ASX RELEASE

BOQ GROUP

BOQ LAUNCHES $275 MILLION CAPITAL RAISING

Monday, 25 November 2019, Sydney: Bank of Queensland (**BOQ**) has today launched a capital raising, comprising:

- a fully underwritten $250 million institutional share placement (**Placement**); and
- a non-underwritten share purchase plan (**SPP**) under which BOQ is targeting to raise approximately $25 million[1],

(together, the **Offer**).

BOQ's shares have been placed in a trading halt to enable the Placement to be completed, with trading expected to recommence on 26 November 2019.

The capital raising will be used to strengthen BOQ's balance sheet, provide an increased buffer above the Australian Prudential Regulation Authority's (**APRA**) "unquestionably strong" Common Equity Tier 1 (**CET1**) capital ratio benchmark and create additional capacity for BOQ to implement its strategic priorities.

The Offer is expected to add approximately 80 to 88 basis points[2] to BOQ's Level 2 CET1 capital ratio.

Details of the Placement

The fully underwritten Placement of new fully paid ordinary shares (**New Shares**) to sophisticated and institutional investors in Australia and in certain overseas jurisdictions will raise $250 million.

The final issue price of the Placement (**Placement Price**) will be determined by way of a variable price bookbuild across $7.69 - $7.78 per New Share. This represents a 10.0% - 11.0% discount to the last close price on ASX of $8.64 on 22 November. The Placement is underwritten at $7.69 per New Share (**Floor Price**).

The Placement will result in approximately 32.5 million New Shares being issued at the Floor Price, representing approximately 8.0% of BOQ's existing issued capital[3].

New Shares issued under the Placement will rank equally with existing BOQ shares from their date of issue.

[1] BOQ may scale back applications above that target or issue a higher amount above that target, at its absolute discretion.

[2] Based on BOQ's last reported risk weighted assets as at 31 August 2019. The 80 basis point increase reflects the impact of the Placement only, while an 88 basis point increase reflects the impact of both the Placement and the SPP, assuming the SPP raises $25 million (the basis point impacts are net of issue costs).

[3] The Placement does not require shareholder approval.

For further information please call:

Media
Tracy Hicks, Head of Corporate Affairs
0439 540 960 tracy.hicks@boq.com.au

Analysts
Daniel Ryan, Head of Investor Relations
07 3212 3990 daniel.ryan@boq.com.au

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New Shares under the Placement are expected to settle on 28 November 2019, with New Shares to be issued, and commence trading on the ASX on the following business day, 29 November 2019.

The Placement is fully underwritten.

Details of the SPP

Under the SPP, each eligible BOQ shareholder being a registered holder of shares at the record date (7.00 pm (Sydney time) on 22 November 2019), and shown on the register to have an address in Australia or New Zealand (**Eligible Shareholders**) will have the opportunity to apply for up to $30,000 of new fully paid ordinary shares (**SPP Shares**) without incurring brokerage or transaction costs. The SPP will also be offered to eligible custodians to participate in the SPP on behalf of certain eligible beneficiaries.

BOQ may scale back applications should it receive demand above the target of approximately $25 million or issue a higher amount above that target, at its absolute discretion (and, if a higher amount is issued, either accept applications in full or scale back applications at its absolute discretion).

The issue price per SPP Share will be the lesser of:

- the Placement Price; and
- the VWAP of BOQ shares traded on the ASX during the five trading days up to, and including, the SPP closing date (expected to be 20 December 2019) less a 2% discount, rounded down to the nearest cent.

SPP Shares will rank equally with existing BOQ shares from their date of issue.

An SPP booklet with further details on the SPP is expected to be sent to Eligible Shareholders in accordance with their communications election on or around 3 December 2019. For enquiries on the SPP, shareholders can call the BOQ SPP Offer Information Line on 1800 779 639 (toll free within Australia) or +61 1800 779 639 (from outside Australia) from 8.30am to 7.30pm (Sydney time), Monday to Friday.

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Key dates[4]

Record date for the SPP	**7pm (Sydney time) Friday, 22 November 2019**
Trading halt, announcement of the Placement and SPP	**Monday, 25 November 2019**
Placement bookbuild	**Monday, 25 November 2019**
Placement completion announcement	**Tuesday, 26 November 2019**
BOQ shares recommence trading	**Tuesday, 26 November 2019**
Settlement of New Shares to be issued under the Placement	**Thursday, 28 November 2019**
Issue date for New Shares under the Placement and commencement of trading on the ASX	**Friday, 29 November 2019**
SPP offer opening date and dispatch of SPP booklet	**Tuesday, 3 December 2019**
SPP offer closing date	**5pm (Sydney time) Friday, 20 December 2019**
SPP allotment date	**Thursday, 2 January 2020**
Expected commencement of trading on ASX	**Friday, 3 January 2020**
Holding statements for SPP shares dispatched to shareholders	**Monday, 6 January 2020**

Forward-Looking Statements

This announcement contains certain forward-looking statements. These statements relate to current expectations, beliefs, intentions or strategies regarding the future. The forward-looking statements reflect views and assumptions with respect to future events as at the date of this announcement. However, they are not guarantee of future performance. They involve known and unknown risks, uncertainties, assumptions, contingencies and other factors which are, in many instances, beyond the control of BOQ and may involve significant elements of subjective judgement and assumptions as to future events that may or may not be correct. There can be no assurance that actual outcomes will not differ materially from any forward-looking statements. Except as required by applicable laws, BOQ does not undertake to publicly update or revise the forward-looking statements or other statements in this announcement, whether as a result of new information or future events or circumstances.

[4] The above timetable is indicative only and subject to change. The commencement of trading and quotation of New Shares issued under the Placement and of SPP Shares is subject to confirmation from ASX. Subject to the requirements of the Corporations Act, the ASX Listing Rules and other applicable rules, BOQ, with the consent of the underwriter, reserves the right to amend this timetable at any time, including extending the period for the SPP or accepting late applications, either generally or in particular cases, without notice.

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This announcement has been prepared for publication in Australia and may not be released to US wire services or distributed in the United States. This announcement does not constitute an offer to sell, or a solicitation of an offer to buy, securities in the United States or any other jurisdiction. Any securities described in this announcement have not been, and will not be, registered under the U.S. Securities Act of 1933 (U.S. Securities Act) and may not be offered or sold in the United States except in transactions exempt from, or not subject to, the registration requirements of the U.S. Securities Act and applicable US state securities laws.

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07 3212 3990 daniel.ryan@boq.com.au

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BOQ CAPITAL RAISING

25 NOVEMBER 2019

Investor Presentation

BANK OF QUEENSLAND LIMITED ABN 32 009 656 740. AFSL NO 244616.

IMPORTANT INFORMATION AND DISCLAIMER

This presentation has been prepared and authorised by Bank of Queensland Limited (ABN 32 009 656 740) ("**BOQ**") in connection with a proposed capital raising by BOQ by way of an institutional placement of new fully paid ordinary shares in BOQ ("**New Shares**") to sophisticated and professional investors (the "**Placement**") and a share purchase plan to eligible shareholders in Australia and New Zealand (the "**Share Purchase Plan**" or "**SPP**") (together the "**Offer**").

SUMMARY INFORMATION

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Indications of, and guidance on, future earnings and financial position and performance are also forward-looking statements, as well as statements about market and industry trends, which are based on interpretations of current market conditions. The forward-looking statements reflect views and assumptions with respect to future events as at the date of this presentation. However, they are not guarantees of future performance. They involve known and unknown risks, uncertainties, assumptions, contingencies and other factors which are, in many instances, beyond the control of BOQ, its officers, employees, agents, advisers and management, and may involve significant elements of subjective judgement and assumptions as to future events that may or may not be correct. There can be no assurance that actual outcomes will not differ materially from any forward-looking statements. Past performance and any pro-forma information given in this presentation is given for illustrative purposes only and should not be relied upon as (and is not) an indication of BOQ's views on its future financial performance or condition. Past performance is not indicative of future performance. Refer to the 'Risks' section of this presentation for a summary of certain risk factors that may affect BOQ.

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- make no representation or warranty, express or implied, as to the currency, accuracy, reliability or completeness of information in this presentation and take no responsibility for any part of this presentation.

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NOT AN OFFER

This presentation does not constitute an offer to subscribe for or acquire securities in BOQ.

FINANCIAL INFORMATION AND REFERENCES TO BOQ

In this presentation, unless otherwise stated or the context requires otherwise, references to 'dollar amounts', '$', 'AUD' or 'A$' are to Australian dollars. A number of figures, amounts, percentages, estimates calculations of value and other fractions used in this presentation are subject to the effect of rounding. Accordingly, the actual calculation of these figures may differ from the figure set out in this presentation. Statutory net profit has been prepared in accordance with BOQ's accounting policies, these are available in the 2019 Full Year Financial Results available at www.boq.com.au/Shareholder-centre. Certain financial information in this presentation is presented on a cash earnings basis. Cash earnings is a non-IFRS measure. Refer to the 'Appendices' section of this presentation for more details of the basis of preparation of cash earnings. All comparisons are with Full Year 2018 unless otherwise stated.

Investors should note that certain financial measures included in this presentation are "non-IFRS financial information" under ASIC Regulatory Guide 230: "Disclosing non-IFRS financial information" published by ASIC and/or "non-GAAP financial measures" under Regulation G of the U.S. Securities Exchange Act of 1934. These measures may include "cash earnings", "cash EPS", "cash return on equity" and "notable items". The disclosure of non-IFRS and/or non-GAAP financial measures in the manner included in the presentation may not be permissible in a registration statement under the U.S. Securities Act. Non IFRS/non-GAAP financial measures do not have a standardised meaning prescribed by Australian Accounting Standards or International Financial Reporting Standards ("IFRS") and therefore may not be comparable to similarly titled measures presented by other entities, and should not be construed as an alternative to other financial measures determined in accordance with Australian Accounting Standards or IFRS. Although BOQ believes that non- IFRS/non-GAAP financial measures provide useful information to users in measuring the financial performance and condition of its business, investors are cautioned not to place undue reliance on any non-IFRS/non- GAAP financial measures included in the presentation.

In this presentation references to 'Bank of Queensland', 'BOQ', 'BOQ Group', 'the Group', 'we', 'us' and 'our' are to Bank of Queensland Limited and (where applicable) its controlled subsidiaries. For definitions of key terms not otherwise defined in this presentation, please refer to BOQ's 2019 Full Year Results Presentation and Appendix 4E.

OVERVIEW (I)

- **Further strengthening the bank is a key priority**
- **Action being taken to strengthen the bank:**
  - Target CET1 range of 9.00-9.50%
  - Seeking to raise approximately $275m(1) of additional capital; Placement underwritten at an 11.0% discount to last closing price(2)
  - Further increases BOQ's buffer above APRA's "unquestionably strong" benchmark, gives BOQ additional capacity to accelerate implementation of its strategic transformation
- **Strategic transformation:**
  - BOQ's transformation strategy update planned for February 2020
  - Anticipated strategic transformation investment and one-off material statutory profit impact in FY20 from structural productivity and operating model review
  - Expected to be at the top end of the target CET1 range (post the above impact) in FY20
  - Strategic transformation aimed at simplifying the business, delivering productivity gains and cost efficiencies, and achieving sustainable profitable growth

(1) Via an underwritten institutional placement and a non-underwritten share purchase plan (SPP). Assumes $25m to be raised under the SPP – the actual amount raised could be more or less.
(2) Placement price will be determined by way of bookbuild from an underwritten floor price of $7.69 per New Share

OVERVIEW (II)

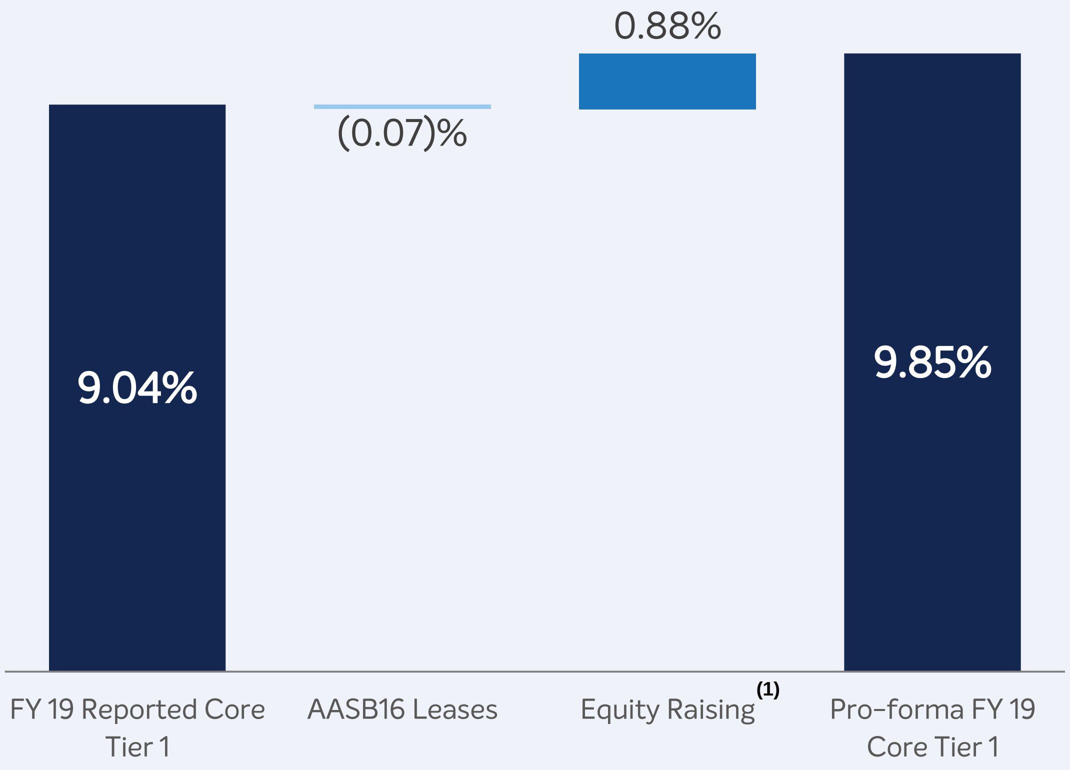
- **No change to cash earnings outlook statements from FY19 results:**
  - We anticipate lower year on year cash earnings in FY20
  - Revenue & impairments broadly in line with FY19, subject to market conditions
  - Costs growing due to regulatory compliance and increased technology investment
- **Transformation strategy directed at setting the business up for improved profitability and growth**
  - Strong balance sheet and profitability sets BOQ up to deliver strong dividend yield
- **Target dividend payout ratio set at 70-80% of cash earnings(1), DRP discount to be set to zero (2)**
  - Given the anticipated statutory profit impact of the strategic transformation in 1H20, it is anticipated that BOQ will set the interim dividend within the 70-80% target range (excluding one-off items); this will require APRA approval due to the 12 months profit test(3)
  - Flexibility to eliminate EPS dilution through DRP neutralisation
  - Recognise the importance of yield and franking credits

(1) The level of dividends is subject to the discretion of BOQ's Board and depends on, among other things, BOQ's profitability, future prospects, any contractual, legal or regulatory (including APRA) restrictions on the payment of dividends by BOQ and any other factors deemed relevant. Refer to section 1.2 of the Key Risks.
(2) DRP terms and conditions will be updated to reflect the necessary changes to remove the discount and will be provided to the ASX in due course.
(3) Investors should not assume that APRA's approval will be given; if it is not, the 1H20 dividend payout ratio may be below the target range.

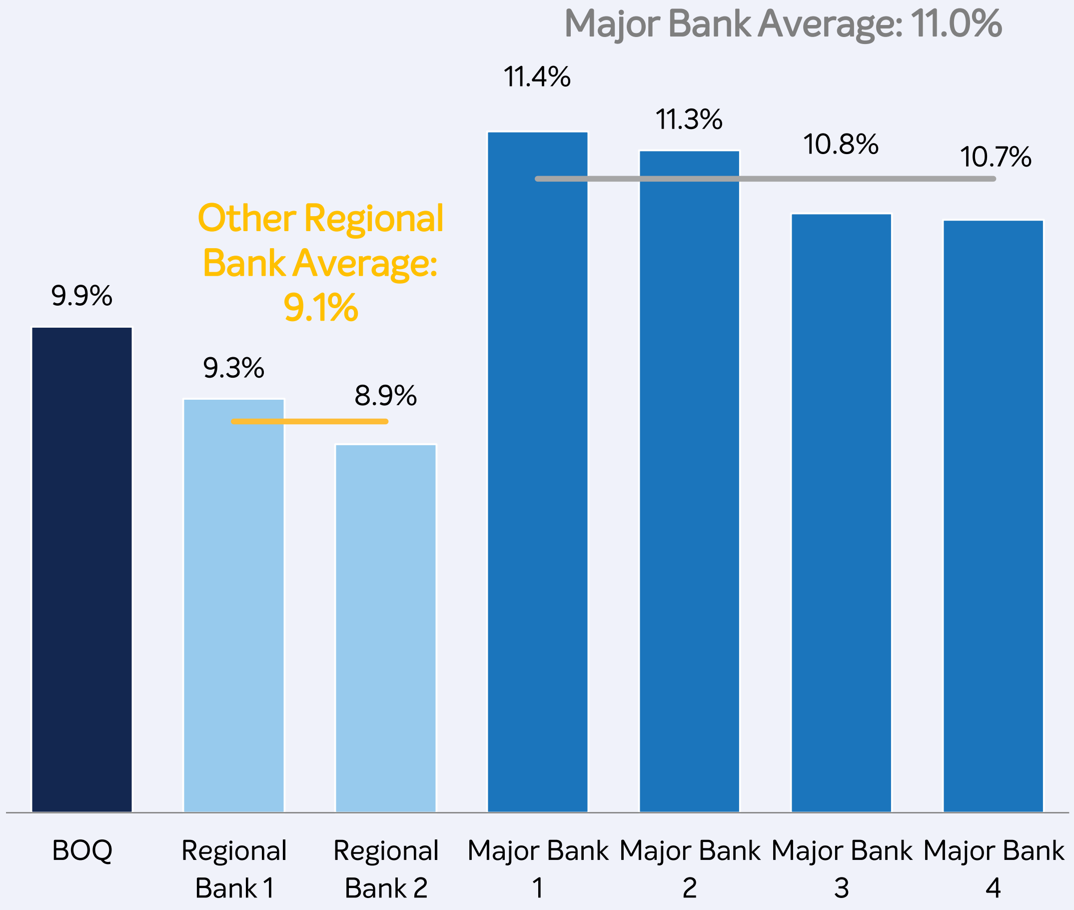
BALANCE SHEET STRENGTH

BOQ GROUP

STRONG BUFFER ABOVE "UNQUESTIONABLY STRONG" REQUIREMENT FOR STANDARDISED BANKS



CORE TIER 1 VS. PEERS(2)



(1) Equity raising net of issue costs. Assumes $25m to be raised under the SPP – the actual amount raised could be more or less.
(2) BOQ pro-forma Core Tier 1 ratio as at FY19. Recent company announcements and APS 330 disclosures. Major Bank ratios adjusted for placement, SPP and DRP underwrite where relevant.

STRATEGIC PRIORITIES

CAPITAL RAISING WILL SUPPORT IMPLEMENTATION OF BOQ'S STRATEGIC TRANSFORMATION

01 Return to profitable and sustainable growth

- Optimise revenue and margin
- Improve lending processes and grow volumes
- Lift distribution performance
- Profitably grow target customer segments

02 Embed our purpose-led, customer culture

- High quality appointments to key executive positions
- Inclusive leadership with decisions aligned to our purpose
- Build our people's skills and capability
- Improving customer experience

03 Simplify our business, improve productivity and address costs

- Structural productivity and operating model review
- Simplify and reduce number of products
- Migration to cloud, simplify IT platforms
- Improve cost efficiency

04 Close the digital and data gap, deliver mobile and VMA

- Grow Virgin Money Australia digital bank
- Migrate to a common, cloud-based, multi-brand, digital front-end
- Improve data and analytics platforms and capability

05 Continue to strengthen the Bank

- Strong risk and compliance standards
- Solid liquidity and funding
- Sub-segment analysis to optimise RWAs and risk/return decision making
- Strong balance sheet and well placed to accelerate transformation

OFFER SUMMARY

Offer Structure	> Fully underwritten $250 million institutional share placement (**"Placement"**), and a non-underwritten share purchase plan (**"SPP"**) under which BOQ is targeting to raise approximately $25 million[(1)] (together, the **"Offer"**)
Use of Proceeds	> To enhance BOQ's ability to implement its strategic priorities > To provide additional flexibility to make the changes necessary to transform the business following the strategic review > To provide an additional buffer above APRA's "unquestionably strong" benchmark ahead of the final calibration of the RWA and capital framework
Placement Size	> $250 million fully underwritten Placement > Will result in approximately 32.5 million New Shares being issued at the Floor Price, representing approximately 8.0% of BOQ's existing issued capital
Placement Price	> The final issue price of the Placement (**Placement Price**) will be determined by way of a variable price bookbuild across $7.69 – $7.78 per New Share > This represents a 10.0% – 11.0% discount to the last close price on ASX of $8.64 on 22 November > The Placement is underwritten at $7.69 per New Share (**Floor Price**).
New Shares Ranking	> New Shares under the Placement will rank equally with existing BOQ shares from their date of issue

(1) BOQ may scale back applications above that target or issue a higher amount above that target, at its absolute discretion.

SHARE PURCHASE PLAN DETAILS

SPP Overview	> BOQ will also offer Eligible Shareholders[1] the opportunity to participate in a non-underwritten SPP > BOQ is targeting to raise approximately $25 million under the SPP, with the ability to scale back applications should it receive demand above that target or issue a higher amount above that target, at its absolute discretion (and, if a higher amount is issued, either accept applications in full or scale back applications at its absolute discretion) > Maximum application size of $30,000 per Eligible Shareholder across all of their holdings

SPP Pricing	> The issue price per new fully paid ordinary share issued under the SPP ("**SPP Shares**") will be the lesser of:
	  > The Placement Price; and
	  > The VWAP of BOQ shares traded on the ASX during the five trading days up to, and including, the SPP closing date (expected to be 20 December 2019) less a 2% discount, rounded down to the nearest cent

SPP Shares Ranking	> SPP Shares will rank equally with existing BOQ shares from their date of issue
SPP Further Information	> No brokerage or transaction costs are payable by Eligible Shareholders in relation to the application for, and the issue of, SPP Shares > An SPP booklet with further details on the SPP is expected to be sent to Eligible Shareholders, in accordance with their communications election, on or around 3 December 2019

(1) An eligible shareholder is a registered holder of BOQ shares on the Record Date (being 7.00pm (Sydney time) on 22 November 2019), have a registered address in either Australia or New Zealand, do not hold BOQ shares on behalf of another person who resides outside Australia or New Zealand, and are not acting for the account or benefit of a person in the United States **("Eligible Shareholders")**.

OFFER TIMETABLE

Record date for the SPP	7pm (Sydney time) Friday, 22 November 2019
Trading halt, announcement of the Placement and SPP	Monday, 25 November 2019
Placement bookbuild	Monday, 25 November 2019
Placement completion announcement	Tuesday, 26 November 2019
BOQ shares recommence trading	Tuesday, 26 November 2019
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Holding statements for SPP shares dispatched to shareholders	Monday, 6 January, 2020

Note: The above timetable is indicative only and subject to change. The commencement of trading and quotation of New Shares issued under the Placement and SPP is subject to confirmation from ASX. BOQ reserves the right to vary these dates or to withdraw the Offer at any time.

APPENDICES

BOQ GROUP OVERVIEW

BOQ GROUP

BANKING

RETAIL

- Home Loans (OMB [1], corporate branches & brokers including Virgin Money Australia)
- Savings & Investment Accounts
- Credit Cards

COMMERCIAL

- Business Banking, Agribusiness & Financial Markets
- Private Bank
- Professional Finance for medical professionals – BOQS

BOQ SPECIALIST

FINANCE

BOQ Finance

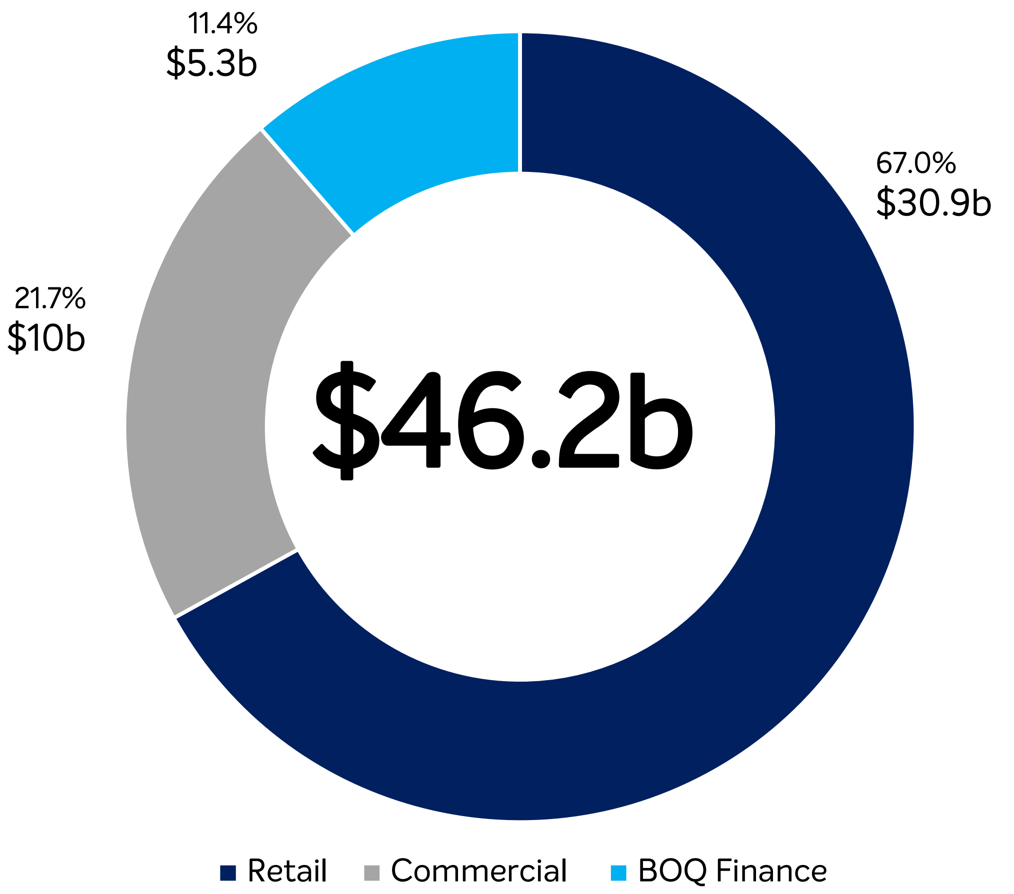
- Equipment Finance
- Vendor Finance
- Structured Funding
- Consumer Finance
- Insurance Premium Funding

INSURANCE

St Andrew's AUSTRALIA

- Consumer Credit insurance[3]
- Life Insurance

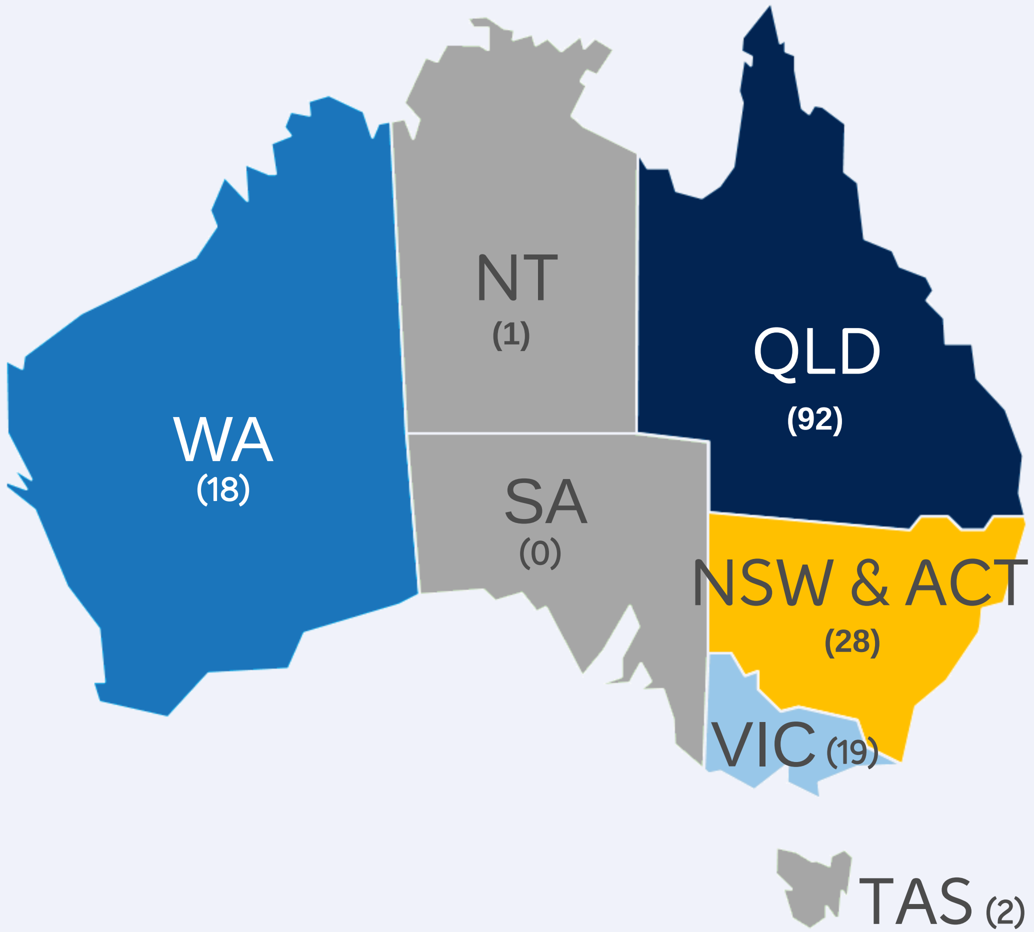
LENDING COMPOSITION[2]



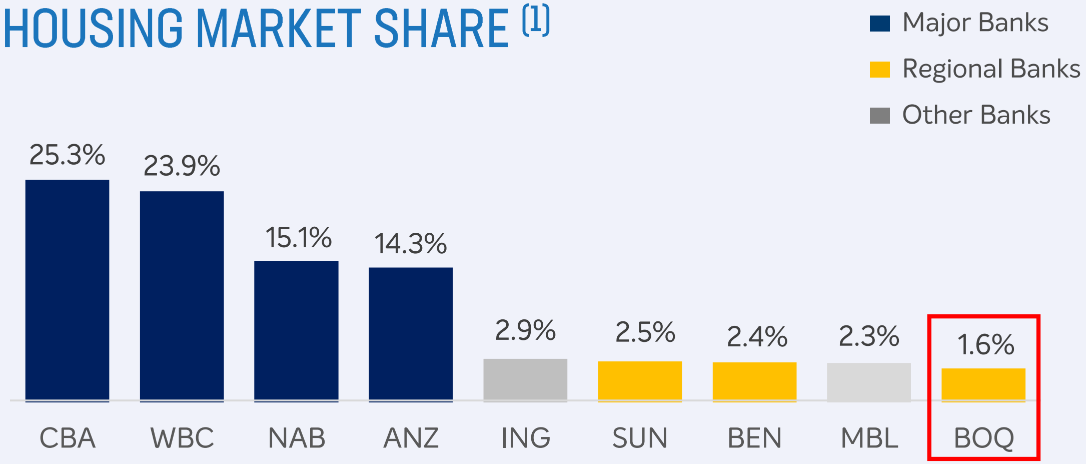
(1) OMB – Owner Managed Branches are BOQ's franchise branch network
(2) As at 31 August 2019. Retail includes Housing and Consumer loans (including BOQ Specialist)
(3) St Andrew's has made the decision to cease distribution of consumer credit insurance. Existing customers will continue to be served and the interests of existing policyholders will remain a priority.

BOQ GROUP OVERVIEW

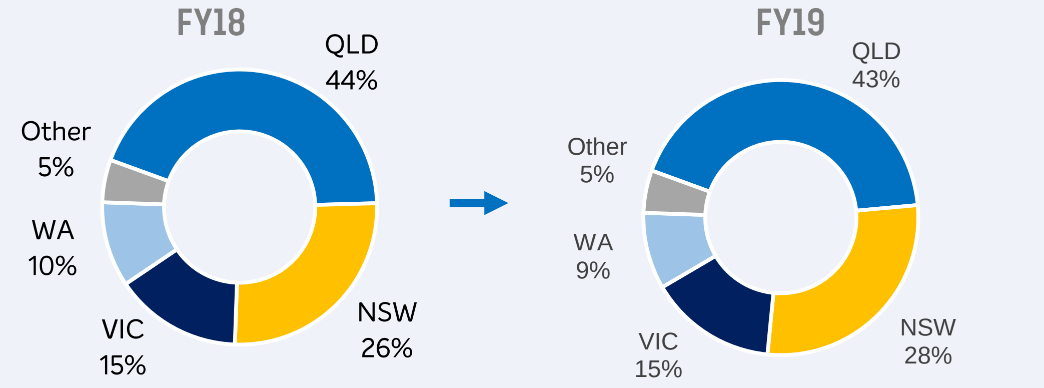
BOQ BRANCH NATIONAL PRESENCE



HOUSING MARKET SHARE (1)



TOTAL LENDING GEOGRAPHIC MIX



(1) Source: APRA Banking Statistics August 2019– released in September 2019

RECENT APPOINTMENTS TO KEY EXECUTIVE POSITIONS

GEORGE FRAZIS
MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER

- Joined BOQ in Sep 2019
- 17+ years in Banking and Finance
- Bachelor of Engineering (Honours), MBA
- Previously held positions at: WBC, St George, Westpac NZ ltd, NAB, CBA, Air NZ, Boston Consulting Group and Royal Australian Airforce

PETER SARANTZOUKLIS
GROUP EXECUTIVE, BOQ BUSINESS

- Joined BOQ in August 2019
- 23+ years experience in banking
- MBA, Bachelor of Business (Marketing)
- Previously held positions at: WBC, St George, GE Money and AVCO Finance

EWEN STAFFORD
CHIEF FINANCIAL OFFICER AND CHIEF OPERATING OFFICER

- Joined BOQ in November 2019
- 30+ years corporate experience
- CA, BA (Accountancy), MBA
- Previously held positions at: Deloitte, Telstra, Australia Post, NAB, MLC

FINANCIAL PERFORMANCE: YEAR ON YEAR

BOQ GROUP

	FY19	FY18	FY19 v FY18
Net interest income	$961m	$965m	(0%) ▼
Non-interest income	$128m	$145m	(12%) ▼
Total income	**$1,089m**	**$1,110m**	**(2%)** ▼
Operating expenses	($550m)	($527m)	4% ▲
Underlying profit	**$539m**	**$583m**	**(8%)** ▼
Loan impairment expense	($74m)	($41m)	80% ▲
Cash profit before tax	**$465m**	**$542m**	**(14%)** ▼
Income tax expense	($145m)	($170m)	(15%) ▼
Cash earnings after tax	**$320m**	**$372m**	**(14%)** ▼
Statutory net profit after tax	**$298m**	**$336m**	**(11%)** ▼
Cash basic earnings per share	79.6c	94.7c	(16%) ▼
Return on average tangible equity	10.8%	12.9%	(210bps) ▼

Note: August year end

KEY RISKS

1. KEY RISKS ASSOCIATED WITH PARTICIPATING IN THE OFFER

1.1 Risks associated with the Placement

Underwriting risk

BOQ has entered into an agreement with the Underwriter ("Underwriting Agreement"), under which the Underwriter will accept all New Shares offered if they are not bought by investors. If certain conditions are not satisfied or certain events occur, the Underwriter may terminate the Underwriting Agreement. The events which may trigger termination of the Underwriting Agreement include (but are not limited to) where:

i. BOQ becomes subject to, or is notified that it will be subject to, certain regulatory investigations or proceedings;

ii. the Placement is or becomes subject to certain governmental or regulatory investigations, proceedings, declarations or orders;

iii. BOQ ceases to be admitted to the official list of ASX or ordinary shares are suspended from trading or quotation, or approval is refused to the quotation of all the New Shares on ASX (or such approval is subsequently withdrawn, qualified or withheld);

iv. there are certain delays in the timetable for the Placement without the Underwriter's consent;

v. any of the information documents (including this presentation and all ASX announcements after this presentation which are specific to the Placement) omit certain material required by the Corporations Act, contain a statement which is misleading or deceptive or otherwise fail to comply with the Corporations Act unless, with the consent of the Underwriter, the statement, error or omission can be remedied by supplementary disclosure;

vi. BOQ fails to perform any of its obligations under the Underwriting Agreement or any warranty given by BOQ becomes incorrect, untrue or misleading;

vii. BOQ contravenes its constitution, the Corporations Act, the ASX Listing Rules or other applicable laws or regulations;

viii. a BOQ director is charged certain offences or engage in any fraudulent activity;

ix. a change in the Chief Executive Officer, Chief Financial Officer or the Board occurs;

x. there is a material adverse change in the assets, liabilities, financial position or prospects of BOQ or the BOQ Group, or BOQ or a material subsidiary in the BOQ Group becomes insolvent; or

xi. there is an outbreak or material escalation of hostilities in certain jurisdictions, or a material adverse disruption to financial markets, political or economic conditions in certain jurisdictions.

The ability of the Underwriter to terminate the Underwriting Agreement in respect of some events will depend on whether the event has or is likely to have a materially adverse effect on the marketing, outcome or success of the Placement, settlement of the Placement, or the value of New Shares, or could result in the Underwriter contravening applicable laws.

If the Underwriting Agreement is terminated for any reason, then BOQ may not receive the full amount of the Placement, its financial position may change, and it may need to take other steps to raise capital.

The Underwriting Agreement is also subject to customary conditions precedent, representations, warranties and indemnities.

1. KEY RISKS ASSOCIATED WITH PARTICIPATING IN THE OFFER (CONTINUED)

1.2 Risks associated with ordinary shares specifically

Market price of ordinary shares will fluctuate

Market price of ordinary shares will fluctuate

Ordinary shares trade on ASX. The market price of ordinary shares on ASX may fluctuate due to various factors, including:

i. Australian and international general economic conditions (including inflation rates, the level of economic activity, interest rates and currency exchange rates), changes in government policy, changes in regulatory policy, the expressed views of regulators, investor sentiment and general market movements, which may or may not have an impact on BOQ's actual operating performance;

ii. operating results that vary from expectations of securities analysts and investors;

iii. changes in expectations as to BOQ's future financial performance, including financial estimates by securities analysts and investors;

iv. changes in market valuations of other financial services institutions;

v. changes in dividends paid to shareholders, BOQ's dividend payout policy or BOQ's ability to frank dividends;

vi. announcement of acquisitions, strategic partnerships, joint ventures or capital commitments by BOQ or its competitors;

vii. changes in the market price of ordinary shares and / or other capital securities or other equity securities issued by BOQ or by other issuers, or changes in the supply of equity securities or capital securities issued by BOQ or by other issuers;

viii. changes in laws, regulations and regulatory policy;

ix. BOQ's failure to comply with law, regulations or regulatory policy, which may result in regulatory investigations, inquiries, litigation, fines, penalties, infringement notices, revocation, suspension or variation of conditions of relevant regulatory licences or other enforcement or administrative action or agreements (such as enforceable undertakings);

x. other major Australian and international events such as hostilities and tensions, and acts of terrorism; and

xi. other events set out in Section 2 "Key risks associated with BOQ's business".

It is possible that the price of ordinary shares will trade at a market price below the Placement Price as a result of these and other factors.

Liquidity risk

Shareholders who wish to sell their ordinary shares may be unable to do so at an acceptable price, or at all, if insufficient liquidity exists in the market for ordinary shares.

BOQ does not guarantee the market price or liquidity of ordinary shares and there is a risk that you may lose some of the money you invested.

Dividends may fluctuate or may not be paid

Dividends are discretionary and do not accrue. The rate of dividends may fluctuate or BOQ may not pay dividends at all. There is a risk that dividends may become less attractive compared to returns on comparable securities or investments.

None of BOQ, BOQ's directors or any other person guarantees any particular rate of return on ordinary shares.

Restrictions on the amount of earnings that can be distributed through dividends, Additional Tier 1 Capital distributions and discretionary staff bonuses apply if BOQ's Common Equity Tier 1 Capital ratio falls below the prudential capital requirements set by APRA (which may be above the minimum capital ratios in APRA's prudential standards[1]) plus the prevailing capital buffer ("**Distribution Restriction Trigger**"). The Distribution Restriction Trigger is currently 7% for standardised banks, but it may be higher for individual Authorised Deposit-taking Institutions ("**ADI**") (including BOQ). The terms of higher-ranking securities, including Additional Tier 1 Securities, may restrict distributions on BOQ's ordinary shares in certain circumstances.

APRA approval is required where BOQ proposes to pay greater than the past 12 months profits test.

(1) APRA does not allow the prudential capital requirements for individual ADIs to be disclosed.

KEY RISKS

1. KEY RISKS ASSOCIATED WITH PARTICIPATING IN THE OFFER (CONTINUED)

Taxation

Any change to the current rate of company income tax in jurisdictions where BOQ operates may impact on shareholder returns. Any changes to the current rates of income tax applying to shareholders, whether they are individuals, trusts or companies may similarly impact on shareholder returns.

Shareholders are subordinated and unsecured investors

In a winding up of BOQ, shareholders' claims will rank after the claims of creditors preferred by law, secured creditors and general creditors. Shareholders' claims will rank equally with claims of holders of all other ordinary shares.

If BOQ were to be wound up and, after the claims of creditors preferred by law, secured creditors, general creditors and holders of subordinated instruments (including holders of hybrid securities) are satisfied, there are insufficient assets remaining, you may lose some or all of the money you invested in ordinary shares.

Investments in ordinary shares are not deposit liabilities or protected accounts under the Banking Act

Investments in ordinary shares are an investment in BOQ and will be affected by the ongoing performance, financial position and solvency of BOQ. They are not deposit liabilities or protected accounts under the Banking Act. Therefore, ordinary shares are not guaranteed or insured by any Australian government, government agency or compensation scheme of Australia or any other jurisdiction.

Foreign Account Tax Compliance Act ("FATCA") withholding and reporting

In order to comply with FATCA, BOQ (or, if BOQ shares are held through another financial institution, such other financial institution) may be required (pursuant to an agreement with the United States or under applicable law including pursuant to the terms of an applicable intergovernmental agreement entered into between the United States and any other jurisdiction) (i) to request certain information from holders or beneficial owners of BOQ shares, which information may be provided to the US Internal Revenue Service ("IRS"), and (ii) to withhold tax on any portion of payments with respect to BOQ shares treated as a 'foreign passthru payment' made two years after the date on which the final regulation that defines 'foreign passthru payment' is published, if such information is not provided or if payments are made to certain foreign financial institutions that have not entered into a similar agreement with the United States (and are not otherwise required to comply with the FATCA regime under applicable law including pursuant to the terms of an applicable intergovernmental agreement entered into between the United States and any other jurisdiction).

If BOQ or any other person is required to withhold amounts under or in connection with FATCA from any payments made with respect to BOQ shares, holders and beneficial owners of BOQ shares will not be entitled to receive any gross up or additional amounts to compensate them for such withholdings. FATCA is complex and its application to BOQ shares remains uncertain. Shareholders are advised to consult their own tax advisers about the application of FATCA to BOQ shares. This information is based on guidance issued by the IRS or other relevant tax authority as at the date of this document. Future guidance may affect the application of FATCA to BOQ, shareholders or beneficial owners of BOQ shares.

1. KEY RISKS ASSOCIATED WITH PARTICIPATING IN THE OFFER (CONTINUED)

Powers of a Banking Act statutory manager

In certain circumstances APRA may appoint a statutory manager to take control of the business of an ADI, such as BOQ. Those circumstances are defined in the Banking Act to include:

i. where the ADI informs APRA that it considers it is likely to become unable to meet its obligations, or is about to suspend payment;

ii. where APRA considers that, in the absence of external support:

  i. the ADI may become unable to meet its obligations;

  ii. the ADI may suspend payment;

  iii. it is likely that the ADI will be unable to carry on banking business in Australia consistently with the interests of its depositors; or

  iv. it is likely that the ADI will be unable to carry on banking business in Australia consistently with the stability of the financial system in Australia;

iii. the ADI becomes unable to meet its obligations or suspends payment; or

iv. where, in certain circumstances, the ADI, its holding company (if any) or any of its subsidiaries, is in default of compliance with a direction by APRA to comply with the Banking Act or regulations made under it and the Federal Court of Australia authorises APRA to assume control of the ADI's business.

The powers of a Banking Act statutory manager include the power to alter the constitution of an ADI, its holding company (if any) or any of its subsidiaries, to issue, cancel or sell shares (or rights to acquire shares) in the ADI, its holding company (if any) or any of its subsidiaries, and to vary or cancel rights or restrictions attached to shares in a class of shares in the ADI, its holding company (if any) or any of its subsidiaries. The Banking Act statutory manager is authorised to do so despite the Corporations Act, the ADI's constitution, any contract or arrangement to which the ADI, its holding company (if any) or any of its subsidiaries is party or the ASX Listing Rules. In the event that a Banking Act statutory manager is appointed to BOQ in the future, these broad powers of a Banking Act statutory manager may be exercised in a way which adversely affects the rights attaching to the ordinary shares and the position of shareholders.

Future issues of debt or other securities by BOQ

BOQ and members of the BOQ Group may, at their absolute discretion, issue additional securities in the future that may rank ahead of, equally with or behind ordinary shares, whether or not secured. Additionally, certain convertible securities currently on issue or which may be issued by BOQ and members of the BOQ Group in the future may be converted from debt to equity securities. Any issue or conversion of other securities may dilute the relative value of existing ordinary shares and affect your ability to recover any value in a winding up.

An investment in ordinary shares confers no right to restrict BOQ from raising more debt or issuing other securities (subject to restrictions imposed under the ASX Listing Rules), to require BOQ to refrain from certain business changes, or to require BOQ to operate within potential certain ratio limits.

An investment in ordinary shares carries no right to participate in any future issue of securities (whether equity, hybrid, debt or otherwise) by any member of the BOQ Group, other than future pro rata issues if the shareholder is eligible to participate in the pro rata issue under relevant laws.

No prediction can be made as to the effect, if any, such future issues of debt or other issues of securities by an entity in the BOQ Group may have on the market price or liquidity of ordinary shares.

Other external events

Acts of terrorism, an outbreak of international hostilities, labour strikes, civil wars or fires, floods, earthquakes, cyclones and other natural disasters (including where the frequency and severity of such events increase as a result of the effects of climate change) may cause an adverse change in investor sentiment with respect to BOQ specifically or the share market more generally, which could have a negative impact on the value of an investment in ordinary shares.

2. KEY RISKS ASSOCIATED WITH BOQ'S BUSINESS

The BOQ Group's business is subject to risks that can adversely impact its financial performance, financial condition and future performance. Certain risks and uncertainties that the BOQ Group may face are summarised below. However, the risks and uncertainties described below are not the only ones the BOQ Group faces. Additional risks and uncertainties that BOQ Group is unaware of, or that BOQ Group currently deems to be immaterial, may also become important factors that affect it.

If any of the listed or unlisted risks occur, the BOQ Group's business, prospects, reputation, financial performance or financial condition could be materially adversely affected, with the result that the trading price of BOQ securities could decline and as a shareholder you could lose all, or part, of your investment. You should carefully consider the risks described and the other information in this presentation before investing in BOQ securities.

Implementation of transformation strategy

BOQ has previously announced its intention to embark on a transformation strategy with a progress update planned for February 2020. There is a risk that the results of the structural productivity and operating model review and the transformation strategy may not or achieve or realise BOQ's strategic priorities, as well as the risk that the proposed timetable for implementation may be delayed. If the business does not perform as anticipated or if there are changes in the business, economic, legislative or regulatory environment, or customer behavior changes, this may also affect the effectiveness of the strategy. These could lead to BOQ underperforming market expectations regarding growth and profit, which may have an impact on BOQ's financial performance, financial position, capital resources and prospects. If internal or external stakeholders do not support the strategy, then this may have an impact on BOQ Group's businesses, financial performance, capital resources, financial condition and prospects. Further, if the costs and expenses associated with implementing the strategy, including increased costs associated with technology projects, are not managed as planned, then this may impact on the ability to successfully implement the strategy. The increased costs could also have an adverse effect on BOQ's and the BOQ Group's business, results of operations, financial performance, financial condition and prospects. It is also possible that implementation of transformation strategy may involve a disruptive impact on the operations of the BOQ, including possible changes in key executives and employees.

Market risk

The BOQ Group is exposed to market risk as a consequence of both its investments and trading activities in financial markets and through the asset and liability management of its balance sheet. The BOQ Group is exposed to losses arising from adverse movements in levels and volatility of market factors, including interest rates, foreign exchange rates, equity prices and credit spreads.

The BOQ Group, through its investment portfolios, is exposed to risk and volatility in the markets, securities and other assets in which it invests. Those risks include, but are not limited to:

- asset/liability risk, i.e. the risk that the value of an investment portfolio will decrease relative to the value of the liabilities as a result of fluctuation in investment factors including share prices, interest rates, credit spreads, counterparty default, exchange rates or commodity prices; and
- liquidity risk, including that assets cannot be sold without a significant impairment in value.

Such risks can be heightened during periods of high volatility, market disruption and periods of sustained low interest rates and could adversely affect the BOQ Group's businesses, financial performance, capital resources and financial condition.

If the BOQ Group was to suffer substantial losses due to any market volatility, it could adversely affect the BOQ Group's businesses, financial performance, liquidity, capital resources, financial condition and prospects.

Global market and economic volatility

The financial performance of the BOQ Group is significantly affected by changes in investment markets and economic conditions both globally and in Australia.

The financial services industry and capital markets have been, and may continue to be, adversely affected by market volatility and uncertainty as to the outlook for global economic conditions. Any such market and economic disruptions could have an adverse effect on financial institutions, such as the BOQ Group, because consumer and business confidence may decrease, unemployment may rise and demand for the products and services the BOQ Group provides may decline. This could adversely affect the BOQ Group's businesses, financial performance, liquidity, capital resources, financial condition and prospects.

KEY RISKS

2. KEY RISKS ASSOCIATED WITH BOQ'S BUSINESS (CONTINUED)

Funding and liquidity risk

Financial institutions (including the BOQ Group) are currently subject to global credit and capital market conditions, which experienced extreme volatility, disruption and decreased liquidity following the global financial crisis.

If market conditions deteriorate due to economic, financial, political or other reasons, the BOQ Group's funding costs may be adversely affected and its liquidity and its funding of lending activities may be constrained. There is no assurance that the BOQ Group will be able to obtain adequate funding at acceptable prices or at all.

Funding and liquidity risk is the risk that the BOQ Group, although balance sheet solvent, cannot meet or generate sufficient cash resources to meet its payment obligations in full as they fall due, or can only do so at materially disadvantageous terms. Funding risk can occur due to an increase in competition for funding, or a change in risk premiums required by investors, which cause an increase in funding costs or increased difficulty accessing funding markets. BOQ mitigates this risk by sourcing a diversified investor base through a number of different funding programmes in a number of different markets. Additionally, BOQ's Contingent Funding Plan is used to manage this risk.

The BOQ Group has made progress over time in strengthening its balance sheet and creating a sustainable funding profile.

BOQ maintains a portfolio of high quality, diversified liquid assets to facilitate balance sheet liquidity needs and meet internal and regulatory requirements. BOQ raises funding from a variety of sources, including customer deposits and wholesale funding in Australia and offshore markets to meet its funding obligations and to maintain or grow its business generally. If confidence in BOQ is damaged and BOQ's sources of funding prove to be insufficient or so expensive as to be uncompetitive, it may be forced to seek alternative funding arrangements or curtail its business operations and limit loan growth. The BOQ Group may also experience challenges in managing its capital base, which could give rise to greater volatility in capital ratios. The ability for BOQ to secure alternative funding will depend on a variety of factors, including prevailing market conditions, the availability of credit and BOQ's credit ratings.

Interest rate risk arises from a variety of sources, including mismatches between the repricing periods of assets and liabilities. As a result of these mismatches, movements in interest rates may affect earnings or the value of BOQ.

Currency risk is the risk of loss of earnings due to adverse movements in foreign exchange rates. BOQ's foreign exchange rate exposures are managed through detailed policies set by the Board and monitored by BOQ's Asset and Liability Committee and BOQ's treasury department.

Counterparty risk is the risk that BOQ's counterparties are unable to honour their contractual obligations. A counterparty may default on its obligations due to bankruptcy, lack of liquidity, operational failure or other reasons. This risk may arise, for example, from entering into swap contracts under which counterparties have obligations to make payments to BOQ executing trades that fail to settle at the required time due to non-delivery by the counterparty or systems failure by clearing agents, exchanges, clearing houses or other financial intermediaries. Such counterparty risk is more acute in difficult market conditions where the risk of failure of counterparties is higher.

BOQ continues to review its pricing model and funding mix in light of market conditions to ensure products are appropriately priced.

The financial performance of the BOQ Group can be significantly impacted by changes in monetary policy both in Australia and globally through the impact of broader economic conditions, as well as the change in stimulus provided by central banks. The actions of central banks, such as interest rate settings (including very low and negative interest rates) and quantitative easing, can potentially impact BOQ's access to funding markets, liquidity levels, cost of funding, margin on products and, as a result, BOQ's profitability.

Credit and impairment risk

As a financial institution, BOQ is exposed to the risks associated with extending credit to other parties. Credit risk is the risk of financial loss arising from a debtor or counterparty failing to meet their contractual debts and obligations or the failure to recover the recorded value of secured assets.

BOQ's lending activities cover a broad range of sectors, customers and products, including mortgages, consumer loans, commercial loans (including commercial property), equipment finance, vendor finance and other finance products. Less favourable economic or business conditions or deterioration in commercial and residential property markets, whether generally or in a specific industry sector or geographic region, or external events such as climatic, biological or geological disasters, could cause customers to experience an adverse financial situation, thereby exposing BOQ to the increased risk that those customers will fail to meet their obligations in accordance with agreed terms.

A weakening of the real estate market in Australia or Queensland may adversely affect BOQ's business, operations and financial condition

Residential and commercial property lending, together with property finance, including real estate development and investment property finance, constitute important businesses to BOQ.

Should BOQ's regulators impose new supervisory measures impacting BOQ's residential lending or if Australian housing price growth subsides or property valuations decline, the demand for BOQ's home lending products may decrease, which may adversely affect BOQ's business, operations and financial condition.

A significant decrease in commercial property valuations or a significant slowdown in Australian commercial real estate markets could result in a decrease in the amount of new lending BOQ is able to write and/or increase the losses that BOQ may experience from existing loans, which, in either case, could materially and adversely impact BOQ's financial condition and operations.

2. KEY RISKS ASSOCIATED WITH BOQ'S BUSINESS (CONTINUED)

Operational risk

Operational risk is the risk of loss, other than those captured in the credit and market risk categories, resulting from inadequate or failed internal processes, people or systems (including information security systems), or from external events. The BOQ Group is exposed to a variety of risks including those arising from process error, fraud, technology failure, security and physical protection, franchise agreements entered into with owners of Owner Managed Branches ("**OMBs**"), customer services, staff skills, workplace safety, compliance, business continuity, crisis management, processing errors, mis-selling of products and services and performance and product development and maintenance. Financial crime, in particular, is an inherent risk within the financial services industry.

BOQ manages these operational risks through appropriate reporting lines, defined responsibilities, policies and procedures and an operational risk program incorporating regular risk monitoring and reporting by each business unit. Operational risks are documented in risk databases which provide the basis for business unit and bank-wide risk profiles, the latter being reported to the Board on a regular basis. Although these steps are in place, there is no guarantee that the BOQ Group will not suffer loss as a result of these risks (and an inherent risk also exists due to systems and internal controls failing to identify or prevent losses relating to these operational risks). Loss from such risks could affect the BOQ Group's financial results. Such losses can include fines, penalties, loss or theft of funds or assets, customer compensation, loss of shareholder value, reputational losses, loss of life or injury to people and loss of property and information.

The BOQ Group includes a number of subsidiaries that are trading entities. Dealings and exposures between the members of the BOQ Group (which principally arise through the provision of administrative, corporate and distribution services, as well as through the provision of funding and equity contributions) also give rise to a risk of loss to BOQ.

The BOQ Group's ability to attract and retain suitably qualified and skilled employees is an important factor in achieving its strategic objectives. The BOQ Group may in the future have difficulty attracting highly qualified people to fill important roles, which could adversely affect its business, operations and financial condition.

Insurance business

St Andrew's Insurance provides consumer credit insurance, general insurance covers which form part of consumer credit insurance products, and life insurance. These insurance contracts involve the acceptance of significant insurance risk including 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, or involuntary unemployment. Insurance risk accepted under these insurance contracts is, in part, mitigated through the implementation of a reinsurance programme however not all insurance risks are covered under St Andrew's reinsurance programme. In addition, the insured benefit is not linked to the market value of the investments held for the purpose of meeting that benefit and any financial risks are substantially borne by the separately prudentially regulated insurance entities within the BOQ Group, of which BOQ is the ultimate securityholder. This risk is mitigated by the insurance entities employing conservative investment strategies with limited capital value at risk. Any reduction in the value of those investments and any increase in claims could adversely affect the financial performance and position of the insurance entities and the BOQ Group. In such an event, the BOQ Group's provisions for insurance liabilities may prove inadequate to cover the ultimate liability for claims or other policy benefits, which may adversely affect the financial performance and position of BOQ. As previously announced, options to maximise value and capital in connection with this business will be considered on an ongoing basis, and may include a potential divestment.

Reliance on external parties

BOQ's operations depend on performance by a number of external parties under contractual arrangements with BOQ. Non-performance of contractual obligations and poor operational performance of OMBs may have an adverse effect on BOQ's business and financial performance. In addition, BOQ also has key outsourcing agreements where certain activities or products can be more effectively provided through strategic partnerships. Although BOQ has taken steps to protect it from the effects of defaults under these contractual arrangements and outsourcing agreements, such defaults may have an adverse effect on BOQ's business continuity and financial performance.

BOQ GROUP

2. KEY RISKS ASSOCIATED WITH BOQ'S BUSINESS (CONTINUED)

Changes in regulation and government policy

As a financial services provider, BOQ is subject to substantial regulatory and legal oversight in Australia. The agencies with regulatory oversight of BOQ and its subsidiaries include, among others, APRA, the RBA, the Australian Competition and Consumer Commission ("**ACCC**"), ASX, Australian Securities and Investments Commission ("**ASIC**"), the Australian Transaction Reports and Analysis Centre ("**AUSTRAC**") and the Australian Taxation Office ("**ATO**").

Global economic conditions have led to increased supervision and regulation, as well as changes in the regulation in markets in which BOQ and BOQ Group operate, particularly for financial institutions, and will lead to further significant changes of this kind. In addition, regulation is becoming increasingly extensive and complex and some areas of regulatory change involve multiple jurisdictions seeking to adopt a coordinated approach or certain jurisdictions seeking to expand the territorial reach of their regulation.

For example, the current political and regulatory environment that the BOQ Group is operating in has also seen (and may in the future see) BOQ's regulators receive new powers. Recently, legislation was passed by the Australian Parliament that provided ASIC with a product intervention power, which enables ASIC to make orders that prevent issuers of financial products from engaging in certain conduct.

In addition, legislation has been passed that materially increases the penalties that can be imposed for corporate and financial sector misconduct. In particular, ASIC can commence civil penalty proceedings and seek significant civil penalties against an Australian Financial Services licensee (such as BOQ) for failing to do all things necessary to ensure that financial services provided under the licence are provided efficiently, honestly and fairly. This trend towards increasingly severe penalties for failing to meet compliance obligations could continue in the future and be expanded into other areas of regulation that the BOQ Group is subject to.

Changes may also occur in the oversight approach of regulators, which could result in a regulator preferring its enforcement powers over a more consultative approach. In recent years, there have been significant increases in the nature and scale of regulatory investigations, enforcement actions and the quantum of fines issued by global regulators.

This dynamic is apparent, with ASIC committing to conducting more enforcement actions against large financial institutions and adopting a 'why not litigate?' enforcement stance. ASIC has also continued to implement its 'Close and Continuous Monitoring' program, which has seen ASIC proposing to have staff embedded within the institutions they supervise, including BOQ.

On 16 April 2019, APRA released its Enforcement Approach, which sets out how APRA will use its enforcement powers to prevent and address serious prudential risks, and to hold entities and individuals to account. Approach, which has been endorsed by the APRA Board, implements recommendation two of the Final Report of the Enforcement Strategy Review.

On 3 September 2019, the Approach was updated to include principles that APRA will take into account when considering when and how to publicise its enforcement actions, and guidance on APRA's approach to enforcement for data submissions.

APRA has stated that it will use enforcement where appropriate to prevent and address serious prudential risks and hold entities and individuals to account. The current environment may see a shift in the nature of enforcement proceedings commenced by regulators. As well as conducting more civil penalty proceedings, BOQ's regulators may be more likely to bring criminal proceedings against institutions and/or their representatives in the future. Alternatively, regulators may elect to make criminal referrals to the Commonwealth Department of Public Prosecutions or other prosecutorial bodies.

The provision of new powers to regulators, coupled with the increasingly active supervisory and enforcement approaches adopted by them, increases the risk of adverse regulatory action being brought against the BOQ Group. Further, the severity and consequences of that action may now be greater, given the expansion of penalties for corporate and financial sector misconduct. Regulatory action brought against the BOQ Group may expose the BOQ Group to an increased risk of litigation brought by third parties (including through class action proceedings), which may require the BOQ Group to pay compensation to third parties and/or undertake further remediation activities.

The nature and impact of future changes are not predictable and beyond BOQ's control and there is operational and compliance risk and cost associated with the implementation of any new laws and regulations that apply to BOQ as a financial institution. In particular, changes in applicable laws, regulations, government policies or accounting standards, including changes in interpretation or implementation of laws, regulations, government policies or accounting standards could adversely affect one or more of BOQ Group's businesses and could require BOQ and/or the BOQ Group to incur substantial costs. Further impacts include required levels, or the measurement, of bank liquidity and capital adequacy, limiting the types of financial services and products that can be offered, and/or reducing the fees which banks can charge on their financial services. APRA may introduce new prudential regulations or modify existing regulations, including those that apply to BOQ as an ADI. Any such event could adversely affect the business or financial performance of the BOQ Group. Any new or amended rules may result in changes to BOQ's capital adequacy ratio.

2. KEY RISKS ASSOCIATED WITH BOQ'S BUSINESS (CONTINUED)

BOQ is responsible for ensuring that it complies with all applicable legal and regulatory requirements (including accounting standards, where applicable, as well as rules and regulations relating to corrupt and illegal payments and money laundering) and industry codes of practice, as well as meeting its ethical standards. The failure to comply with applicable regulations could result in suspensions, restrictions of operating licenses, fines and penalties or limitations on its ability to do business. They could also have adverse reputational consequences. These costs, expenses and limitations could have an adverse effect on BOQs and the BOQ Group's business, results of operations, financial performance or financial condition. The legal and regulatory requirements described above could also adversely affect the profitability and prospects of BOQ and the BOQ Group or their businesses to the extent that they limit BOQ's and BOQ Group's operations and flexibility of BOQ's and BOQ Group's businesses. The nature and impact of future changes in such requirements are not predictable and are beyond BOQ's and the BOQ Group's control.

Significant domestic and global legislative and regulatory developments and industry reforms which will, or may, impact on the BOQ Group's operations in Australia are set out on subsequent pages.

Banking Executive Accountability Regime

The *Treasury Laws Amendment (Banking Executive Accountability and Related Measures) Act 2018* (Cth) ("**BEAR legislation**") established accountability obligations for authorized deposit-taking institutions (ADIs) and their senior executives and directors.

The BEAR legislation applied to BOQ from 1 July 2019.

On 28 June 2019, APRA released a consultation letter outlining its proposed approach to implementing end-to-end product accountability under the BEAR. APRA's proposal aims to enhance customer experience and outcomes by addressing recommendation 1.17 of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry. The consultation closed on the 23 August 2019 and is currently with APRA for review.

Primary risks to the BOQ Group emerging from the changes in legislation relate to the substantial penalties for breaching the BEAR Measures, and the ability to attract and retain high quality executives. The BEAR Measures currently only apply to ADIs and ADI subsidiaries (including BOQ and its subsidiaries) – but may ultimately be extended to other parts of the financial services industry, impacting the BOQ Group more broadly.

Consumer Data Right Bill and Open Banking

From 2017 to 2018, the Government consulted on exposure draft legislation to implement the Consumer Data Right ("**CDR**"). The CDR will provide individuals and businesses with a right to efficiently and conveniently access specified data in relation to them held by business; and authorise secure access to this data by trusted and accredited third parties. The CDR will also require businesses (like BOQ) to provide public access to information on specified products they have on offer.

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

The CDR is intended to reduce the barriers that currently prevent customers from switching between banks. Banks will be required to provide open access to data on product terms and conditions, transaction use, and will have the ability to direct that their data be shared with other service providers (banks and non-banks).

On 9 May 2018, the Government agreed to the recommendations of the Review into Open Banking, both for the framework of the overarching CDR and for the application of the right to Open Banking. The CDR bill passed Parliament on 1 August 2019. The CDR rules for banking (or Open Banking) were published by the ACCC on 2 September 2019, providing increased detail on the rules for Open Banking and a refined approach to phasing. The first important compliance milestone for major banks is 1 February 2020, where they will need to be able to share consumer data with accredited persons on transactional accounts, with loan account data required by 1 July 2020. All remaining banks (including BOQ) will be required to comply with CDR rules with a 12-month delay from when majors must comply.

Australian Government's Major Bank Levy for large ADIs

The Major Bank Levy Act 2017 (Cth) and the Treasury Laws Amendment ("**Major Bank Levy**") Act 2017 (Cth) were enacted on 23 June 2017. The Acts impose a levy on ADIs with liabilities of at least A$100 billion, with effect from 1 July 2017. The levy is set at 0.06% per annum of certain ADI liabilities and will be payable on a quarterly basis, with the first payment to be made in relation to the September 2017 quarter. There is no end date provided for the levy.

Based on BOQ's balance sheet as at 31 August 2019, the BOQ Group is not currently subject to the levy nor does it expect to be subject to the levy in the near term. There is some risk that Australian State or Territory Governments may introduce similar levies.

2. KEY RISKS ASSOCIATED WITH BOQ'S BUSINESS (CONTINUED)

Royal Commission into misconduct in the banking, superannuation and financial services industry

The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry ("**Royal Commission**") was established on 14 December 2017 and conducted through 2018 and 2019. The Commissioner, the Honourable Kenneth Madison Hayne AC QC, submitted an Interim Report to the Governor-General on 28 September 2018 which was tabled in Parliament on 28 September 2018. The final report was submitted to the Governor-General on 1 February 2019 and it tabled in Parliament on 4 February 2019.

The government and regulators have accepted the majority of the recommendations from the Royal Commission and are in the process of implementation. The Royal Commission has led to, and may continue to lead to, regulatory enforcement activity, litigation and changes in laws, regulations or regulatory policy and has resulted in, and may continue to result in, ongoing reputational damage to the banking industry, all of which has had, and may continue to have, an adverse effect on the banking industry's business and prospects..

The nature, timing and impact of future regulatory reforms or changes are not predictable and are beyond the BOQ Group's control. Regulatory compliance and the management of regulatory change is an increasingly important part of the BOQ Group's strategic planning. Regulatory change may also impact the BOQ Group's operations by requiring it to have higher levels, and better quality of capital as well as place restrictions on the businesses the BOQ Group operates or require the BOQ Group to alter its product or service offerings. If regulatory change has any such effect, it could adversely affect one or more of the BOQ Group's businesses, restrict its flexibility, require it to incur substantial costs and impact the profitability of one or more of the BOQ Group's businesses. Any such costs or restrictions could adversely affect BOQ's businesses, financial performance, liquidity, capital resources, financial condition and prospects.

Australian Financial Complaints Authority

On 1 May 2018, the Australian Government announced the authorisation of Australian Financial Complaints Limited to operate the Australian Financial Complaints Authority ("**AFCA**"), and members of the inaugural AFCA Board. AFCA will be the one-stop shop external dispute resolution ("**EDR**") body for disputes arising in the financial sector. The objective of AFCA is to provide free, fast and binding dispute resolution for consumers and small businesses and to increase transparency of dispute resolution practices by enabling ASIC to publish banks' internal dispute resolution data.

AFCA commenced accepting complaints from 1 November 2018.

Australian Banking Association Banking Reform Program and industry initiatives

On 21 April 2016, the Australian Banking Association ("**ABA**") announced an action plan to protect consumer interests, increase transparency and accountability and improve consumer trust and confidence in the banking sector. The reform program includes a number of industry-led initiatives such as a commitment by member banks to remove variable sales incentives that are directly linked to product sales and a complete re-write of the industry's Banking Code of Practice 2013 to provide greater protections to customers.

On 17 April 2018, the independent governance expert overseeing the ABA action plan, Mr Ian McPhee, released his eighth and final report titled "Australian banking industry: Package of initiatives". The report noted that banks have made good progress in delivering the initiatives, with most initiatives now implemented.

On 31 July 2018, ASIC approved the new Banking Code of Practice and the new code was implemented in 2019. Further amendments to the Banking Code of Practice were proposed in July 2019 relating to recommendations from the Royal Commission, particular in relation to vulnerable customer groups. These further amendments must be implemented by 1 March 2020.

International regulation

There continues to be proposals and changes by global regulatory advisory and standard-setting bodies, such as the International Association of Insurance Supervisors, the Basel Committee on Banking Supervision ("**BCBS**") and the Financial Stability Board, which, if adopted or followed by domestic regulators, may increase operational and capital costs or requirements (see "Basel III" below for further information).

The BOQ Group's businesses may also be affected by changes to the regulatory framework in other jurisdictions, including the cost of complying with regulation that has extra-territorial application such as the Bribery Act 2010 (UK), FATCA (as defined below), Dodd–Frank Wall Street Reform and Consumer Protection Act 2010 (US) and other reforms.

There has also been increased regulator expectation and focus in relation to a number of other areas such as data quality and controls, governance and culture and conduct.

2. KEY RISKS ASSOCIATED WITH BOQ'S BUSINESS (CONTINUED)

Basel III

Basel III is a comprehensive set of reform measures, developed by the BCBS, to strengthen the regulation, supervision and risk management of the banking sector globally (see below for a comprehensive description of Basel III).

From 1 January 2016, APRA requires ADIs to maintain a capital conservation buffer in the form of Common Equity Tier 1 capital ("**CET1**") (of 2.5 per cent. of risk weighted assets unless otherwise determined by APRA) above Basel III minimum requirements and APRA also has the discretion to apply an additional countercyclical buffer in the form of CET1 of up to 2.5 per cent. of risk-weighted assets. On 17 December 2015, APRA announced that the countercyclical buffer applying from 1 January 2016 to the Australian exposures of all ADIs will be set at zero.

On 1 January 2015, APRA also implemented the Basel III Liquidity Coverage Ratio ("**LCR**"), which requires ADIs to hold high quality liquidity assets ("**HQLA**") to meet its net cash outflows under a severe stress scenario lasting 30 days.

On 1 January 2018, APRA implemented the Basel III net stable funding ratio ("**NSFR**"), which is a 12 month structural funding metric, requiring that 'available stable funding' is sufficient to cover 'required stable funding', where 'stable' funding has an actual or assumed maturity of greater than 12 months.

Net Stable Funding Ratio

On 20 December 2016, APRA released the final revised Prudential Standard APS 210 Liquidity ("**APS 210**") and Prudential Practice Guide APG 210 Liquidity ("**APG 210**") which incorporates, among other things, the NSFR requirements for some ADIs.

APRA's objective in implementing the NSFR in Australia for ADIs that are subject to the LCR, implemented in 2015, is to strengthen the funding and liquidity resilience of these ADIs.

The NSFR encourages ADIs to fund their activities with more stable sources of funding on an ongoing basis, and thereby promotes greater balance sheet resilience. In particular, the NSFR should lead to reduced reliance on less-stable sources of funding, such as short-term wholesale funding, that proved problematic during the global financial crisis. The new APS 210 commenced on 1 January 2018.

APRA's removal of investor lending benchmark and movement to better practices

On 26 April 2018, APRA announced plans to remove the investor loan growth benchmark and replace it with more permanent measures to strengthen lending standards. The 10 per cent. benchmark on investor loan growth was a temporary measure, introduced in 2014 as part of a range of actions to reduce higher risk lending and improve practices. APRA noted that in recent years, ADIs have taken steps to improve the quality of lending, raise standards and increase capital resilience. APRA wrote to ADIs to advise that it was prepared to remove the investor growth benchmark, where the board of an ADI is able to provide assurance on the strength of their lending standards. In summary, for the 10 per cent. benchmark to no longer apply, Boards will be expected to confirm that:

- lending has been below the investor loan growth benchmark for at least the past six months;
- lending policies meet APRA's guidance on serviceability; and
- lending practices will be strengthened where necessary.

For ADIs that do not provide the required commitments to APRA, the investor loan growth benchmark will continue to apply.

As part of these measures, APRA stated that it also expects ADIs to develop internal portfolio limits on the proportion of new lending at very high debt-to-income levels, and policy limits on maximum debt-to-income levels for individual borrowers.

2. KEY RISKS ASSOCIATED WITH BOQ'S BUSINESS (CONTINUED)

APRA's proposed changes to make the capital framework for ADIs more transparent, comparable and flexible

On 14 August 2018, APRA released a discussion paper which outlines two general approaches designed to aid ADIs in representing and communicating their capital strength.

Under one approach, ADIs would continue using existing definitions of capital and risk-weighted assets, but APRA would develop a methodology allowing them to improve the credibility and robustness of internationally comparable capital ratio disclosures.

Under a second approach, APRA would change the way ADIs calculate capital ratios to instead use more internationally harmonised definitions of capital and risk-weighted assets. To maintain the strength and risk-sensitivity of the capital framework, there would need to be corresponding increases in minimum ratio and/or capital buffer requirements.

APRA stated that it is open to considering these approaches independently or in combination, or retaining its current methodology, and is seeking industry feedback on whether the benefits of the suggested approaches outweigh the regulatory burden and associated increase in complexity.

Separately, the discussion paper proposes measures to make the capital framework more flexible in times of stress, including by increasing the size of regulatory capital buffers relative to minimum regulatory capital requirements. APRA reiterated that the proposals in this paper are not intended to change the quantum or allocation of capital.

APRA stated it intends to consult on draft revised prudential standards incorporating the outcome of this consultation in 2019. Further, APRA stated that it intends to progress any aspects set out in this Discussion Paper that it proposes to adopt in parallel with the revisions to the ADI capital framework outlined in the Discussion Paper released in February 2018.

RBA's Committed Liquidity Facility

In response to the limited supply of Australian Government and semi-government securities, APRA and the RBA have allowed ADIs, by approval, to establish a committed secured liquidity facility ("**CLF**") with the RBA (which is an Alternative Liquid Assets ("**ALA**") (defined in the Basel III liquidity rules)) that expands the regulatory definition of HQLA in jurisdictions where there is a structural shortfall of otherwise Basel III-qualifying HQLA, as is the case in Australia.

In September 2014, the RBA released legal documentation for a CLF, including the terms and conditions of the CLF ("**CLF Terms and Conditions**"). The commitment of the RBA under a CLF to the relevant participating ADI ("**CLF Participant**") became available on and from 1 January 2015, with the applicable commitment fee set at 0.15 per cent. per year (payable monthly) and the drawn rate currently set at 0.25 per cent. plus the cash rate for non-intra day trades. In July 2019, the RBA informed participants of an increase in the commitment fee from 0.15bps currently, 0.17 per cent from 1 January 2020 to 31 December 2020; and 0.20 per cent from 1 January 2021 onwards.

The committed amount under a CLF will be as determined by APRA in accordance with the process advised by APRA in August 2014, and notified to the CLF Participant and the RBA. BOQ has applied for, and has been granted access to, the CLF.

A CLF is terminable by the relevant CLF Participant on not less than 1 months' notice and by the RBA on not less than 12 months' notice.

If there is any failure of, or breach by, the RBA in respect of a CLF, the liability of the RBA to the relevant CLF Participant in respect of claims regarding the CLF is expressly limited and, notwithstanding such limitations, is capped at A$50 million in aggregate.

Amounts owing to the RBA in respect of a CLF by the relevant CLF Participant (which may include, without limitation, fees due but unpaid and amounts owing under an indemnity provided by the CLF participant under the CLF Terms and Conditions) may, in a winding-up of the CLF Participant, be mandatorily preferred over certain other debts of the CLF Participant (including, pursuant to section 13A(3)(d) of the Australian Banking Act and section 86 of the Reserve Bank Act 1959).

2. KEY RISKS ASSOCIATED WITH BOQ'S BUSINESS (CONTINUED)

Basel III

On 19 July 2017, APRA released its discussion paper on its approach to meeting the Financial Systems Enquiry "Unquestionably Strong" ("**UQS**") recommendation. The paper outlines APRA's key considerations for calibrating prudential limits across the industry, including the requirements for:

- Standardised banks to hold an extra 50 basis points on their Prudential Capital Requirement ("**PCR**") + Capital Conservation Buffer ("**CCB**") limits; and
- Advanced banks to hold an additional 100bps of capital more than standardised banks and those that are also domestic systemically import banks ("**DSIBs**"), a further 100bp (total of 200bps higher). The market expectation is that the major banks will target a 10.5 per cent. CET1 ratio.

This announced change for UQS effectively increases BOQ's CET1 minimum by 50 basis points, before applying an operating buffer, expected to be in the order of 100bps. APRA expects that ADIs will meet UQS requirements by 1 January 2020. BOQ is adapting a management target range for CET1 between 9.0% and 9.5% until the final impacts of APRA's RWA and capital calibration are understood.

Discussions held with APRA subsequent to the release of the UQS paper have indicated that for standardised ADIs, it is likely that the 50 basis point increase in requirements will be as a result of changes to risk weights under the revisions to prudential standards, rather than just being added on as an increase to PCR or the CCB. The 50 basis points presented in their paper was intended to provide a benchmark to assist in capital planning ahead of the implementation of APRA framework changes in 2022, with the actual change based on each individual ADI's exposures.

Revisions to the Capital Framework (Basel III)

Whilst the International Standards for Basel III have been finalised, certainty around BOQ's capital requirements won't be known until APRA outlines its jurisdictional approach to their implementation in Australia. A significant recalibration of risk-weighted assets ("**RWAs**") was initially expected under the requirements of the APRA discussion paper "Revisions to the capital framework for authorised deposit-taking institutions" issued 14 February 2018. APRA released its "Response to Submissions – Revisions to the Capital Framework of Authorised Deposit Taking Institutions" on 12 June 2019.

APRA released a further discussion paper "Improving the transparency, comparability and flexibility of the ADI capital framework" on 14 August 2018 which focussed on the presentation of capital ratios that could mean increased capital requirements through means other than increased risk weights.

APRA has undertaken a quantitative impact study to calibrate the proposals detailed in the 12 June 2019 paper and is proposing to implement the revised capital requirements from 1 January 2022.

Additionally, APRA released a discussion paper "Increasing the loss-absorbing capacity of ADIs to support orderly resolution" on 8 November 2018. This outlined a new requirement for ADIs to maintain additional loss absorbency for resolution purposes. The requirement would be implemented by adjusting the amount of total capital that ADIs must maintain, therefore using existing capital instruments rather than introducing new forms of loss-absorbing instruments.

For other ADIs such as BOQ, the need for additional loss absorbency would be considered as part of resolution planning. For most other ADIs it is likely that an orderly resolution could occur without the need for additional loss absorbency. However, for a small number, due to their complexity or the nature of their functions, additional loss absorbency may be required.

2. KEY RISKS ASSOCIATED WITH BOQ'S BUSINESS (CONTINUED)

Financial crime obligations

The BOQ Group is subject to anti-money laundering and counter-terrorism financing ("AML/CTF") laws, anti-bribery and corruption laws, economic and trade sanctions laws and tax transparency laws in the jurisdictions in which it operates. These laws can be complex and, in some circumstances, impose a diverse range of obligations. For example, AML/CTF laws require BOQ and other regulated institutions to (amongst other things) undertake customer identification and verification, conduct ongoing due diligence on customers, maintain and implement as AML/CTF program and undertake ongoing risk assessments. AML/CTF laws also require BOQ to report certain matters and transactions to regulators (including in relation to International Funds Transfer Instructions, Threshold Transaction Reports and Suspicious Matter Reports) and ensure that certain information is not disclosed to third parties in a way that would contravene the 'tipping off' provisions in AML/CTF legislation.

In recent years there has been increased focus on compliance with financial crime obligations, with regulators around the globe commencing large-scale investigations and taking enforcement action where they have identified non-compliance (often seeking significant monetary penalties). Due to the volume of transactions that the BOQ Group processes, the undetected failure or the ineffective implementation, monitoring or remediation of a system, policy, process or control (including in relation to a regulatory reporting obligation) could result in breaches of AML/CTF obligations. This in turn could lead to significant monetary penalties.

If BOQ fails, or where BOQ has failed, to comply with these obligations, BOQ could face regulatory enforcement action such as litigation, significant fines, penalties and the revocation, suspension or variation of licence conditions.

As reported in BOQ Group's 2019 Annual Report, in 2018 BOQ received a compliance assessment report from AUSTRAC which identified potential compliance contraventions of the AML/CTF legislation. BOQ has continued to consult and update AUSTRAC about the progress that has been made to investigate and address the issues identified in the report. Non-compliance with financial crime obligations could also lead to litigation commenced by third parties (including class action proceedings) and cause reputational damage. These actions could, either individually or in aggregate, adversely affect BOQ's business, prospects, reputation, financial performance or financial condition.

Crisis management

The Financial System Inquiry report recommended that APRA's crisis management powers be expanded. On 5 March 2018, the Financial Sector Legislation Amendment (Crisis Resolution Powers and Other Measures) Act 2018 (Cth) (the "**Crisis Management Act**") came into effect. The Crisis Management Act amends the Australian Banking Act (among other statutes applicable to financial institutions in Australia) and is intended to enhance certain of APRA's powers. Specifically, the Crisis Management Act enhances APRA's powers to facilitate the orderly resolution of the entities it regulates (and their subsidiaries) in times of distress. Additional powers given to APRA under the Crisis Management Act which could impact BOQ, include greater oversight, management and directions powers in relation to BOQ which were previously not regulated by APRA, increased statutory management powers over regulated entities within the BOQ Group and changes which are designed to give statutory recognition to the conversion or write-off of regulatory capital instruments.

Changes in technology

Technology plays an increasingly important role in the delivery of financial services to customers in a cost-effective manner. BOQ's ability to compete effectively in the future will, in part, be driven by its ability to maintain an appropriate technology platform for the efficient delivery of its products and services.

In order to continue to deliver new products and services to customers, comply with BOQ's regulatory obligations (such as obligations to report certain data and information to regulators) and meet the ongoing expectations of BOQ's regulators and customers, BOQ needs to regularly renew and enhance its technology.

BOQ is constantly, and is currently, managing technology projects including projects to consolidate technology platforms, simplify and enhance its technology infrastructure, application and operations environment, assist BOQ to comply with legal obligations, improve productivity and provide for a better customer experience. An example of this being BOQ's current and future technology improvements associated with implementing the strategic transformation and structural productivity and operating model review.

Failure to implement these projects or manage associated change effectively could result in substantial cost overruns, unrealized productivity, operational instability, failure to meet compliance obligations, reputational damage and/or result in the loss of market share to competitors. In turn, this could play BOQ at a competitive disadvantage and adversely affect BOQ's financial performance.

Industry competition

There is substantial competition for the provision of financial services in the markets in which BOQ operates. Existing participants or potential new entrants to the market, especially in BOQ's main markets and products, could heighten competition and reduce margins or increase costs of participation, which would adversely affect the BOQ Group's financial performance and position. As the financial services industry is a licensed and regulated industry, the prudential framework across industry participants creates its own challenges. Changes in the regulatory environment will potentially influence the industry's competitive dynamic.

2. KEY RISKS ASSOCIATED WITH BOQ'S BUSINESS (CONTINUED)

Risks to the BOQ Group growth strategy

Risks that relate to BOQ's growth strategy are interrelated and include risk of local market saturation, risks associated with geographical diversification, changes in wholesale funding markets, changes in general economic conditions, regulatory reform and the availability of appropriate franchisees to operate and grow the OMB network.

Risk of market saturation

Despite the size of the national market, BOQ faces the challenge of maintaining a high penetration rate in that market in order to achieve continued growth. In addition, BOQ will continue to be exposed to fluctuations in the Australian economy and property market in particular.

Funding for growth

Changes in wholesale funding markets may cause an inability to raise sufficient wholesale funds to fund BOQ's asset growth strategies.

Effect of economic conditions

General economic conditions in Australia and Queensland in particular may worsen which could stifle credit growth and restrict BOQ's ability to grow in line with its growth strategy, or result in an increase in impairment expense that could adversely impact profitability.

Mergers, acquisitions and divestments

BOQ may engage in merger, acquisition or divestment activities which facilitate BOQ's strategic direction. These activities may involve entering new markets, exiting products and/or offering third party manufactured products or expanding the BOQ Group's current product suite and may affect the BOQ Group's risk profile through changes to, or to the relative importance of, the geographies and/or product types to which it has exposures. Whilst BOQ recognises that benefits may arise from merger, acquisition or divestment activities, significant risks exist in both the execution and implementation of such activities.

It is likely that BOQ would raise additional debt or raise equity to finance any major merger or acquisition and this would cause BOQ to face the financial risks and costs associated with additional debt or equity. Where BOQ decides to divest a business or asset, this may involve a loss against book value, particularly of any goodwill or other intangibles.

Changes in ownership and management may result in impairment of relationships with employees and customers of the acquired businesses. Depending on the type of transaction, it could take a substantial period of time for BOQ to realise the financial benefits of the transaction, if any.

Any acquisition or divestment may result in a material positive or negative impact on the BOQ Group's financial position, including reported profit and loss and capital ratios. There can be no assurance that any acquisition (or divestment) would have the anticipated positive results, including results relating to the total cost of integration (or separation), the time required to complete the integration (or separation), the amount of longer-term cost savings, the overall performance of the combined (or remaining) entity, or an improved price for BOQ's securities. BOQ's operating performance, risk profile and capital structure may be affected by these corporate opportunities and there is a risk that BOQ's credit ratings may be placed on credit watch or downgraded if these opportunities are pursued.

Integration (or separation) of an acquired (or divested) business can be complex and costly, sometimes including combining (or separating) relevant accounting and data processing systems, and management controls, as well as managing relevant relationships with employees, customers, regulators, counterparties, suppliers and other business partners. Integration (or separation) efforts could create inconsistencies in standards, controls, procedures and policies, as well as diverting management attention and resources. This could adversely affect BOQ's ability to conduct its business successfully and impact BOQ's operations or results. Additionally, there can be no assurance that employees, customers, counterparties, suppliers and other business partners of newly acquired (or retained) businesses will remain post-acquisition (or post-divestment), and the loss of employees, customers, counterparties, suppliers and other business partners could adversely affect BOQ's operations or results.

2. KEY RISKS ASSOCIATED WITH BOQ'S BUSINESS (CONTINUED)

Contingent Liabilities

Guarantees, indemnities and letters of credit

There are contingent liabilities arising in the normal course of business and against which no loss is anticipated. 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.

Legal proceedings

From time to time, the BOQ Group may be subject to material litigation, regulatory actions, legal or arbitration proceedings and other contingent liabilities which, if they crystallise, may adversely affect the BOQ Group's results.

The BOQ Group may be exposed to risks relating to the provision of advice, recommendations or guidance about financial products and services, or behaviours which do not appropriately consider the interests of consumers, the integrity of the financial markets and the expectations of the community, in the course of its business activities.

In recent years there have been significant increases in the nature and scale of regulatory investigations and reviews, enforcement actions (whether by court action or otherwise) and the quantum of fines issued by regulators, particularly against financial institutions both in Australia and globally. The nature of those investigations, reviews and enforcement actions can be wide ranging and, for example, currently include a range of matters including responsible lending practices, product suitability, wealth advice and conduct in financial markets and capital markets transactions.

Regulatory investigations, fines, other penalties or regulator imposed conditions could adversely affect the BOQ Group's business, reputation, prospects, financial performance or financial or capital condition.

On 4 September 2019, the Australian Securities and Investments Commission (ASIC) commenced proceedings against BOQ alleging that certain terms in BOQ's small business contracts are unfair contracts terms in breach of the ASIC Act. Those proceedings remain on foot.

Regulatory fines and sanctions

The upward trend in compliance breaches by global banks and the related fines and settlement sums means that these risks continue to be an area of focus for BOQ.

In particular, the risk of non-compliance with anti-money laundering, counter-terrorist financing and sanction laws remains high given the current environment in which BOQ operates. A failure to develop and implement a robust program to combat money laundering, bribery and terrorist financing or to ensure compliance with economic sanctions and market conduct laws and regulations could have serious legal and reputational consequences for BOQ and its employees. Consequences can include fines, criminal and civil penalties (including custodial sentences), civil claims, reputational harm, possible limitations or amendments to banking licenses and limitations on doing business in certain jurisdictions.

Regulatory review and investigations

From time to time, BOQ may be exposed to regulatory reviews or investigations. The nature of those reviews and investigations are wide ranging and, for example, include a range of matters including responsible lending practices, risk governance, product suitability, and conduct in financial markets and capital markets transactions. Currently, APRA has market risk and retail credit risk reviews scheduled with BOQ over the next 12 months, with a technology risk review expected to be scheduled in the future.

Although BOQ intends to comply with all regulatory reviews and investigations, the outcomes of these reviews and investigations are uncertain. If any of these reviews lead to legislative or other regulatory change, this could have an impact on BOQ's business. In addition, enforcement action may result in fines, remediation or other regulatory action or reputation impacts, which could have an adverse impact on the overall financial position and performance of BOQ.

Further, on 28 October 2019, APRA issued BOQ two notices requesting information and an explanation from BOQ in response to APRA's concerns that the data submitted in BOQ's economic and financial statistics ("**EFS**") returns is incomplete, incorrect and does not comply with the reporting standards which apply to those returns. BOQ was required by APRA to respond and resubmit the required data and has complied accordingly. Although BOQ is actively working with APRA and other agencies engaged in EFS to ensure it complies with its reporting requirements and obligations, the outcome of the review is uncertain and there is the potential that the review may have an impact on BOQ's business, reputation, financial performance or financial position.

2. KEY RISKS ASSOCIATED WITH BOQ'S BUSINESS (CONTINUED)

Litigation and regulatory proceedings

As noted above, BOQ (like all entities in the banking, insurance or finance sectors) is exposed to the risk of litigation and/or regulatory reviews or proceedings brought by or on behalf of policyholders, deposit holders, reinsurers, government agencies or other potential claimants. If the BOQ Group fails to meet its legal or regulatory requirements, it may be exposed to fines, public censure, litigation, settlements, restitution to customers, regulators or other stakeholders, or enforced suspension of operations or loss of licence to operate all or part of the BOQ Group's business.

On 4 September 2019, ASIC commenced proceedings in the Federal Court of Australia against BOQ alleging that certain terms in BOQ's small business contracts are unfair contract terms in breach of the Australian Securities and Investments Commission Act 2019 (Cth). The outcome of this litigation is uncertain, and it is difficult to predict the ultimate impact and timing of any potential consequences on BOQ. Depending on the outcome of the litigation, BOQ may be required to comply with broad court orders, including compliance orders, enforcement orders or otherwise pay money such as damages, fines, penalties or legal costs.

There can be no assurance that significant litigation will not arise in the future and that the outcome of legal proceedings from time to time will not have an adverse effect on BOQ's businesses, financial performance, financial condition or prospects.

Reputation

Reputation risk may arise through the actions of BOQ or other financial services market participants and adversely affect perceptions of BOQ held by the public, securityholders, regulators or rating agencies. These issues include inappropriately dealing with potential conflicts of interests, pricing policies, legal and regulatory requirements, ethical issues, litigation, money laundering laws, trade sanctions legislation, privacy laws, information security policies, sales and trading practices, technology failures, security breaches and risk management failures. Damage to BOQ's reputation may have an adverse impact on BOQ's financial performance, capacity to source funding and liquidity, cost of sourcing funding and liquidity and by constraining business opportunities.

Sovereign risk

Sovereign risk is the risk that governments will default on their debt obligations, will be unable to refinance their debts as they fall due or will nationalise parts of their economy including assets of financial institutions such as BOQ. Sovereign defaults could negatively impact the value of BOQ's holdings of high quality liquid assets. There may also be a cascading effect to other markets and countries, the consequences of which, while difficult to predict, may be similar to or worse than those experienced during the Global Financial Crisis. Such an event could destabilise global financial markets, adversely affecting BOQ's liquidity, financial performance or financial condition.

Credit ratings

Credit ratings are opinions on the BOQ Group's creditworthiness. The BOQ Group's credit ratings affect the cost and availability of its funding from capital markets and other funding sources and they may be important to customers or counterparties when evaluating its products and services. Therefore, maintaining high quality credit ratings is important.

The credit ratings assigned to the BOQ Group and its subsidiaries by rating agencies are based on an evaluation of a number of factors, including financial strength, support from members of the BOQ Group and structural considerations regarding the Australian financial system. A credit rating downgrade could be driven by the occurrence of one or more of the other events identified as risks in this section of the presentation or by other events, including changes to methodologies used by the rating agencies to determine ratings.

If BOQ fails to maintain its current credit ratings, this could adversely affect the BOQ Group's cost of funds and related margins, competitive position and its access to capital and funding markets. This could adversely affect the BOQ Group's businesses, financial performance, liquidity, capital resources, financial condition and prospects. The extent and nature of these impacts would depend on various factors, including the extent of any ratings change, whether the ratings of BOQ differ among agencies (split ratings) and whether any ratings changes also impact the BOQ Group's peers or the banking and insurance sectors.

KEY RISKS

2. KEY RISKS ASSOCIATED WITH BOQ'S BUSINESS (CONTINUED)

Changes to accounting policies may adversely affect BOQ's business, operations and financial condition

The accounting policies and methods that BOQ applies are fundamental to how it records and reports its financial position and results of operations. Management of BOQ must exercise judgment in selecting and applying many of these accounting policies and methods so that they not only comply with generally accepted accounting principles but they also reflect the most appropriate manner in which to record and report on the financial position and results of operations. However, these accounting policies may be applied inaccurately, resulting in a misstatement of financial position and results of operations.

In some cases, management must select an accounting policy or method from two or more alternatives, any of which might comply with generally accepted accounting principles and is reasonable under the circumstances, yet might result in reporting materially different outcomes than would have been reported under another alternative.

Changes in critical accounting estimates and judgments

The BOQ Group is required to make estimates, assumptions and judgements when applying accounting policies and preparing its financial statements, particularly in connection with the calculation of provisions (including those related to remediations or credit losses) and the determination of the fair value of financial instruments. A change in a critical accounting estimate, assumption and/or judgement resulting from new information or from changes in circumstances or experience could result in the BOQ Group incurring losses greater than those anticipated or provided for. This may have an adverse effect on the BOQ Group's financial performance, financial condition and reputation.

Dependence on the Australian and Queensland economies

BOQ's revenues and earnings are dependent on economic activity and the level of financial services its customers require. In particular, lending is dependent on customer and investor confidence, the state of the economy, the residential lending market and prevailing market interest rates in Australia and in Queensland in particular. These factors are, in turn, impacted by both domestic and international economic and political events, natural disasters and the general state of the global economy.

A downturn in the Australian or Queensland economy could adversely impact BOQ's results of operations, liquidity, capital resources and financial condition.

Geopolitical instability, such as threats of, potential for, or actual conflict, occurring around the world may also adversely affect global financial markets, general economic and business conditions and, in turn, BOQ's business, operations and financial condition.

Risk of natural disasters

Natural disasters such as (but not restricted to) cyclones, floods and earthquakes, and the economic and financial market implications of such disasters on domestic and global conditions can adversely affect BOQ's business, operations and financial condition.

Environmental risk

BOQ and its customers operate businesses and hold assets in a diverse range of geographical locations. Any significant environmental change or external event (including fire, storm, flood, earthquake or pandemic) in any of these locations has the potential to disrupt business activities, impact on BOQ's operations, damage property and otherwise affect the value of assets held in the affected locations and BOQ's ability to recover amounts owing to it. In addition, such an event could have an adverse impact on economic activity, consumer and investor confidence, or the levels of volatility in financial markets, which could adversely affect BOQ's businesses, financial performance, capital resources, financial condition and prospects.

Climate change risk

BOQ, its customers and external suppliers, may be adversely affected by the physical risks of climate change, including increases in temperatures, sea levels, and the frequency and severity of adverse climatic events including fires, storms, floods and droughts. These effects, whether acute or chronic in nature, may directly impact BOQ and its customers through reputational damage, environmental factors, insurance risk and business disruption and may have an adverse impact on financial performance (including through an increase in defaults in credit exposures).

Initiatives to mitigate or respond to adverse impacts of climate change may impact market and asset prices, economic activity, and customer behaviour, particularly in geographic locations and industry sectors adversely affected by these changes. Failure to effectively manage these transition risks could adversely affect BOQ's business, prospects, reputation, financial performance or financial condition.

2. KEY RISKS ASSOCIATED WITH BOQ'S BUSINESS (CONTINUED)

BOQ is exposed to risks associated with cyber security, which may adversely impact its business, operations and financial condition

BOQ is highly dependent on information systems and technology. Therefore, there is a risk that these, or services BOQ uses or is dependent upon, might fail, including because of unauthorised access or use. Most of BOQ's daily operations are computer-based and information systems applications and technology are essential to maintaining effective communications with customers. BOQ is also conscious that threats to information systems applications and technology are continuously evolving and cyber threats and risk of attacks are increasing.

Cyber security means protecting the cyber environment and information from threats including unauthorised access, use, disclosure, disruption, modification, perusal, inspection, recording or destruction. By its nature, BOQ handles a considerable amount of personal and confidential information about its customers. The exposure to systems risks include the complete or partial failure of information technology systems due to, among other things, failure to keep pace with industry developments and the capacity of the existing systems to effectively accommodate growth, prevent unauthorised access and integrate existing and future acquisitions and alliances. There is a risk that information may be inadvertently or inappropriately accessed or distributed or illegally accessed or stolen.

To manage these risks, BOQ employs a cyber security team who are responsible for the development and implementation of BOQ's information security policies, operational procedures and cyber security specialist partners. BOQ is conscious that threats to cyber security are continuously evolving and as such BOQ conducts regular internal and external reviews to ensure new threats are identified, evolving risks are mitigated, policies and procedures are updated and good practice is maintained. However, BOQ may not be able to anticipate all attacks as they may be dynamic in nature or implement effective measures to prevent or minimise disruptions that may be caused by all cyber threats because the techniques used can be highly sophisticated and those perpetuating the attacks may be well resourced. As there can be no guarantee that the steps taken by BOQ to manage the risks will be fully effective, any failure of these systems could result in business interruption, customer dissatisfaction, legal or regulatory breaches and liability, loss of customers, financial compensation, damage to reputation and/or a weakening of BOQ's competitive position, which could adversely impact BOQ's business and have a material adverse effect on BOQ's operations and financial condition.

Unexpected changes to BOQ's licence to operate in any jurisdiction may adversely affect its business, operations and financial condition

BOQ is licensed to operate in the various states and territories in which it conducts business. Unexpected changes in the conditions of the licences may prohibit or restrict BOQ from operating in a manner that was previously permitted and may adversely impact BOQ's financial results.

Risk of a major systemic shock to the Australian or other financial systems

In recent years, global credit and equity markets have been characterised by uncertainty and volatility. More recently, the global backdrop has improved and volatility in global financial markets has receded. There is a possibility that more challenging market conditions return when major central banks begin the process of normalising monetary policy settings. The uneven pace of economic growth and deflation risks in Europe, concerns about the strength of the US economy, the sustainability of economic growth in China and broader geopolitical risks all pose risks to global financial markets. There are significant and ongoing global political developments that have the potential to impact major global economies, including Brexit and the introduction of tariffs and other protectionist measures by various countries such as the US and China. A shock to one of the major global economies could again result in currency and interest rate fluctuations and operational disruptions that negatively impact the BOQ Group.

Any such market and economic disruptions could have an adverse effect on financial institutions such as BOQ because consumer and business confidence may decrease, unemployment may rise and demand for the products and services BOQ provides may decline, thereby reducing BOQ's earnings. These conditions may also affect the ability of its borrowers to repay their loans, or BOQ's counterparties to meet their obligations, causing it to incur higher credit losses. These events could also result in the undermining of confidence in the financial system, reducing liquidity and impairing BOQ's access to funding and impairing its customers and counterparties and their businesses.

The nature and consequences of any such event are difficult to predict and there can be no guarantee that BOQ could respond effectively to any such event. If BOQ were not to respond effectively, BOQ's businesses, financial performance, financial condition and prospects could be adversely affected.

BOQ may experience challenges in managing its capital base, which could give rise to greater volatility in capital ratios

BOQ's capital base is critical to the management of its businesses and access to funding. BOQ is required by APRA to maintain adequate regulatory capital.

Under current regulatory requirements, risk-weighted assets and expected loan losses increase as a counterparty's risk grade worsens. These additional regulatory capital requirements compound any reduction in capital resulting from increased provisions for loan losses and lower profits in times of stress. As a result, greater volatility in capital ratios may arise and may require BOQ to raise additional capital. There can be no certainty that any additional capital required would be available or could be raised on reasonable terms.

BOQ GROUP

2. KEY RISKS ASSOCIATED WITH BOQ'S BUSINESS (CONTINUED)

Failure of risk management strategies

The BOQ Group has implemented risk management strategies and internal controls involving processes and procedures intended to identify, assess, measure, monitor, report and mitigate the risks to which it is subject as noted above. However, there are inherent limitations with any risk management framework as there may exist, or develop in the future, risks that the BOQ Group has not anticipated or identified or controls that may not operate effectively. If any of the BOQ Group's risk management processes and procedures prove ineffective or inadequate or are otherwise not appropriately implemented, the BOQ Group could suffer unexpected losses and reputational damage which could adversely affect BOQ's businesses, financial performance, capital resources, financial condition and prospects.

Insurance risk

The BOQ Group maintains insurance that it considers to be prudent for the scope and scale of its activities. If the BOQ Group's third-party providers fail to perform their obligations and/or its third-party insurance cover is insufficient for a particular matter or group or related matters, the net loss to the BOQ Group could adversely impact its results and operations.

Operational risk, technology risk, conduct risk or compliance risk events have required, and could in the future require, BOQ to undertake customer remediation activity

BOQ relies on a large number of policies, processes, procedures, systems and people to conduct its business. Breakdowns or deficiencies in one of these areas (arising from one or more operational risk, technology risk, conduct risk or compliance risk events) have resulted, and could in the future result in, adverse outcomes for customers which BOQ is required to remediate.

These events could require BOQ to incur significant remediation costs (which may include compensation payments to customers and costs associated with correcting the underlying issue) and result in reputational damage.

There are significant challenges and risks involved in customer remediation activities. BOQ's ability to investigate an adverse customer outcome that may require remediation could be impeded if the issue is a legacy matter spanning beyond BOQ's record retention period, or if BOQ's record keeping is otherwise inadequate. Depending on the nature of the issue, it may be difficult to quantify and scope the remediation activity.

Determining how to properly and fairly compensate customers can also be a complicated exercise involving numerous stakeholders, such as the affected customers, regulators and industry bodies. The BOQ's proposed approach to a remediation may be affected by a number of events, such as a group of affected customers commencing class action proceedings on behalf of the broader population of affected customers, or a regulator exercising their powers to require that a particular approach to remediation be taken. These factors could impact the timeframe for completing the remediation activity, potentially resulting in BOQ failing to execute the remediation in a timely manner. A failure of this type could lead to a regulator commencing enforcement action against BOQ or result in customer or class action litigation against BOQ. The ineffective or slow completion of a remediation also exposes BOQ to reputational damage, with BOQ potentially being criticised by regulators, affected customers, the media and other stakeholders, resulting in reputational damage.

The significant challenges and risks involved in scoping and executing remediations in a timely way also create the potential for remediation costs actually incurred to be higher than those initially estimated by BOQ.

If BOQ cannot effectively scope, quantify or implement a remediation activity in a timely way, there could be a negative impact on BOQ's business, prospects, reputation, financial performance or financial condition.

Conduct risk

Conduct risk is the risk that BOQ's provision of services and products results in unsuitable or unfair outcomes for its stakeholders or undermines market integrity. Conduct risk could occur through the provision of products and services to BOQ's customers that do not meet their needs or do not support market integrity, as well as the poor conduct of BOQ's employees, contractors, agents, authorised representatives and external service providers, which could include deliberate attempts by such individuals to circumvent BOQ's controls, processes and procedures. This could occur through a failure to meet professional obligations to specific clients (including fiduciary and suitability requirements), poor product design and implementation, failure to adequately consider customer needs or selling products and services outside of customer target markets. Conduct risk may also arise where there has been a failure to adequately provide a product or services that BOQ had agreed to provide a customer.

While BOQ has frameworks, policies, processes and controls that are designed to manage poor conduct outcomes, these policies and processes may not always have been or continue to be effective. The failure of these policies and processes could result in financial losses and reputational damage and this could adversely affect BOQ's business, prospects, financial performance or financial condition.

Failure to recruit and retain key executives, employees and Directors

Key executives, employees and Directors play an integral role in the operation of BOQ's business and its pursuit of its strategic objectives. The unexpected departure of an individual in a key role, or BOQ's failure to recruit and retain appropriately skilled and qualified persons into these roles, could each have an adverse effect on BOQ's business, prospects, reputation, financial performance or financial condition.

FOREIGN SELLING RESTRICTIONS

This document does not constitute an offer of New Shares of BOQ in any jurisdiction in which it would be unlawful. In particular, this document may not be distributed to any person, and the New Shares may not be offered or sold, in any country outside Australia except to the extent permitted below.

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HONG KONG

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- is an investment business within the meaning of clause 37 of Schedule 1 of the FMC Act;
- meets the investment activity criteria specified in clause 38 of Schedule 1 of the FMC Act;
- is large within the meaning of clause 39 of Schedule 1 of the FMC Act;
- is a government agency within the meaning of clause 40 of Schedule 1 of the FMC Act; or
- is an eligible investor within the meaning of clause 41 of Schedule 1 of the FMC Act.

FOREIGN SELLING RESTRICTIONS

BOQ GROUP

NORWAY

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The New Shares may not be offered or sold, directly or indirectly, in Norway except to "professional clients" (as defined in Norwegian Securities Regulation of 29 June 2007 no. 876 and including non-professional clients having met the criteria for being deemed to be professional and for which an investment firm has waived the protection as non-professional in accordance with the procedures in this regulation).

SINGAPORE

This document and any other materials relating to the New Shares have not been, and will not be, lodged or registered as a prospectus in Singapore with the Monetary Authority of Singapore. Accordingly, this document and any other document or materials in connection with the offer or sale, or invitation for subscription or purchase, of New Shares, may not be issued, circulated or distributed, nor may the New Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore except pursuant to and in accordance with exemptions in Subdivision (4) Division 1, Part XIII of the Securities and Futures Act, Chapter 289 of Singapore (the "**SFA**"), or as otherwise pursuant to, and in accordance with the conditions of any other applicable provisions of the SFA.

This document has been given to you on the basis that you are (i) an existing holder of BOQ shares, (ii) an "institutional investor" (as defined in the SFA) or (iii) an "accredited investor" (as defined in the SFA). In the event that you are not an investor falling within any of the categories set out above, please return this document immediately. You may not forward or circulate this document to any other person in Singapore.

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UNITED ARAB EMIRATES

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FOREIGN SELLING RESTRICTIONS

UNITED KINGDOM

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