

2018 SUSTAINABILITY REPORT

ABOUT THIS REPORT

This Sustainability Report for the year ended 31 August 2018 forms part of BOQ Group's 2018 reporting suite. It supplements the 'Our approach to sustainability' summary provided in the **2018 Annual Review** with further commentary and metrics related to BOQ's sustainable business practices. This report is supported by the **Sustainability** section of our website, where you can find further detail about BOQ's approach to sustainable lending, sustainability focus areas, non-financial performance measures and stakeholder engagement. Our **Sustainability Scorecard**, which outlines BOQ's sustainability achievements in FY18 and sets out sustainability targets, can be found on our website. BOQ Group's full financial statements are housed in the **2018 Annual Report** and our FY18 Corporate Governance Statement can be found on the **2018 Corporate Governance Statement** page of our website.

We are always looking for ways to evolve and improve our reporting. Please send your questions, comments or suggestions to our Investor Relations team at InvestorRelations@boq.com.au.

Bank of Queensland Limited
ABN 32 009 656 740
AFSL NO. 244616

OTHER DOCUMENTS IN OUR 2018 REPORTING SUITE



BOQ produces a range of reports designed to meet the evolving expectations of a wide number of stakeholders. Our 2018 reporting suite also includes the following documents:

ANNUAL REVIEW

Our 2018 Annual Review covers the operations of the BOQ Group and demonstrates our commitment to, and strategies for creating long-term value for shareholders, customers, employees and the community. It can be found on the **Annual Reports** page of our website.

ANNUAL REPORT

Our 2018 Annual Report incorporates the Group's audited financial statements and other statutory disclosures and is available on the **Annual Reports** page of our website.

CORPORATE GOVERNANCE STATEMENT

Our 2018 Corporate Governance Statement discloses how we have complied with the ASX *Corporate Governance Council's Corporate Governance Principles & Recommendations* (3rd edition) and is available on the **Corporate Governance** page of our website.

WELCOME

A social license to operate must be earned every day. This is why BOQ is committed to creating positive social, economic and environmental impacts in the communities in which we operate.

We recognise that our decisions have direct and indirect impacts on our stakeholders in a variety of ways. Because of this we firmly believe that making business decisions based on purely financial information is not sufficient; we must base our assessment of risk and opportunity on a wide range of environmental, social and governance (ESG) matters that span the short, medium and long-term.


Reporting on our sustainability performance demonstrates our commitment to transparent communication and building a resilient and sustainable business.




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OUR APPROACH TO SUSTAINABILITY

Running a business sustainably is a continuous process – one that grows and changes as technology, the economy and consumer preferences and behaviours change.

It's all part of our journey to becoming **Australia's most loved bank.**

Our approach to sustainability is aligned with the nature of our business. As a financial services provider, our primary function is gathering deposits from and lending to customers, so our sustainability efforts focus on our economic and customer impacts. Because our business contributes to how capital is allocated in the economy, we are conscious of how our customers use the funds that we lend. You can find out more about this by clicking on the **Approach to sustainable lending** tab above.

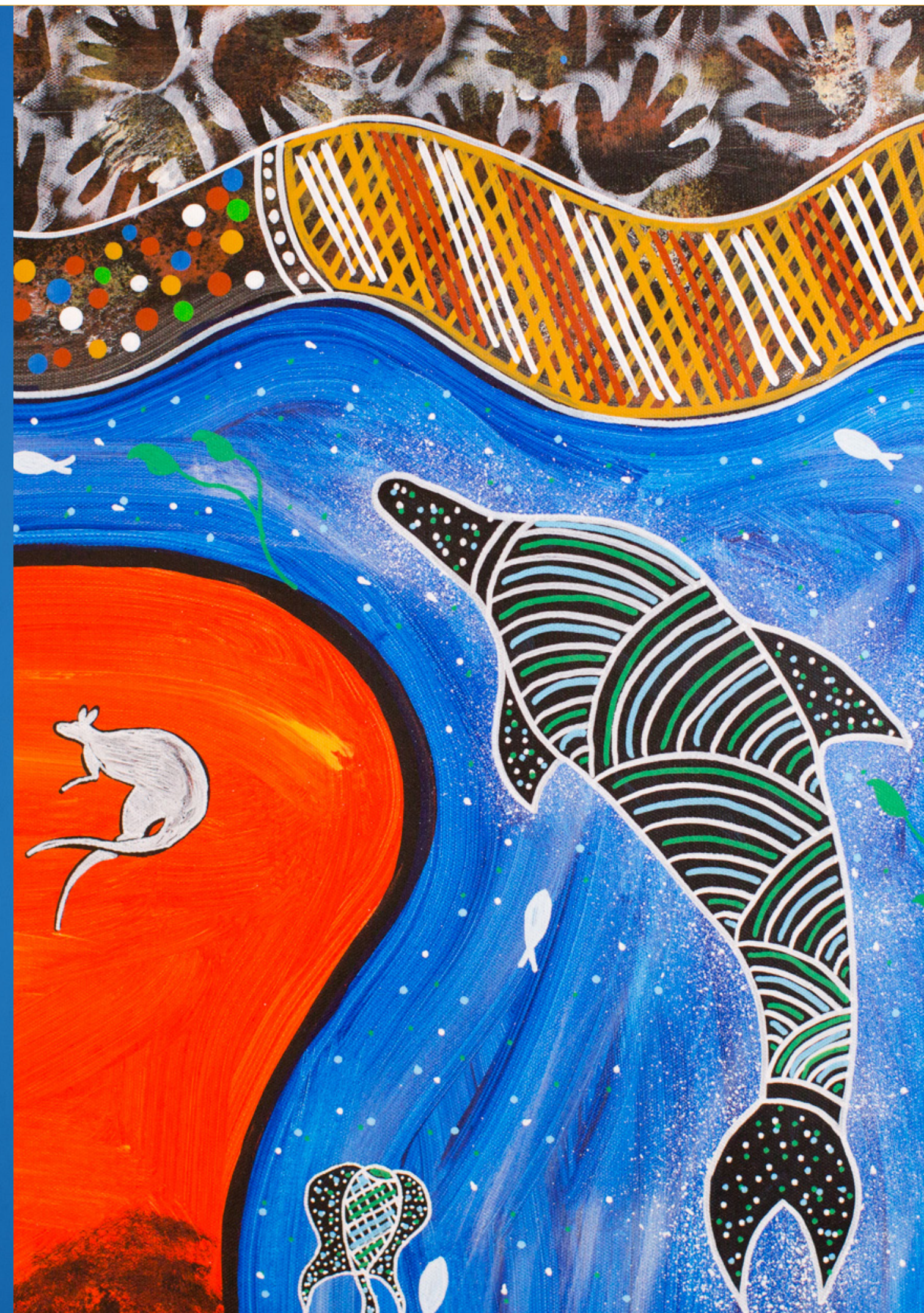
Our sustainability framework guides BOQ's approach to sustainability. It is based around BOQ's key stakeholders and how we deliver our business strategy to contribute to the interests of these stakeholders.

The framework has five key areas of focus:



 Find out more:
[Approach to Sustainable lending page 18](#)

RIGHT: This Reconciliation Action Plan (RAP) artwork was designed for BOQ by the students of the Harristown Clontarf Academy, one of our community partners that works to improve the wellbeing of young Aboriginal and Torres Strait Islander youth.



OUR APPROACH

CUSTOMERS



CREATING VALUE THROUGH

Building business acumen and financial sustainability by fostering long-term partnerships with our customers.



Dr Kathleen Walsh, BOQ Specialist customer, runs Yarra Valley Dental based in Victoria.

BOQ services more than 900,000 retail and business customers nationally through a range of product offerings designed to meet their unique, individual needs.

Our customers choose to bank with us because they value that we are small enough to take the time to really understand their needs but big enough to offer a range of products at competitive rates. Our team of specialist bankers truly pride themselves on the ability to establish long-term, trustworthy partnerships by providing exceptional, personalised service.

Aside from retail and small business banking, we specialise in a range of niche commercial segments including: medical & dental, agribusiness, hospitality & tourism, and corporate healthcare & retirement living. BOQ also operates a number of brands which offer a diverse range of products and services for our retail and business customers. These include Virgin Money Australia, which is a retail financial services company that provides a wide range of financial products

that are easy to understand and are a compelling alternative to the big banks; BOQ Finance, specialises in asset, cash flow and structured finance solutions supported by deep industry and product knowledge; and BOQ Specialist, delivers distinctive banking solutions to medical, dental, veterinary and accounting professionals.

PRODUCT/SERVICE OFFERING AND VALUE ADDED

Our core business activities include:

- › transactional banking and deposit holding
- › lending to retail, small business and corporate customers
- › specialist services targeting niche customer segments
- › risk mitigation products for business customers
- › services that facilitate international trade

We are constantly looking for new ways to expand and improve our product and service offering to ensure we keep up with our customer's changing needs and continue to deliver value through:

- › Transparent, easy to understand products that provide exceptional value
- › Strong security protocols to protect customer information and deter fraud
- › Financial hardship services to assist customers who encounter financial difficulties
- › Complaints and dispute resolution services to ensure customers have the best possible customer service experience

MEASURING HOW WE'RE STACKING UP

We keep a close eye on how our customers feel about the service they receive and that our service proposition lives up to our goal of being Australia's most loved bank. We do this by tracking customer satisfaction and advocacy scores as well as complaints. This is collated through a number of sources, including: Rfi Group research, a community of customers who provide feedback through a bespoke portal called the 'BOQ Kitchen' and complaints received internally as well as through the Financial Ombudsman Service (FOS).

For more information about how we support our customers and community please refer to the [Sustainability – Customers](#) page on our website.

OUR APPROACH

GOVERNANCE



CREATING VALUE THROUGH

Safe-guarding the integrity of our business operations through effective risk management and strong corporate governance.



Our Board is responsible for our overall corporate governance and the key governance principles it adopts are set out in the **Board Charter**. The **Code of Conduct** sets out the principles all directors, employees and contractors are expected to uphold in promoting the interests of BOQ and our shareholders.

The Board's commitment to excellence in corporate governance is also supported by the Corporate Governance Principles and Recommendations developed by the Australian Securities Exchange's Corporate Governance Council. These principles, together with the oversight of the Audit, Risk, Human Resources & Remuneration, Information Technology and the Nomination & Governance Committees, establish the framework of how the Board carries out its obligations. For more information about our corporate governance including Board responsibilities and structure, how we safeguard the integrity of our financial reporting and how we recognise and manage risk, please refer to our **Corporate Governance Statement**.

REGULATORS

We have a number of policies and processes in place to meet the requirements of regulators, industry bodies and other stakeholders. Compliance is important because it improves our risk management, but also flows through to culture, conduct and ultimately reputation. We take a cooperative approach to our relationships with regulators to meet our obligations by:

- Proactively identifying any compliance issues impacting us and establishing compliance systems and procedures to effectively and efficiently address these issues
- Ensuring all employees actively participate in education and training programs, as well as the development and implementation of relevant compliance systems and procedures

FINANCIAL PERFORMANCE

Our aim is to be a quality investment for our shareholders by implementing a differentiated strategy, identifying opportunities to grow revenue, driving efficiencies, managing risk and fostering a culture of continuous improvement. It is also our responsibility to provide shareholders with honest and clearly understandable information about BOQ's operations.

TRANSPARENCY AND COMMUNICATIONS

- We operate openly and honestly and provide shareholders with access to balanced and clearly understandable information
- Continuous disclosures are made to the Australian Securities Exchange (**ASX**) and where appropriate, information is provided to media to ensure communications have the greatest possibility of reaching investors and the general market
- The Market Disclosure Policy** provides a framework to help us keep the market informed of material information and enhance communication with the market

For more information about how we engage with shareholders please refer to our **Corporate Governance Statement**

To learn more about our commitment to governance excellence please refer to the **Governance Sustainability** page on our website.

OUR APPROACH

ENVIRONMENT



CREATING VALUE THROUGH

Continually working to identify ways to reduce the environmental footprint of our operations.

We are committed to reducing our environmental footprint through a number of initiatives including energy-saving, waste reduction, recycling and water conservation. We also recognise our responsibility to protect and enhance the environment in which we operate.

ENERGY SAVING AND WASTE REDUCTION

We are constantly looking for ways in which to reduce energy usage and waste throughout our operations. One example of an energy reduction initiative we have in place is the use of LED lighting and the installation of “G Switches” to reduce after hours non-essential services. Current data suggests that this can reduce energy consumption by up to 35%. With regard to waste reduction, we implemented a ‘swipe release’ function across all printing services to reduce paper consumption.

RECYCLING

Bad waste management practices can cause land and air pollution which can result in serious medical conditions in humans and animals. BOQ firmly believes that by implementing good waste management, this protects the environment and benefits our business. Where possible, recycled products are used by the Bank. This includes paper for large quantity printing such as, the Annual Report, where it is printed on paper from well-managed forests and recycled sources.

We also leverage secure document destruction and recycling in all corporate offices. This practice diverted 162 tonnes of waste from landfill this year.

WATER CONSERVATION

BOQ is aware that water is a vital resource we need to protect. All taps in our head office are therefore fitted with flow restrictors. We also consider water use when it comes to printing processes for some of our larger publications, including the Annual Report, which is printed using the latest technology to ensure minimal water consumption.

SUPPLY CHAIN MANAGEMENT

We recognise that our responsibility does not end with our own operations but extends to doing what we can to ensure our suppliers have high standards of care when it comes to the people they employ and the environment. Therefore we ask our new suppliers to outline their policies in regard to sustainability during the tender process. We are currently drafting new contractual conditions to cover broader vendor sustainability issues. In addition, we are working toward

implementing a supplier sustainability policy, which will outline BOQ expectations with regard to environmental and human rights throughout our supply chain.

In actioning BOQ’s Reconciliation Action Plan, we are working to identify indigenous organisations and suppliers across our whole supply chain to ensure we are considering and engaging with indigenous organisations as part of our procurement and strategic sourcing activities. We are further reviewing our procurement policies and processes to ensure there are no barriers for procuring goods and services from indigenous businesses.

SUSTAINABLE LENDING

We also consider the environment throughout our lending practices. This is covered in detail under the [Approach to sustainable lending](#) section **page 18** this report.

For more comprehensive information on our commitment to reducing our environmental impact please refer to the [Environmental Sustainability](#) page on our website.

OUR APPROACH

COMMUNITY



CREATING VALUE THROUGH

Contributing to the wellbeing of the community through our workplace giving program, volunteering initiatives, and shareholder dividend donation program.



BOQ recognises that maintaining a social license to operate demands a commitment to creating shared value for the communities in which we operate. We seek to earn the support necessary to operate through supporting home ownership and business expansion, stimulating economic growth through lending, facilitating payments, paying taxes, and providing employment and income for BOQ people, franchisees and suppliers. Along with these efforts we also contribute by shaping public policy for the good of the wider economy and through financial investment in not-for-profit organisations and social enterprises.

CONTRIBUTING TO PUBLIC POLICY

As a bank and a top ASX100 company we recognise the valuable role we play in helping improve our financial system by contributing to public policy.

There has been a lot of focus recently on issues in Australia's financial services industry. We have collaborated with other regional banks to make recommendations to the government that seek to reinstate a level playing field and ensure long-term competition while preserving the stability of the system.

We continue to advocate for a robust, competitive and transparent financial industry through our own government relations program and through industry bodies such as the Australian Banking Association.

COMMUNITY INVESTMENT

BOQ's community investment strategy focuses on assisting young people across health, education and the arts. BOQ supports a range of not-for-profit organisations aimed at making a positive impact on real issues affecting young Australians to help them be the best they can be.

We also have a range of initiatives to support our employees' involvement in the community and we offer shareholders the opportunity to support children's hospitals through our annual dividend donation program.

Find out more about our Dollar-for-Dollar, Workplace Giving, and the dividend donation programs on the [Sustainability - Community](#) page of our website.

COMMUNITY PARTNERSHIPS

Our community partnerships support projects that help develop our nation's youth. Our focus on partnerships, rather than one off donations, means we can create truly meaningful relationships with our partners and allow our employees and customers to be more involved.

A list of the organisations we are proud to be partnered with can be found on the [Sustainability - Community](#) page of our website.

For more detail about how we create meaningful partnerships to support our local communities please refer to the [Sustainability - Community](#) page on our website.

ABOVE

Clontarf Foundation students experienced the thrill of riding on snow at Mt Buller this year. The visit was made possible due to BOQ's partnership with the Clontarf Foundation and BOQ Business Client, Mt Buller Ski Lifts.

OUR APPROACH

PEOPLE
& CULTURE

CREATING VALUE THROUGH

Supporting progression toward a more just society through the promotion of equality.



We understand that attracting and retaining the best possible people is paramount. We are working hard to create a workplace that makes BOQ a company people want to work for and an environment and culture where they can succeed.

BOQ currently employs 2564 corporate staff and the franchise network employs a further 788 people.

EMPLOYEE ENGAGEMENT

We are committed to frequently checking in with our employees to find out how they're feeling about BOQ and what we can do to improve their personal engagement with the organisation through our annual You're the Voice survey. The leadership team listen to the feedback and respond with an action plan to strengthen culture and engagement at the BOQ Group level. Divisions and teams also identify their specific priorities to strengthen engagement and culture. Monthly pulse checks and continuous improvement discussions are conducted at the team level to track and improve culture and engagement.

DIVERSITY AND INCLUSION

BOQ believes that a diverse workforce and inclusive culture offers tangible benefits for our people, customers, and shareholders. BOQ is committed to creating an inclusive environment where all people feel valued.

BOQ Group's commitment to recognising the importance of diversity and inclusion extends to all relevant People and Culture policies, procedures and practices including recruitment, talent identification and development, promotions, learning and development, pay, retention, flexible work arrangements, and forms of leave available to employees.

In FY18 we collected feedback through our engagement survey to better understand the thoughts and needs of our diverse workforce.

We recognise there is always room for improvement and will continue to advocate for and support a diverse and inclusive workplace by working to strengthen our current Inclusion Strategy, which is built on five pillars.

The five pillars are:

- › Strong governance and executive sponsorship
- › Creating an inclusive network of people across BOQ to ensure our approach is aligned to our people's needs
- › Connecting with our key stakeholders to visibly support and promote inclusion
- › Developing and supporting our leaders to create an inclusive work environment
- › Integrating and aligning people practices across the employee life cycle

One of the initiatives we are most proud of this year is the launch of our Reconciliation Action Plan (RAP), which outlines our commitment to ensuring that all Aboriginal and/or Torres Strait Islander peoples and communities are afforded equity, dignity and respect. The RAP reflects our belief that true reconciliation requires action through community engagement, supply chain, employment, and financial access and literacy.

For further details about the composition of our workforce please refer to our [Non-financial Performance Measures on page 16](#) of this report.

FLEXIBLE WORK ARRANGEMENTS

BOQ is committed to supporting flexible work arrangements for employees as a means to achieve genuine work life balance and ensuring our employees remain satisfied and productive. There are many kinds of flexible arrangements including changing hours of work, job sharing, changing the location of work and home-based work which allows for the flexibility to work from home if this is suitable. The key is to find the arrangement that best suits the employee and BOQ.

For more detail about how we are working to create a place where people love to work please refer to the [People and Culture](#) page on our website.

SUSTAINABILITY FOCUS AREAS

The issues that matter most:

We manage a range of sustainability issues as part of our everyday business operations. The full list of sustainability issues can be found on the **Sustainability Focus Areas** page of our website. While all of these issues are important, our priorities may change over time. To determine the most important sustainability issues for us, we conducted an assessment of industry trends – referencing internal and external reports and independent research. We also conducted a materiality assessment informed by engagement with internal and external stakeholders. The assessment offers a clear picture of the issues that have the greatest potential to impact our value creation in the short, medium and long-term. As a result, we are able to direct our efforts and resources to these most pressing emerging risks and opportunities.

A number of sustainability issues were identified as being important for BOQ through engagement with internal and external stakeholders. The issues identified as being the most important are explored in detail throughout this report under four broad themes:

CONDUCT AND TRUST

CUSTOMER EXPERIENCE

ADAPTING TO CHANGE

WORKPLACE CULTURE





CONDUCT AND TRUST

Banks are vital to society as they are the financial intermediaries of the economy. This role as an intermediary is heavily reliant on trust – particularly between customers and their banks. Lending and acting responsibly and ensuring the security of data are areas that are particularly important to ensure a healthy economy. Because of this, conduct is critical.

Conduct is a lens into the culture of organisations and as the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry has demonstrated, conduct failings have been widespread across the financial services sector. Culture lies at the heart of how an organisation's people think and behave. It shapes and influences attitudes and behaviours towards, for example, customers and compliance. Culture is important because it is a key driver of conduct within the financial services industry and, ultimately, determines the degree of trust society extends towards the sector. The important role that culture plays in setting up a business for success is explored in detail under the 'Workplace culture' theme on **page 15** of this report.

Trust is directly linked with integrity, which is one of the four BOQ values: passion, impact, collaboration, integrity. At BOQ, we define integrity as doing the right thing by our customers, people and the broader community, no matter what. It is the ability to act with honesty and to be consistent in whatever it is you are doing based on the particular moral, value or belief compass one has. We recognise that delivering on our vision to become Australia's most loved bank requires a commitment to upholding this shared value daily. Only then can we truly deliver upon our goal to create long-term value for our customers, people, shareholders and our wider community.

CORPORATE GOVERNANCE

BOQ is committed to improving conduct within the industry, as it is an essential part of building trust within society and supporting future sustainable growth. One key way we drive this commitment is through sound corporate governance.

The ASX Corporate Governance Council defines it as 'the framework of rules, relationships, systems and processes within and by which authority is exercised and controlled by corporations'. This definition encompasses the mechanisms by which companies, and those in control, are held to account. Ethics, risk management and compliance are also elements of corporate governance. Ultimately, corporate governance dictates the shared philosophy, practices and culture of an organisation.

If corporate governance is compromised, companies risk a breakdown in philosophy, corner-cutting, soliciting of inappropriate products, and complacent management. In an effort to minimise potential risk in relation to the above issues occurring at BOQ, we focused on the following initiatives in FY18 to ensure the conduct of our people is beyond reproach:

- › Increasing awareness and application of ethical behaviours via online modules for all staff and workshops for senior leaders.
- › Leveraging of the ongoing effectiveness of our Ethics Committee.
- › Establishing new risk appetite dashboard metrics with a focus on risks that may impact reputation – metrics include: customer satisfaction, adverse media coverage, Financial Ombudsman Service (FOS) complaints, and staff culture survey
- › Encouraging employee participation in the Banking and Finance Oath, an industry-led initiative facilitated by The Ethics Centre to build trust and confidence in the finance industry.

These initiatives are combined with an ongoing effort of maintaining transparency with all stakeholders and fostering a culture where our people feel comfortable to call out any behaviours that do not meet the standards we expect.

NEW BANKING CODE OF PRACTICE

BOQ has been preparing for the new Banking Code of Practice since August 2017. The Banking Code will be enforceable as part of a customer's contract with their bank and contains a strong commitment to ethical and transparent behaviour, responsible lending and greater financial protections for customers. New additions to the Banking Code include:

- › More information about changes to customers' accounts and greater assistance to vulnerable customers
- › Simplified small business loan contracts with fewer conditions for more than 92% of businesses
- › New cooling off periods for guarantors
- › An independent compliance committee with specific small business and agribusiness expertise to investigate breaches of the Banking Code

One area of conduct that has been highlighted at the Royal Commission this year is responsible lending. Our approach to lending responsibly is discussed in detail under the Customer experience theme on **page 12** of this report.

We address the challenges and opportunities of conduct and trust under our strategic pillars of 'Grow the right way', which includes lending responsibly, and 'Loved like no other', which focuses on maintaining positive stakeholder relationships by living our values, creating a place where people love to work and contributing to the communities in which we operate.



CUSTOMER EXPERIENCE

Customer expectations are changing. We must continue to meet these expectations by delivering personal, timely, relevant and seamless customer service. Great and appropriate customer outcomes underpin everything we do. We will continue to drive engagement and advocacy efforts across the bank.

CHANGING CUSTOMER EXPECTATIONS

We live in a 24/7 world characterised by constant connectivity. Customer expectations have evolved in parallel with the technological innovations driving this connectivity. This is true of all segments, but is especially true of the fastest growing segment – millennials – often referred to as the connected generation.

Customers expect more transparency, especially with regard to product terms and conditions. They want simple and easy to use banking services that do not require extensive time to understand and that make it easy to get more information or talk to a real person. Customers also value rapid responses to queries and concerns and expect to be able to speak to a banking representative, whenever the need arises through whatever device/channel is of most convenience.

Changing expectations have been fuelled by rapid technology advancements arising from all sectors – not just banking. Urgency and transparency are the expected norm when dealing with service providers and, as a result, new standards are being set across the board. We must understand and respond to these expectations to continue to meet our customers' needs and remain relevant.

To ensure BOQ continues to meet customer expectations and remains a competitive player well into the future, we will continue to focus on our 'Customer in charge' pillar goals, which are:

- ▶ Achieving minimum digital parity and meeting more of our customers' digital needs
- ▶ Delivering a seamless customers' experience across all channels

Progress against these goals as well as forward looking plans are explored in detail under the **Our Strategy – 4 Pillars** section of our Annual Review, located on our website.

LENDING RESPONSIBLY

Lending responsibly is a top priority for BOQ. This is simply put as ensuring our customers are borrowing responsibly and that we are acting in the best interest of our customers by ensuring affordability, transparency of terms and conditions, and supporting a borrower if they experience financial hardship. Key to this, is that credit licensees (the Bank) must not enter into a credit contract with a customer if the credit contract is unsuitable for the consumer.

Unfortunately, as we have seen throughout the Royal Commission, when banks fail to adequately assess serviceability, severe consequences arise. Loan portfolios risk being compromised but, more importantly, borrowers can experience extreme financial stress, which has a very real impact on a customer's physical and psychological wellbeing, quality of relationships, and, ultimately, the capacity to secure a stable financial future.

Regulatory guidance with regard to lending responsibly is overseen by the Australian Securities & Investments Commission (ASIC). Responsible lending obligations are set out in *Chapter 3* of the *National Consumer Credit Protection Act 2009 (National Credit Act)*. At BOQ, we pride ourselves on taking regulatory guidance seriously and maintain an unwavering commitment to our conduct obligations. Our robust credit assessment process looks carefully at individual needs and circumstances to ensure the loan amount is suitable for the individual's circumstances.

We will continue to aim to understand and respect our customers by leveraging regulatory guidance and evolving internal credit policies and frameworks to ensure best practices are upheld and responsible customer outcomes are realised.

COMPETITIVE PRODUCTS

For BOQ to increase market share we must continue to offer competitive products with fair fees and charges. The competitive landscape in banking is shifting with the entry of new participants – particularly fintech companies. At BOQ, we are embracing change and understand that we need to keep a close eye on industry developments, both domestically and internationally, to ensure we stay competitive and relevant in the lives of our customers.



BOQ (Buderim branch) customers, Ross and Sally Hopper, run Maleny Dairies in QLD.

CUSTOMER EXPERIENCE

(CONTINUED)

As a result of listening to customer needs and our commitment to ensuring we stay ahead of industry trends, we are preparing to introduce a suite of new products and product enhancements in FY19, which will include:

- New deposit and home loan products to better align with our customer needs
- participation in the New Payments Platform (NPP) that will enable real time payments and enhance visibility into payments, cash management and liquidity
- Building out of our agribusiness livestock leasing and specialised trade finance loans
- International Trade Finance digital platform that will further strengthen our product offering by enabling international payments and foreign exchange hedging, targeting SME customers

For more information about BOQ's competitive strategy and product delivery, please refer to the **Our Strategy – 4 Pillars** section of our **Annual Review**, located on our website.

ASSISTING CUSTOMERS EXPERIENCING FINANCIAL HARDSHIP

We know that sometimes circumstances change, and customers who have the best intentions might face short term difficulties in keeping their commitments. BOQ is committed to supporting customers to follow through on their intentions. If customers are concerned about their financial position and feel they may struggle to meet their financial commitments, we offer financial hardship support. Assistance may include:

- Temporary deferral of loan repayments
- Capitalisation of arrears
- Extending the term of the contract
- Providing interest only repayment options

We also offer a 'fast track' option for customers experiencing financial hardship as a result of natural disasters. This service is in place to provide affected customers with a same day outcome and suitable assistance during a difficult time.

We have a dedicated Customer Assistance Team that assesses each individual circumstance and works to achieve a mutually acceptable outcome. The primary goal is to support the resilience of our communities by ensuring customers are able to meet their financial obligations despite life's ups and downs. For more information about our financial hardship application processes please visit the **Financial Difficulty Assistance** page on our website.

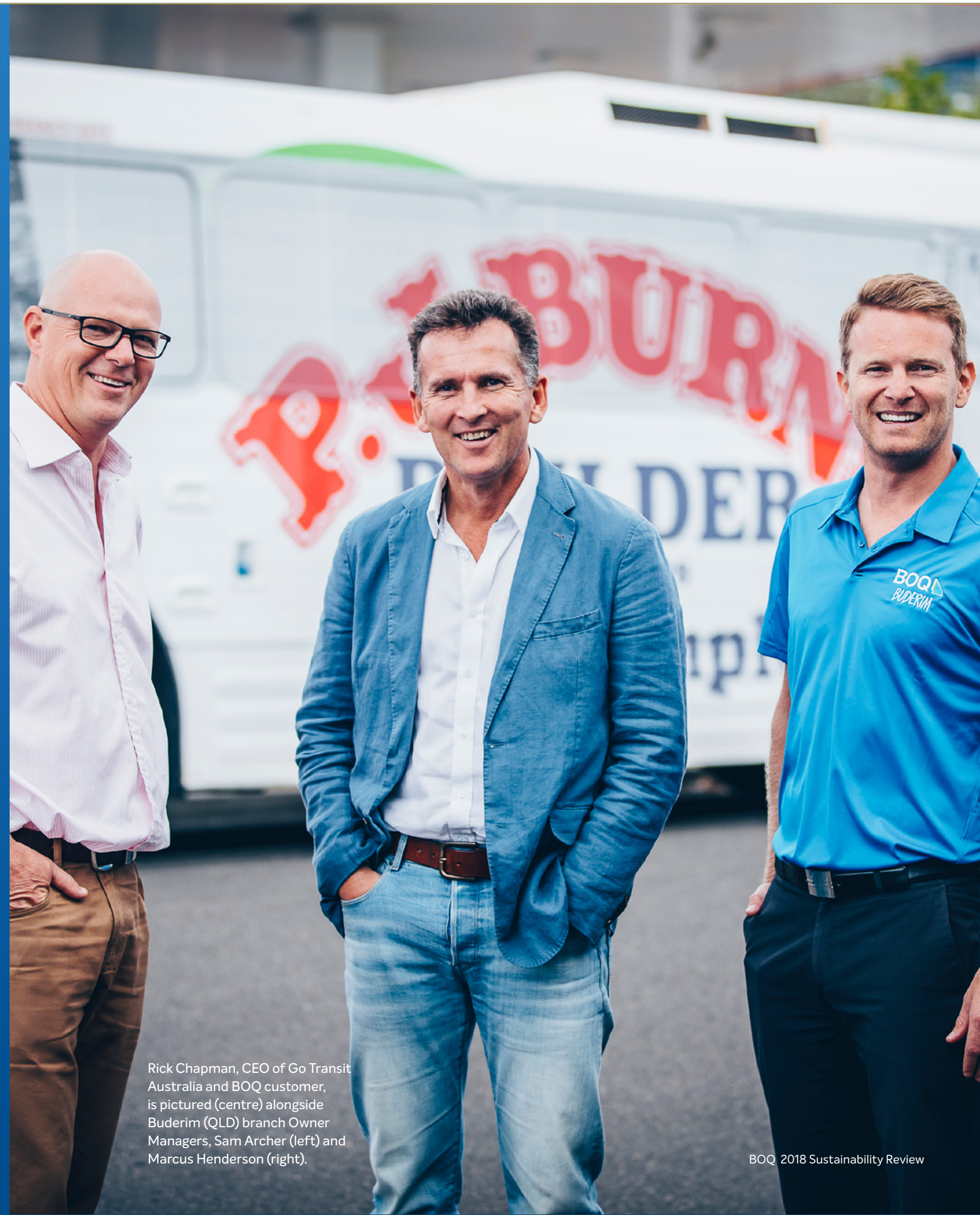
CUSTOMER SATISFACTION & ADVOCACY

Independent Rfi Group research shows our customer satisfaction and advocacy scores remain above the average of the major banks. That said, we recognise the banking sector as a whole has significant room for improvement. We aim to lift our game by continuing to focus on achieving our goals under the 'Customer in charge' and 'Loved like no other' pillars, detailed in our Annual Review under 'Our Strategy – 4 Pillars', located on our **website**.

The establishment of a Customer Advocate function in March 2017 has given our customers an alternative avenue to pursue dispute resolution.

More details on customer satisfaction can be found in the **Non-financial Performance Measures on page 16** of this report.

We address these challenges and opportunities under our strategic pillar, 'Customer in charge', which focuses on improving customers' experience and expanding BOQ's avenues for growth by putting customers in charge of when, where and how they choose to engage with us.



Rick Chapman, CEO of Go Transit Australia and BOQ customer, is pictured (centre) alongside Buderim (QLD) branch Owner Managers, Sam Archer (left) and Marcus Henderson (right).



ADAPTING TO CHANGE

There is one certainty about the future. The pace of technological change will only accelerate. We are also facing significant changes on the regulatory front as government and industry consider new standards of practice for Australia's banks. Organisations that value and foster resilience, agility and innovative thinking will be best positioned to navigate both the challenges and opportunities that accompany technological and regulatory change.



Keeping up with the accelerating pace of change also demands leadership that embraces strategies to build organisational resilience, which we understand to be the ability to quickly recover from setbacks and adapt well to change. BOQ prides itself on strong leadership and an ability to positively adapt to a changing environment through ensuring clear organisational goals and objectives, visible and accessible senior management and a supportive, consultative culture. Further details about workplace culture are explored under the 'Workplace culture' theme on **page 15** of this report. This section explores how BOQ considers and is responding to a range of important technological and regulatory developments impacting our business.

REGULATORY CHANGE

The regulatory reform agenda is driven by the need to improve banking services and to better meet community standards and expectations. Actions we are taking to adapt to changes in the banking landscape are outlined below.

Implementation of the new Banking Code of Practice, as outlined on **page 11** of this report.

In line with the Sedgwick report and the Banking Executive Accountability Regime (BEAR) we are currently reviewing our remuneration and incentive frameworks to ensure that we are measuring and rewarding our staff in the right way. Updates to our frameworks will be completed in FY19.

In 2019, banking will become the first sector required to comply with the Consumer Data Right law and the transition to Open Banking will commence. Open Banking is intended to reduce the barriers that currently prevent customers from switching between banks and will give customers more control over their information. Banks will be expected to provide open access to data on product terms and conditions and customer transaction use, and customers will have the ability to direct

that their data be shared with other bank and non-bank service providers. Open Banking is designed to be customer focused, to encourage competition and create opportunities for new innovation in the sector. BOQ is participating in a number of industry working groups in order to prepare for Open Banking.

Following the release of the Royal Commission's final report in early 2019 we expect the Government will respond with a range of changes that will impact the financial sector. We are working to ensure we are prepared to respond quickly and effectively to report findings and any subsequent regulatory changes that may be rolled out across the financial services industry. BOQ is prepared to implement any future reform agendas to improve banking services to better meet community standards and expectations.

BUILDING PARTNERSHIPS AND INVESTING IN FINTECH OPPORTUNITIES

BOQ's digital strategy is delivering value in the form of digital products, services and experiences through dynamic and evolving channels. Over the past 12 months, BOQ has continued to build out its partnership and collaboration approach to achieve better customer outcomes. Initially focusing in Queensland, where we now have deep relationships with River City Labs, Queensland University of Technology, Advance Queensland and the Queensland Government. We also continue to broaden and test our relationships and engagement models through partnerships with Plug and Play in Silicon Valley and start-ups focusing on cyber, data and artificial intelligence in Israel. With clear focus areas that support customer and business needs, we use our partnerships to find the best solutions, build capability and develop our staff. A number of proof-of-concepts have been undertaken with these partners, as well as two-way opportunities to share skills and experience.

AUTOMATION AND ROBOTICS

With the rapid change in automation and artificial intelligence technology and the cost savings and customer experience benefits this can afford, BOQ is building its capability in robotics and automation. After piloting robotics process automation over the last 12 months, BOQ is broadening this capability with a focus on shortening processing time, increasing productivity and improving customer service. It will focus first on the lending and risk processes.

INNOVATION AND AGILE WORK

Embracing digital technology and new ways of working is a primary focus for BOQ. We continue to invest in our technology infrastructure as well as online and mobile platforms. One of our primary goals housed under our 'Customer in charge' pillar is to achieve minimum digital parity and meet more of our customer's digital needs. BOQ is increasingly moving to agile ways of working to drive speed to market, increase quality and embrace innovation. Building on earlier groundwork to establish agile methodology and formal training, an agile group was established this year to create a nimble environment from the ground up. The group focuses on knowledge and tool sharing as well as job training to support group-wide agility in action.

CYBERSECURITY AND CUSTOMER DATA PRIVACY

Ensuring we operate in line with global best practices with regard to cybersecurity and customer data privacy is a top priority to BOQ. Data protection and data governance are cornerstones of a customer's trust in the banking sector. Therefore, ensuring customer data is safe is a non-negotiable, baseline requirement for opening our doors in the morning.

We prevent our customers' data from being compromised by implementing multi-layered defences, combined with employee and customer education and industry collaboration. We also ensure sustained vigilance in the identification and management of risks within the technology arena and have lifted collaboration between risk management functions and other operational areas of the business to ensure group-wide prevention. Our cybersecurity team works hard to ensure appropriate controls are in place, they are well designed and operating effectively. These controls and systems ensure our cyber defence is robust and our customer data and financials are protected against being accessed, changed or destroyed by unscrupulous attackers.

We address these challenges and opportunities under our strategic pillars, 'Customer in charge', which focuses on improving our customer's experience by putting them in charge of when, where and how they choose to engage with us and 'There's always a better way', which focuses on making systems and processes simpler, faster, smarter and more secure.

WORKPLACE CULTURE

Culture is critical. It either strengthens or undermines our business and the objectives we are trying to achieve. At the very core, BOQ understands workplace culture to be the characteristics and personalities that set the overall tone of the working environment. Few would contest that culture plays a powerful role in determining work satisfaction, and ultimately, the financial health and sustainability of a business.

EMPLOYEE ENGAGEMENT

A key indicator of the cultural health of an organisation is employee engagement, which is indicative of the commitment an employee has to an organisation and its goals. We measure engagement at BOQ through the administration of an annual Group-wide survey that explores a wide variety of metrics that feed into one, aggregated engagement score. Our score decreased from 60% in FY17 to 53% in FY18 as illustrated on the **Non-financial Performance Measures on page 16** of this report. It is important to acknowledge that our employee engagement score is not where we would like it to be. We recognise the importance of improving this result and have been through a process to understand the key drivers of this score. While there is some impact from the broader external scrutiny the banking sector has faced this year, there is a lot we can do ourselves to improve.

With regard to external factors, intense public scrutiny of banking practices and its people has dominated media headlines for the better part of the past year. Negativity arising from irresponsible and unethical behaviour unearthed by the Royal Commission has no doubt had an impact on employee morale this year. Even if our people were in no way involved in misconduct, the whole sector is tarred by the same brush in many respects.

Our own internal challenges also play an important role in determining employee engagement. Many factors contribute to the degree to which an employee is committed to an organisation's goals, but one of the most material factors for our business is the perception of progress and differentiation relative to peers.

We have been focused on laying the groundwork for the modernisation of infrastructure and processes, although the retirement of legacy systems has demanded a slower than ideal execution of front-end systems where our customers and people see the benefit most.

In FY19 we plan to focus on delivering on the execution phase of our internal technology projects, which will see an uplift in capabilities across the business. More detail on initiatives planned for FY19 can be found under **Our Strategy** section of the FY18 Annual Review, which can be viewed on our website. The modernisation of our technology infrastructure will greatly enhance agility and it is anticipated that this will assist in lifting employee engagement.

We will continue to keep our finger on the employee engagement pulse through monthly team feedback surveys and our annual group-wide survey. We will also continue to host regular town halls and online forums which offer employees the opportunity to engage directly and candidly with management around any pressing concerns.

SUPPORTING OUR PEOPLE

We will continue to foster a culture that attracts and retains the best people by ensuring our employees feel valued and supported. This is evidenced by a genuine commitment to further our: (1) diversity and inclusion initiatives such as developing our Reconciliation Action Plan which has been ratified by Reconciliation Australia, establishing the Inclusion Council, and various working groups to further diversity and inclusion initiatives, (2) professional development opportunities such as leadership development, and (3) flexible work arrangements.

We also work hard to establish and maintain healthy franchise partnerships through continued efforts to simplify the way we operate and by developing a more flexible path to branch ownership.

We are also in the early stages of developing a purpose-led culture, which is driven by the need to clearly identify our collective purpose. This initiative should also have a positive impact on employee engagement as a clear understanding of the value we create and to what end is critical for extracting meaning from our work. A number of workshops were held in FY18 to ensure a wide range of voices were captured to inform this important process. These workshops set the foundation for further developments in FY19.

Overall, we understand the importance of getting culture right. Especially in light of an ever-increasing environment of uncertainty and impending structural and technological changes that will fundamentally transform the future banking landscape. The degree to which our people feel aligned and supported will directly impact levels of resiliency, loyalty and innovative thinking – all critical for successfully navigating challenging future waters.

We address these challenges and opportunities under our strategic pillar, 'Loved like no other', which focuses on maintaining positive stakeholder relationships by living our values, creating a place where people love to work and contributing to the communities in which we operate.





NON-FINANCIAL PERFORMANCE MEASURES

Metric	2018	2017	2016	2015
OUR CUSTOMERS (BANK ONLY UNLESS SPECIFIED)				
Total customers ('000)	Bank ¹ – 578 VMA ² – 236 BOQ S – 33 BOQ F – 90	Bank – 589 VMA – 259 BOQ S – 31 BOQ F – 90	Bank – 624 VMA – 237 BOQ S – 28 BOQ F – 73	Bank – 662 VMA – 218 BOQ S – 24 BOQ F – 68
Number of customers actively using internet banking	216,700	211,100	214,800	214,400
Number of customers actively using mobile banking	175,000	153,800	142,500	120,700
Product application submissions received via website (year-on-year change)	19.58%	15.88%	13.89%	–3.36%
Total fans / followers across social media channels	102,000	92,000	–	–
Number of branches	183	190	211	234
Number of ATMs	596 BOQ; 2,789 rediATM	628 BOQ; 2,948 Redi	548 BOQ; 2,432 Redi	588 BOQ; 2,455 Redi
Net Promoter Score ³	8	12	19	24
Customer complaints (year-on-year % change) ⁴	13%	–10%	–6%	7%
Percentage of complaints resolved within 5 business days	77%	89%	72%	62%
Customer complaints referred to external dispute resolution (year-on-year % change)	4%	–23%	–4%	–5%
Number of hardships applications approved ⁵	3,000	2,765	2,947	2,377
OUR COMMUNITIES – BANK ONLY				
Total community investment	\$636,000	\$577,000	\$709,000	\$608,000
Money raised in support of children's health	\$299,000	\$355,000	\$356,000	\$271,000
Money donated in support of education	\$260,000	\$130,000	\$230,000	\$230,000
Money donated in support of the arts	\$30,000	\$30,000	–	–
Money donated through Workplace Giving program	\$12,000	\$13,000	\$13,000	\$2,000
Dollar matching	\$35,000	\$48,000	\$50,000	\$45,000

Notes

- different methodology used to calculate Bank customers each year as we refine approach to more accurately account for active customers
- VMA customer numbers reduced due to a closure of ~10k inactive accounts and due to an improved methodology, which reduces double-counting of multi-product customers
- from a sample of customers, proportion of customers that are promoters minus proportion of customers who are detractors – based on XPRT research provided by RFi Research
- increase due to capture of BOQS complaints in the Bank database this year and to VMA's housing loan growth
- Bank and BOQF

NON-FINANCIAL PERFORMANCE MEASURES (CONTINUED)

Metric	2018	2017	2016	2015
OUR PEOPLE - BOQ GROUP				
Employee numbers	2,564	2,374	2,252	2,234
Franchise network employees	788	855	987	1,120
Percentage of workforce full time ⁶	73%	77%	76%	75%
Percentage of workforce part time ⁶	11%	12%	13%	13%
Percentage of workforce casual ⁶	5%	5%	5%	6%
Percentage of women in the workforce	59%	61%	61%	60%
Percentage of leadership roles held by women	41%	39%	33%	28%
Percentage of women on Board	22%	30%	33%	33%
Percentage of Aboriginal & Torres Strait Islander people ⁷	1%	1%	-	-
Percentage of employees identifying as having a disability ⁷	1%	3%	-	-
Percentage of employees over 55	11%	10%	11%	11%
Employee engagement ⁸	53%	60%	61%	67%
Average tenure (years)	4.22 years	4.66 years	4.06 years	3.93 years
Average days absenteeism per employee per year (excludes OMBs)	4.9 days	4.7 days	5.3 days	4.4 days
Voluntary turnover (excludes OMBs, contractors)	19.9%	16.8%	18.4%	19%
Average training hours per person	64 hours	63 hours	52 hours	42 hours
WH&S incidents reported within 24 hours and investigated within 48 hours	95% / 98%	86% / 90%	85% / 70%	86% / 72%
Whistleblowing reports	17	8	2	2
Number of workforce signed up to Banking Oath	213	209	71	-
OUR ENVIRONMENT - GROUP				
Electricity consumption (t(CO2-e))	4,102	4,891	5,278	5,910
Fuel consumption for work vehicles (kL) ⁹	122	124	129	132
Air travel ('000 kms)	13,467	14,008	14,358	11,814
Paper usage (reams) ¹⁰	41,286	45,946	53,270	56,556
Shred X waste (tonnes) all diverted from landfill	162	169	169	212
Comingled recycling (tonnes) ¹¹	10.33	-	-	-

Notes

6 employees not counted as full-time, part-time or casual are contractors

7 data captured for the first time in 2017

8 changed methodology in 2017 to align with best practice measures for engagement

9 excludes BOQS and VMA

10 excludes BOQS

11 data captured for the first time in 2018

APPROACH TO SUSTAINABLE LENDING

At BOQ we recognise our corporate and social responsibility to maintain a lending portfolio comprised of sustainable assets. To this end we have identified a number of industries that fall outside of our risk appetite, such as: adult industries, online gambling sites, arms manufacturers or retailers and businesses associated with criminal organisations.



OUR PROCESS

Part of our standard process for managing risk is to consider the economic, environmental and social sustainability of our customers and potential customers. We do this by:

- › working closely with our customers to understand their businesses
- › having a clearly expressed and communicated risk appetite in relation to reputational and environmental matters
- › undertaking a comprehensive analysis throughout the credit decision and management process to identify potential issues
- › having a suite of credit policies and practices that ensure risks and issues are identified

While reputation and environmental risk can arise from a number of areas, from a lending perspective we focus on:

- › the nature and operation of the borrower's business and income sources
- › the nature and location of the property where the business operates (both leased and owner-occupied property) on which the activity occurs or where security property is located
- › contamination issues arising from land use
- › potential risk of animal welfare issues

All lending decisions are referred to a credit decision team who closely evaluate:

- › the legislative or regulatory restrictions or controls under which the business must operate
- › compliance with legislation and regulation, both historical and ongoing
- › the potential for liability for environmental issues to be assumed by BOQ at some future date
- › the sustainability of income sources relied upon to make loan repayments and the sustainability of asset values utilised as security

Throughout this process we work closely with customers and potential customers to understand how they are able to manage sustainability risks and reduce their impact. We may also engage independent third parties to make assessments on our behalf. Where we have concerns as to the customer's ability to comply with their legal obligations or determine that our association with the business or industry poses substantial economic or reputational risk, then BOQ will decline to be involved. Final authority for the credit team's decisions rest with the Executive Credit Committee chaired by our Chief Risk Officer.

EVOLVING OUR RISK MANAGEMENT

We are aware this is an area that is attracting increasing focus from our stakeholders and as a result we have taken a number of steps in recent years:

- › We introduced a Reputational Risk Management Policy to outline BOQ's prudent and proactive approach to managing reputational risk
- › As part of our Lending policies, we also have a Prohibited List of Industries and Activities for which we have no risk appetite and do not wish to be involved in
- › In July 2015, we introduced an Ecological Care and Sustainability Lending Policy, which helps guide our lending decisions and strengthen controls when considering lending in a range of industries that have the potential for environmental and animal welfare impact

We regularly monitor emerging sustainability concerns and will continue to evolve our risk management and reporting accordingly.

Additional information is contained under [Lending Responsibly on page 12](#) of this report.

APPROACH TO SUSTAINABLE LENDING

(CONTINUED)

CLIMATE CHANGE

BOQ acknowledges the increased community concern about climate change and the impact that businesses have on the environment they operate in. These impacts arise both directly through physical footprint, resource utilisation and output and indirectly through supply chain and customer support.

Climate change is one of the most significant issues that will impact the long term prosperity of our economy, environment and society. We support the goal of governments around the world to limit global warming to less than 2 degrees Celsius above pre-industrial levels and to transition to net zero emissions by 2050 as outlined in the Paris Agreement. BOQ supports science based reduction targets, the associated policy implementation and market mechanisms necessary to achieve this end.

We believe the financial sector has a critical role to play in assisting the transition to a low carbon economy, through both the resources we utilise directly and through our financing activities. This transition needs to be managed in a balanced manner.

LENDING TO THE FOSSIL FUEL MINING SECTOR

BOQ does not directly fund mining projects. However, as at 31 August 2018 ~\$32m (around 0.1% of our loan book) has been provided through equipment financing to companies directly involved in fossil fuel mining.

Going forward, BOQ has committed to cease funding equipment directly involved in the extraction of fossil fuels. The terms of current lending facilities do not exceed 5 years, which means BOQ will have no exposure to fossil fuel extraction equipment by the end of 2023.

We will continue to support business and consumer loan applicants in regional areas who may be reliant on income from the mining industry, within the context of our group risk appetite. When assessing any new lending, a key element of the lending assessment is the sustainability of income sources to service the debt as well as the value of the borrower's assets, both of which can be impacted by changes in economic conditions. BOQ will continue to monitor changes in economic conditions, related to climate change and a host of other factors, in determining our appetite for lending across the economy.

OUR ACTIONS:

BOQ is making a positive environmental contribution to the communities in which we operate by:

- › Considering the environment in all relevant business decisions
- › Improving measurement and reporting of our operational environmental impact via BOQ's non-financial performance table
- › Building out disclosures which align with the Task Force on Climate-related Financial Disclosures' recommendations
- › Ceasing any new equipment finance for extraction of fossil fuels
- › Actively managing and improving our sustainability approach by engaging with stakeholders to understand impacts, trends and attitudes relating to climate change
- › Continually looking for opportunities to play our part in the transition to a low carbon economy

ASPIRATIONAL ACTIONS:

We recognise that we are on a sustainability journey and that there is scope for improvement. In an effort to improve sustainability practices we are in the early stages of exploring the following initiatives:

- › Providing finance to back climate change solutions (e.g. supporting green infrastructure, energy efficient equipment and small scale renewable energy)
- › Sourcing renewable energy for more of our power needs and setting targets for this transition
- › Reducing our own emissions by maintaining the highest efficiency of our buildings (e.g. enhanced solar investment)
- › Advocating for policies that stimulate investment in climate change solutions



ANIMAL WELFARE

We're conscious of the industries we support through our lending and this consideration extends to those industries whose business activities involve the treatment, production, breeding, transport or housing of animals.

The World Organisation for Animal Health (OIE) sets the international standard and provides an effective framework for animal welfare management. The OIE is an intergovernmental organisation with the global mandate to improve animal health, animal welfare and veterinary public health. OIE standards have become the de facto international reference for animal welfare in the trade of animals and their products in developed and developing markets. OIE standards act as a guide for the

development of assurance programs and it is envisaged that they will be increasingly used as a basis for bilateral agreements between OIE member countries.

We align our practices with the OIE's five freedoms of animal welfare and their general principals of animal welfare. We encourage all our borrowers to adhere to these standards and this has become part of our business as usual lending practice.



For more information on BOQ's approach to sustainable lending, visit the [Approach to sustainable lending page](#) on the BOQ website.

OUR STAKEHOLDER ENGAGEMENT

It is only through thoughtful consideration of the issues raised and perceived by our stakeholders that future sustainability risks and opportunities can be effectively predicted and responded to. In an effort to capture our stakeholders' voices the following table sets out our approach to ensure meaningful engagement is captured throughout the year.

CUSTOMERS

Ongoing monitoring and analysis of customer feedback and complaints through our call centres and online, surveys, social media, focus groups and regular engagement by branch teams.

SHAREHOLDERS

Direct feedback from shareholders, regular briefings and meetings with investors, analysts, governance agencies, proxy advisors and through our Annual General Meetings.

EMPLOYEES

Annual Group-wide employee survey, monthly team surveys, Yammer (internal social media platform), blogs, Town Hall forums and ongoing team meetings.

GOVERNMENT AND REGULATORS

Cooperative approach with regulators and active participation in policy development through lodgement of submissions to relevant government inquiries and reviews and engagement with key State and Federal political and Departmental stakeholders.

NON-GOVERNMENTAL ORGANISATIONS

Direct discussion on ESG issues (industry trends and community expectations) and Bank strategy/policy developments.

SUPPLIERS

Regular communication with new suppliers throughout the tender process and periodic governance meetings with top quadrant suppliers.

COMMUNITY

Ongoing communication via: organisational engagement and volunteering, fundraising initiatives and events, involvement in workshops and funded programs and ongoing partnership meetings.

