,160)
Closing balance	(67,451)	(6,846)

Note 14. Notes to statement of cash flows

(a) Reconciliation of cash

Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

Cash and cash equivalents	187,563	109,004
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Note 15. Financial risk management (continued)

Monitoring

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

1. Market;
2. Credit; and
3. Liquidity.

a) Market risk

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

i. Interest rate risk management

The operations of the Trust 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 Trust's assets and liabilities. The Trust is not materially impacted by market interest rates due to economic hedging of interest bearing assets and interest bearing liabilities.

ii. Foreign exchange risk

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

The Trust uses cross currency swaps to hedge its exchange rate exposures arising from borrowing off-shore in foreign currencies.

b) Credit risk

Credit risk is the potential loss arising from the possibility that customers or counterparties fail to meet contractual payment obligations to the Trust as they fall due.

The Board of the ultimate Parent has implemented a structured framework of policies, 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 Credit policies, lending standards and procedures;
- a process for approving risk, based on tiered delegated approval authorities, whereby the largest exposures are assessed by the Executive Credit Committee consisting of senior executives and senior risk managers, chaired by the Group Chief Risk Officer;
- risk grading the Bank's commercial exposures based on items inclusive of financial performance and stability, organisational structure, industry segment and security support. Exposures within this segment of the portfolio are generally subject to annual review which may include reassessment of the assigned risk grade;
- an automated scorecard and decision strategy model for the Bank's retail portfolio inclusive of home loan and personal loan lending. This model is supported by experienced risk assessment managers and a credit hindsight framework; and
- a series of management reports detailing industry concentrations, counterparty concentrations, loan grades and security strength ratings.

Note 15. Financial risk management (continued)

b) Credit risk (continued)

The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operating, financing and investing activities. In accordance with its treasury and financial markets risk policies. Credit risk on derivative contracts used for these purposes is minimised as counterparties are either qualifying central counterparties or 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.

The carrying amount of financial assets represents the maximum credit exposure.

ii. Credit quality

The credit quality categories of financial assets have been determined based on Standard & Poor's credit ratings, APRA risk weightings and the ultimate parents standard risk grading. The categories are classified as below:

- High grade – generally corresponds to Standard & Poor's credit ratings AAA+ to BBB-;
- Satisfactory – generally corresponds to Standard & Poor's credit rating BB+ to B;
- Weak – generally corresponds to Standard & Poor's credit ratings up to B; and
- Unrated – Loans and advances which have been classified as unrated are not secured, however these are not deemed to be weak.

The maximum exposure to credit risk and the credit quality at the reporting date was:

	2022	2021
	\$'000	\$'000
High Grade		
Cash and cash equivalents	187,563	109,004
Demand Note Loan	4,339,592	3,078,114
	<hr/>	<hr/>
Total credit exposures	4,527,155	3,187,118
	<hr/>	<hr/>

The Trust has a credit exposure of \$4,527,155 thousand comprised mainly of loan assets securing the demand note loan of \$4,339,592 thousand. 96% of the underlying loans are Stage 1 based on the ultimate parents ECL model classification.

BOQ Covered Bond Trust
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31 August 2022

Note 15. Financial risk management (continued)

c) Liquidity risk

Liquidity risk arises from the possibility that the Trust is unable to meet its financial obligations as they fall due or incurs a loss on converting a position or selling an asset for cash to meet such obligations. These obligations include the repayment of liabilities on demand or at their contractual maturity, the repayment of borrowings as they mature and the payment of interest on borrowings. The table below set out the amount of contractual maturity of financial liabilities.

31 August 2022	Total contractual cashflows						
	Carrying amount	At Call	3 months or less	3 to 12 months	1 to 5 years	Over 5 years	Total
	\$,000	\$,000	\$,000	\$,000	\$,000	\$,000	\$,000
Financial liabilities							
Payables	29,217	-	29,217	-	-	-	29,217
Derivative liabilities	176,011	-	10,247	37,484	257,636	-	305,367
Covered bond liability	2,548,675	-	3,689	29,996	2,644,892	-	2,678,577
Demand note liability (intercompany)	1,856,615	1,856,615	-	-	-	-	1,856,615
Total financial liabilities	4,610,518	1,856,615	43,153	67,480	2,902,528	-	4,869,776

31 August 2021	Total contractual cashflows						
	Carrying amount	At Call	3 months or less	3 to 12 months	1 to 5 years	Over 5 years	Total
	\$,000	\$,000	\$,000	\$,000	\$,000	\$,000	\$,000
Financial liabilities							
Payables	14,147	-	14,147	-	-	-	14,147
Derivative liabilities	11,245	-	2,025	4,877	26,021	-	32,923
Covered bond liability	2,362,329	-	2,030	817,207	1,580,234	-	2,399,471
Demand note liability (intercompany)	884,670	884,670	-	-	-	-	884,670
Total financial liabilities	3,272,391	884,670	18,202	822,084	1,606,255	-	3,331,211

16. Fair value of financial instruments

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

- Derivatives – Level 2;

The fair value estimates for instruments carried at amortised cost have, materially, equated to their carrying value and are based on the methodologies and assumptions below. Although, in an environment of rising interest rates, there is an opportunity for divergence between carrying value and fair value this is not expected to be significant as at the reporting date.

Cash and cash equivalents, receivables and payables

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

Demand Note Loan

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

Interest bearing liabilities

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

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

Level 1: This category includes assets and liabilities for which the valuation is determined from inputs based on unadjusted quoted market prices in active markets for identical instruments;

Level 2: This category includes assets and liabilities for which the valuation is determined from inputs other than quoted prices included within level 1, which are observable either directly or indirectly. This includes the use of discounted cash flow analysis, option pricing models and other market accepted valuation models; and

Level 3: This category includes assets and liabilities for which the valuation includes inputs that are not based on observable market data. This includes equity instruments where there are no quoted market prices.

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

- Demand note loan – Level 3.
- Interest bearing liabilities – Level 2.

There was no movement between levels during the year.

The carrying values for instruments at amortised cost approximate their fair values.

BOQ Covered Bond Trust
Notes to the financial statements
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17. Related Party disclosures

The Manager of the Bank of Queensland Covered Bond Trust is B.Q.L. Management Pty. Ltd., incorporated in Australia. The Manager is a wholly owned subsidiary of Bank of Queensland Limited, incorporated in Australia.

a) Parent entity

Bank of Queensland Limited is the immediate and ultimate parent entity of the Trust.

b) Key management personnel (KMP)

Key management personnel are those who, directly or indirectly, have authority and responsibility for planning, directing and controlling the activities of the Trust. This includes all Executive and Non-Executive Directors.

The Directors of the Manager of the Trust at any time during the year, and to the date of this report, are:

Name	Date of appointment	Date of resignation (if applicable)
Racheal Kellaway	7 June 2022	
Tim Ledingham	31 August 2021	
Adam McAnalen	31 August 2021	28 July 2022
Ewen Stafford	11 November 2019	7 June 2022
David Watts	7 June 2022	

No compensation is paid to key management personnel directly by the Trust. Total key management personnel compensation is paid by the ultimate parent entity, Bank of Queensland Limited.

c) Transactions with other related parties

The transactions with related entities were disclosed in the notes to the financial statements and were made on normal commercial terms and conditions and at market rates except where indicated.

Note 18. Contingencies and commitments

Perpetual Corporate Trust Limited in its capacity as trustee of the Trust has guaranteed payments of interest and principal under the covered bonds issued by Bank of Queensland and equivalent in amount to the covered bond liability, pursuant to a guarantee which is secured over the mortgage loans and other assets of the Trust.

The Trust has no other material contingent liabilities or commitments as at 31 August 2022 (2021: Nil).

Note 19. Events subsequent to reporting date

There has not arisen, in the interval between the end of the year and the date of this report, any item, transaction or event of a material and unusual nature, likely, in the opinion of the Trustee, to affect significantly the operations of the Trust, the results of those operations, or the state of affairs of the Trust in future financial years.

Note 20. Net liabilities attributable to unitholders

The Trust has recorded net liabilities attributable to unitholders of \$(67,451) thousand (2021: \$(6,846) thousand). The deficiency at the reporting date is solely due to the recognition of mark to market losses on derivative instruments which did not involve the outflow of cash. The derivatives have been entered into as economic hedges to match the cash inflows and cash outflows of the trust, will be revalued each year and as the contracts mature the mark to market will be reversed over the life of the Trust. The unitholders have no obligation to fund any deficiency.



Independent auditor's report

To the investors of BOQ Covered Bond Trust

Our opinion

In our opinion the accompanying financial report presents fairly, in all material respects, the financial position of BOQ Covered Bond Trust (the Trust) as at 31 August 2022 and its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards.

What we have audited

The financial report comprises:

- the statement of financial position as at 31 August 2022
- the statement of changes in unitholders' funds for the year then ended
- the statement of cash flows for the year then ended
- the statement of profit or loss and other comprehensive income for the year then ended
- the notes to the financial statements, which include significant accounting policies and other explanatory information
- the Statement by Trust Manager
- the Trustee's Report.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

Emphasis of matter - basis of accounting and restriction on use

We draw attention to Note 2 in the financial report, which describes the basis of accounting. The financial report has been prepared to assist the Trust Manager to meet the financial reporting requirements of the Covered Bond Trust Establishment Deed dated 24 April 2017. As a result, the financial report may not be suitable for another purpose. Our report is intended solely for BOQ Covered Bond Trust and its investors and should not be used by parties other than BOQ Covered Bond Trust and its investors. In addition, our report should not be distributed to parties other than BOQ Covered Bond Trust, its investors, and Perpetual Corporate Trust Limited (the Trustee). Our opinion is not modified in respect of this matter.



Other information

The Trust Manager is responsible for the other information. The other information comprises the information included in the annual report for the year ended 31 August 2022, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Trustee and the Trust Manager for the financial report

The Trust Manager is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards, and for such internal control as the Trustee determines is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Trust Manager is responsible for assessing the ability of the Trust to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Trust Manager either intends to liquidate the Trust or to cease operations, or has no realistic alternative but to do so.

The Trustee is responsible for overseeing the Trust's financial reporting process.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf. This description forms part of our auditor's report.


PricewaterhouseCoopers


Kristy van Horck
Partner

Brisbane
16 December 2022