

2019 ANNUAL REVIEW

Year ended 31 August 2019

BOQ
GROUP

ABOUT THIS REVIEW

BOQ's 2019 Annual Review (**Review**) provides an overview of BOQ's operations across the Group and outlines our strategies for creating long-term value for shareholders, customers, employees, suppliers and the community.



The aim of this Review is to communicate transparently and concisely about how we manage our business.

Unless otherwise stated, this Review includes all BOQ Group operations for the financial year commencing on 1 September 2018 and ending 31 August 2019. All monetary values in this document are in Australian dollars.

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 2019 reporting suite

BOQ produces a range of reports designed to meet the evolving expectations of a wide number of stakeholders. Our 2019 reporting suite also includes the following documents:

Annual Report

Our 2019 Annual Report incorporates the Group's audited financial statements and other statutory disclosures and is available on the Annual Reports page of our website.

Sustainability Report

Our 2019 Sustainability Report outlines information about our performance against social, environmental, and economic opportunities and challenges. This report is available on the Annual Reports page of our website and is supported by supplementary information available on the Sustainability section of our website.

Corporate Governance Statement

Our 2019 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

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ABOUT OUR GROUP

BOQ is one of Australia's leading regional banks and is among the few not owned by one of the big banks. BOQ is also one of Australia's most enduring organisations, having successfully navigated numerous business cycles for 145 years.

During BOQ's long history, it has evolved from a Queensland focused, retail branch-based bank to a national diversified financial services business with a focus on niche commercial lending segments. It also operates a number of specialist subsidiaries and brands including Virgin Money Australia, BOQ Finance, BOQ Specialist, and St Andrew's.

Our Businesses

BOQ operates a number of brands which offer a diverse range of products and services for individuals and business customers. Our strategy is supported by a number of businesses, which complement the Bank's offering. BOQ's businesses include:



Virgin Money Australia

Virgin Money Australia is a retail financial services company, which provides a wide range of financial products that are easy to understand as well as being a compelling alternative to the big banks. BOQ acquired Virgin Money Australia in 2013 and operates as a standalone business within the BOQ Group.



BOQ Finance

A wholly owned subsidiary of BOQ specialising in asset, cash flow and structured finance solutions. BOQF is a mid-market financier providing deep industry and product skills to its partner base. BOQF has been operating in the Australian and New Zealand markets for more than 45 years.



BOQ Specialist

BOQ Specialist delivers distinctive banking solutions to niche market segments including medical, dental and veterinary professionals. BOQ acquired the business (previously Investec Professional Finance) as part of Investec Bank (Australia) Limited in 2014. BOQ Specialist operates as a separate division of BOQ's Business Bank.



St Andrew's

St Andrew's is a provider of consumer insurance and life insurance products in Australia. In response to the change in industry dynamics and future outlook, St Andrew's has decided to cease CCI sales. Existing customers will continue to be served and the interests of policyholders will remain a priority.

Board of Directors

Roger Davis

Chairman
(retiring as Chairman 17 October 2019 and retiring from the Board 31 October 2019)

George Frazis

Managing Director & CEO
(commenced 5 September 2019)

Patrick Allaway

Non-Executive Independent Director
(Chairman from 18 October 2019)

Kathleen Bailey-Lord

Non-Executive Independent Director

Bruce Carter

Non-Executive Independent Director

Richard Haire

Non-Executive Independent Director

John Lorimer

Non-Executive Independent Director

Warwick Negus

Non-Executive Independent Director

Karen Penrose

Non-Executive Independent Director

Michelle Tredenick

Non-Executive Independent Director

David Willis

Non-Executive Independent Director

Executive Team

George Frazis

Managing Director & CEO
(commenced 5 September 2019)

Matt Baxby

Chief Financial Officer

Debra Eckersley

Group Executive People & Culture

Adam McAnalen

Chief Risk Officer

Lyn McGrath

Group Executive Retail Banking

Peter Sarantzouklis

Group Executive BOQ Business

Donna Vinci

Chief Digital and Information Officer

Anthony Rose

Interim CEO from 6 December 2018 to 4 September 2019 and Chief Operating Officer from 1 September 2018 to 5 December 2018

For detailed information on the backgrounds and experience of each member of the Board of Directors and Executive Team, visit: boq.com.au/About-us/board-of-directors, or boq.com.au/About-us/executive-team

OUR PURPOSE AND VALUES

Our ‘purpose-led culture journey’ reached a significant milestone this year with the launch of our purpose and refreshed values.

The journey included representation from hundreds of people across the organisation who took part in focus groups, interviews and workshops to help develop our purpose and refresh our values. Our purpose articulates why we exist, what makes BOQ special, and defines the impact we strive to have on our people, customers and communities.

Together, we identified a purpose that has always been an integral part of our BOQ DNA: **to deliver more human, empathetic experiences that help customers and communities prosper.**

Our refreshed values: **we show we care; we act with integrity; we achieve together; and we make a difference**, provide the blueprint for the behaviours we know we must live and breathe to make our purpose possible.

As an organisation and as individuals, we are committed to ensuring our purpose and values are reflected in everything we do – including how we engage with our customers, communities and regulators, who we recruit, and how we communicate, develop our people and think about product and service offerings. We take our values seriously and expect our leaders to successfully embed our values within their teams and act as custodians – ensuring those who act contrary to our values are held accountable.

We recognise that banking is built on relationships and it is the connections we have made with our customers, communities and each other that have defined us for the past 145 years and will continue to guide us into the future. At BOQ, we understand that the ability to continue to strengthen these connections is wholly dependent on our ability to successfully deliver on our purpose by leveraging our values.



WE SHOW WE CARE

Our human empathetic approach sets us apart. We love what we do and we’re driven to create great experiences and outcomes for our customers, for our communities, for BOQ and for each other.



WE ACT WITH INTEGRITY

We take pride in doing what’s right and we do what we say we will do. We always consider the impact of our decisions on our customers, communities and each other.



WE ACHIEVE TOGETHER

We trust each other, take personal accountability and work together to put our customers first and create new possibilities. We embrace the diversity around us because together we are stronger.



WE MAKE A DIFFERENCE

We embrace feedback, are open to change and hungry to learn. We are driven to make a difference and if we think there’s a better way, we’ll say so. We combine our focus on people with our focus on results and always aim to deliver a positive impact.

BRINGING OUR VALUES TO LIFE

ATHENA STEVENSON CORPORATE RECEPTIONIST

Athena Stevenson, affectionately referred to as 'Ath', is a name that is widely known to people who have visited BOQ's Brisbane head office in the last 50 years.

Ath joined BOQ as a typist in 1969, where she progressed to switchboard, then to loan ledgers, and eventually landed at the front desk where you can find her today – welcoming guests with an infectious laugh and quick wit.

In February this year we celebrated Ath's 50th anniversary at BOQ. It was a truly special event, honouring Ath's years of service and, more importantly, her unwavering dedication and personal contribution to the BOQ Group and wider community.

'THERE'S NO SUCH THING AS 'I CAN'T' OR 'I WON'T'. I'M NOT READY TO SLOW DOWN, ALTHOUGH PEOPLE SAY I SHOULD. I'M A MOVER AND A DOER. THAT'S WHO I AM.'

Ath is the embodiment of BOQ's values – always expressing genuine concern for others and going out of her way to help our people and customers. When asked what has kept her at BOQ for the past 50 years she was quick to say that her personal 'why' is nurturing the best in others and driving positive change particularly through encouraging young people to develop themselves personally and professionally... 'I tell them, you can do it, stick with it!' Ath's belief in others sets a company-wide example of what it means to be a true team player.



Ath, celebrating 50 years at BOQ.

HOW WE CREATE VALUE

The table below summarises how BOQ creates value for shareholders through our core business activities.

STAKEHOLDERS

Our customers

Transactional banking and deposit holding

- Providing a safe place for customers to store their money while earning a competitive return.
- Enabling individuals and businesses to safely receive and transfer funds domestically and across borders.
- Preventing financial crime, money laundering and terrorism financing.

Lending to retail, small business and corporate customers

- Providing funding for housing, personal lending and businesses.
- Supporting employment, investment and economic growth.

Specialist services targeting niche customer segments

- Building business acumen and financial sustainability through fostering long-term partnerships with our customers.
- Understanding the needs of our customers better than our competitors and delivering simple solutions in an efficient manner.

Risk mitigation products for business customers

- Supporting trade and investment and the efficient allocation of financial resources.
- Enabling business customers to effectively manage risk.

Investing in digital technology and branch enhancement

- Furthering digital innovation in financial services.
- Contributing to efficiencies across the economy.
- Supporting information security and privacy protection.

Our community

Payment of tax

- Paying our fair share of taxes with an effective tax rate of 31.5%, which goes towards:
 - supporting the infrastructure of government, which the community relies on at the local, state and federal levels; and
 - strengthening national defence programs, roadway construction, social service programs, public health and education.

Investment in the community

- Contributing to the wellbeing of the community through our community partnerships, workplace giving program and volunteering initiatives.
- Supporting the resilience of our communities through natural disaster relief and financial hardship support.

Partnerships

- Strengthening the capacity of not-for-profit and social enterprises to deliver positive social change.
- Supporting business partners and suppliers.

Our people

Investment in an engaged, diverse and inclusive workforce

- Providing career and development opportunities for our employees.
- Supporting progression toward a more just society through the promotion of equality of opportunity.
- Growing the skill base of the communities in which we operate through employment opportunities.
- Supporting our franchise branch network, which enables our Owner Managers to own and run a branch and grow a business in their local communities.

Our shareholders

Investment returns

- Delivering a steady stream of dividends over the long-term.
- Continuing to strengthen the Bank.

HOW WE CREATE VALUE FOR OUR CUSTOMERS

BULLER SKI LIFTS

FAMILY BUSINESS & BOQ CUSTOMER

BOQ is proud to partner with the Grollo Group's Mt Buller businesses. The Grollo Group is 100% owned by Rino and Diana Grollo. Its core businesses include Property, Tourism and Investment. The Group's major tourism venture is Buller Ski Lifts Pty Ltd (BSL) which operates on Mount Buller in North-eastern Victoria, an iconic destination for alpine enthusiasts. Its businesses own and operate the ski field infrastructure including ski lifts, snowmaking systems, Ski & Snowboard School, Retail & Rental, Accommodation and dining venues. In addition, the Group develops and constructs property in the resort including hotels, apartments, retail, and hospitality venues.

The team at BSL are self-proclaimed 'snow farmers', relying on a combination of Mother Nature and state-of-the-art technology to ensure their 370,000 guests each winter season have an enjoyable time on a good cover of snow. Although Mt Buller's natural snow fall averages 1.5 metres each year an investment in man-made snow is necessary to smooth out seasonal variations and give certainty for skiers and boarders across 250 acres of skiable terrain.

In 2017 as BSL prepared to make a significant snowmaking technology outlay they went looking for asset finance. They chose to partner with BOQ for three important reasons:

- BOQ demonstrated a deep knowledge of both the tourism and agriculture sectors, which as the Grollo's explain, brought an 'understanding of what we were trying to achieve from day dot.'

- The BOQ team was genuinely interested and engaged in the business and the passion behind it. 'It was important to us that we partnered with a bank and a team that really understood our business and cared enough to be involved.'
- Finally, the genuinely personal service BOQ offered, including direct access to senior staff, made BOQ the partner of choice. The BSL team values the commitment BOQ's Chief Risk Officer made to personally visit Mt Buller and meet with people in the business on a number of occasions to deeply understand the operations and what was needed. 'He dug into the details... he challenged us... and he got it. It showed us a level of engagement we'd simply not seen from other banks.'

This foundation of guiding principles shared by both Grollo group and BOQ – **making a difference, acting with integrity, showing we care, and achieving together** – has forged a positive and productive partnership. The business relationship has grown and diversified over the years to encompass a variety of different financing vehicles, including mortgages, seasonal cash-flow, and further asset finance facilities that have contributed to the effective and responsible growth of the Mt Buller businesses and the wider Grollo portfolio of interests.

'THE BOQ BUSINESS BANKING TEAM ARE TRUE PARTNERS IN OUR BUSINESS.'

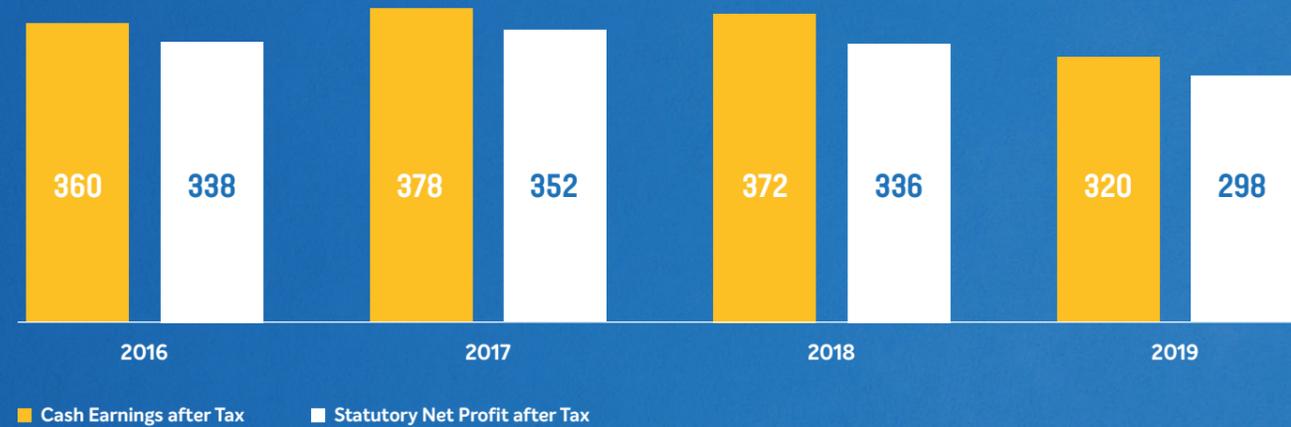


A 6-seater chairlift was installed this year with the help of BOQ.

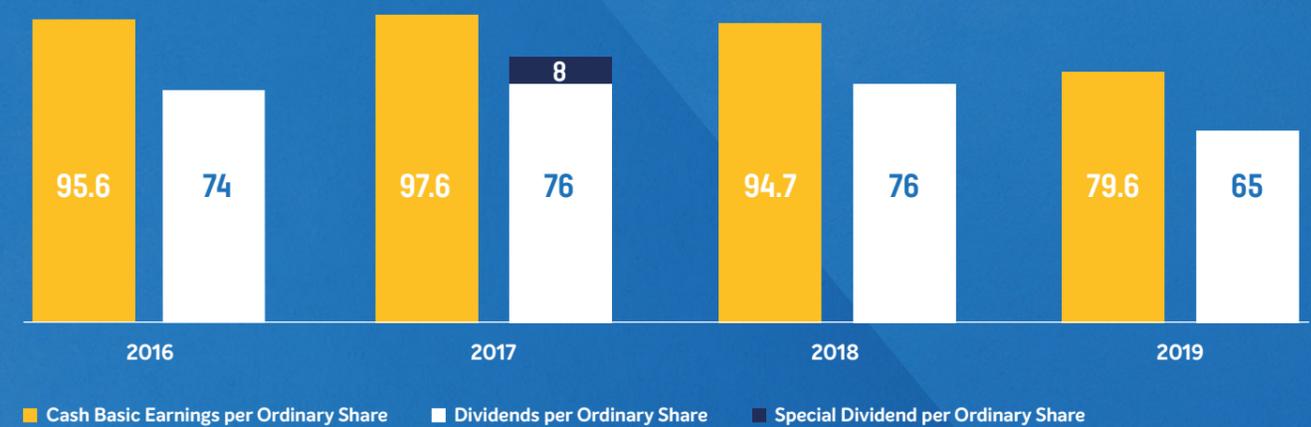
Pictured above (left to right):
 Nick Whitby – Managing Director Buller Ski Lifts (COO, Grollo Group),
 Lorenz Grollo – Director Buller Ski Lifts (CEO, Grollo Group),
 Simon Davis – Head of Corporate and Property Qld (BOQ),
 Laurie Blampied – General Manager Buller Ski Lifts,
 Monica Grollo – Director Buller Ski Lifts.

OUR 2019 PERFORMANCE

PROFIT RESULTS (\$m)



EARNINGS & DIVIDENDS (¢ per ordinary share)



2019 CASH EARNINGS AFTER TAX

\$320m
↓14% from FY18

STATUTORY NET PROFIT AFTER TAX

\$298m
↓11% from FY18

CASH BASIC EARNINGS PER ORDINARY SHARE (¢ PER SHARE)

79.6¢
↓16% from FY18

DIVIDENDS PER ORDINARY SHARE (¢ PER SHARE)

65¢
↓14% from FY18

LOAN IMPAIRMENT EXPENSE (\$m)



NET INTEREST MARGIN

1.93%
Down 5bps from FY18

CASH COST TO INCOME RATIO

50.5%
Up 300bps from FY18

CASH RETURN ON EQUITY

8.3%
Down 160bps from FY18

Watch the webcast of our 2019 full year results



CHAIRMAN'S REVIEW

“During this period of change, the business has continued to execute on a strategy of growing in niche business segments, while enhancing our technology platforms and processes to make it easier for our customers to deal with us through their channel of choice.”

Dear Shareholder

2019 has been a year of significant change for the banking industry and for BOQ. As we reported at our first half results, the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (Royal Commission) will have long lasting effects on the Australian financial services landscape. We have already started to see the impact of higher costs as a result of the increase in expectations from regulators and the community. Meanwhile, the sector has also faced challenges of an uncertain outlook for housing prices and credit growth and the lower for longer interest rate environment, including the recent move to a record low cash rate of 0.75%.

At BOQ, we have also seen changes in leadership throughout the year. Our former Managing Director & CEO Jon Sutton announced his resignation for health reasons in December 2018. We finalised plans for the Chairman succession in May 2019 with the announcement of Patrick Allaway as BOQ's next Chairman effective 18 October 2019, and announced the appointment of our new Managing Director & CEO, George Frazis in June 2019.

During this period of change, the business has continued to execute on a strategy of growing our niche business segments, while enhancing our technology platforms and processes to make it easier for our customers to deal with us through their channel of choice. We have also maintained our prudent risk settings and sought to further enhance our risk and compliance capability to meet rising stakeholder expectations.

A major achievement for the year has been the development and refinement of our purpose and values. Our purpose is to deliver more human, empathetic experiences that help customers and communities prosper. Our values are: we show we care; we act with integrity; we achieve together; and we make a difference.

We believe that by living our purpose and values and helping customers and communities prosper, we will deliver on our financial performance objectives and deliver returns for shareholders.

In terms of our 2019 financial performance, our results have been below expectations and reflective of the difficult operating environment. Cash earnings after tax decreased 14 per cent from 2018 to \$320 million and cash basic earnings per share decreased 16 per cent to 79.6 cents per share. Return on equity also decreased 160 basis points to 8.3 per cent. These reductions were driven by lower income, higher operating expenses and a large increase in loan impairment expense.

A two per cent contraction in income was the result of subdued asset growth, a five basis point reduction in net interest margin and a 12 per cent reduction in non-interest income. We achieved growth in lending balances of two per cent across the Group. This included strong growth of 15 per cent or \$667 million in the asset finance and leasing businesses of BOQ Finance. The growth momentum continued in Virgin Money Australia and BOQ Specialist housing loans, with growth of \$914 million and \$626 million respectively. Our core BOQ housing loan portfolio, however, contracted during the year. This is attributable to a number of factors including a reduced distribution footprint, more onerous lending processes and digital customer offerings which lag our peers. We have plans in place to address these issues and anticipate improved performance from our Retail Bank in 2020.

The contraction in net interest margin was most pronounced in the first half of the year, due in part to the higher bank bill swap rate which normalised later in the year, as well as ongoing price competition for new business. The reduction in non-interest income was driven by ongoing downward pressure on fees and insurance income.

Operating expenses increased by four per cent which took our cost to income ratio to 50.5 per cent. We have continued to invest for the future by improving our technology, risk and compliance capability. As we flagged at the 2018 results and in the first half this year, the increased capitalised investment expenditure we have been incurring will lead to an increase in amortisation as these important foundational projects are completed. We continue to explore opportunities to offset this increase through digitation and automation of processes to improve efficiency.

Our underlying asset quality remains sound. Despite this, impaired assets increased 20 per cent from a very low level to \$197 million. This represents 43 basis points of our total loan balances. Our loan impairment expense also increased substantially during the year, reflecting the move to a new collective provisioning model to align with new accounting standards, as well as the deterioration in a number of forward looking economic indicators and a small number of larger exposures. Arrears trends have increased slightly but remain at relatively low levels. We remain comfortable with the overall performance of the loan portfolio, with no systemic issues emerging and support from the recent stabilisation of house prices, low interest rates and low levels of unemployment.

BOQ's capital position remains appropriate with a Common Equity Tier 1 ratio (CET1) of 9.04 per cent. CET1 has reduced in recent years as we have reinvested in the future of the business and continued growth in higher capital-consumptive commercial lending segments.

Given the challenging outlook, the dividend was reduced by 14 per cent, in line with the reduction in cash earnings, to 65 cents per share. We have taken a prudent approach which keeps the payout ratio consistent with the level of the first half.

An important milestone in 2019 has been the decision to proceed with additional investment in Virgin Money Australia to build a new digital bank. We are very excited about the prospects for this business given the recent success the brand has demonstrated in attracting customers across its other product lines. You will hear more about how this will contribute to BOQ's future through 2020.

We have also made considerable progress in the modernisation of our technology infrastructure, which has involved shifting our data centres to a cloud-based environment. This will deliver benefits in the future as we have better capacity to scale up, reduce cost, implement change and partner with external providers to deliver better solutions for our customers. We are also on track to rollout a more contemporary mobile banking offering to our customers in 2020. These are critical investments that will support our transformation and future aspirations.

Many challenges remain for BOQ, including changes in regulation, technology and customer behaviour, as well as the broader economic challenges facing the sector. However, there are good opportunities available for BOQ to capitalise on and again return to growth with a clear and focused strategy. I am confident that under Patrick and George's leadership, I am leaving the Bank in very good hands to do just this.

It has been a privilege to serve on the BOQ Board and as your Chairman. I would like to thank my colleagues on the Board, the management team and everyone at BOQ, our customers and you, our shareholders, for your ongoing support.

Roger Davis
Retiring Chairman



CHAIRMAN'S WELCOME

Dear Shareholder

I take on the role as Chair of BOQ effective from 18 October with appreciation of the considerable responsibility for the Board and management to deliver better outcomes for our stakeholders.

Our FY19 cash earnings after tax of \$320 million represents a 14 per cent decline on last year. We are operating in a low growth environment with rising investment needs, regulatory costs and community expectations. Irrespective of the challenging operating environment, we are not satisfied with our performance. We recognise that BOQ needs to take decisive action to transform to a more sustainable business model with a clear strategy to return to growth whilst continuing to deliver our purpose of helping customers and communities prosper. We are confident that in transforming BOQ we can grow long term sustainable shareholder value.

At the half year we foreshadowed providing our strategy update later this calendar year. Whilst we are well into the process of our strategic review, we are now of the view that it would be prudent to defer this market update to February 2020. This will enable our new Chief Executive Officer, George Frazis, to optimise the strategy and conduct a productivity review to ensure we have a fit for purpose operating model aligned with our niche growth strategy.

In the interim, George, a seasoned banker with considerable leadership experience in transformation and digital innovation, has settled into his new role well. We are excited about the change he will lead at BOQ. The foreshadowed transformation strategy will focus on five high level priorities for BOQ:

1. Return to profitable and sustainable growth. We will continue to focus on niche growth segments, lift the performance of our Retail Bank and seek to optimise risk adjusted returns.
2. Embed our purpose led, customer culture. To achieve this we need to attract, develop and retain the right talent. We will invest in developing our people and building an inclusive and diversified workforce that respects and endorses BOQ as a great place to work.
3. Simplify our business, improve productivity and address costs. We will address our rising cost to income ratio through a structural productivity and operating model review, aimed at reducing complexity and adopting technology to drive efficiency.
4. Close the digital and data gap, delivering our mobile and Virgin Money Australia investments. We are committed to delighting our customers by providing a seamless end to end experience across all channels, including new internet and mobile banking platforms.
5. Continue to strengthen the Bank through strong governance, compliance and prudent risk management. We have more work to do in improving our non-financial risk governance and are investing in continuous improvement.

Looking ahead, the environment in banking and the broader global and local economy remains challenged. We anticipate that industry disruption will accelerate, requiring BOQ to transform to an agile challenger bank with a refocus of our retail strategy on targeted segments, as we have successfully achieved through our niche segment strategy in BOQ Business. This includes the rollout of Virgin Money Australia as a digital bank of the future in FY20, following a successful proof of concept earlier this year.

We recognise that our transformation will take time. The investments being made to make BOQ stronger will mean FY20 will be a difficult year. We anticipate a decline in year on year cash earnings

in FY20, largely driven by low revenue growth, higher regulatory compliance costs and increased amortisation and operating expenses related to our increased investment in technology. Following the finalisation of our strategic and productivity review we will provide a further update to the market in relation to the impact of these initiatives on our FY20 performance. We will be transparent about our transformation when we outline our plans to the market in February 2020, providing clear benchmarks to monitor progress.

We recognise that many of our shareholders rely on dividends to support their income. We have paid a full year dividend for FY19 of 65 cents per share, representing a payout ratio of 82 per cent. We will continue to factor the importance of dividends for shareholders into our future capital management plans as we invest in the business to return to profitable and sustainable growth.

We have announced that our outgoing Chair, Roger Davis, will be stepping down from the Board in October. In addition, David Willis will be stepping down at the AGM, providing for an orderly succession plan. I would like to thank Roger and David for their significant contribution to BOQ. During their tenure, BOQ has made a number of niche investments that have delivered strong growth for shareholders in specialty sectors providing a good foundation for our strategy to return the Group to growth. We will take this opportunity to both refresh and reduce the size of the Board. I would also like to thank Anthony Rose, our interim CEO, and Matt Baxby, our outgoing CFO, for their contribution to BOQ and wish them all the best in their future careers.

It is a great honour to be appointed Chair of BOQ and I relish the opportunity to be a change agent and harness the collective strength of the Board and the organisation to transform BOQ and to grow long term sustainable value uplift for all stakeholders.

Thank you for your continued support,

Patrick Allaway
Chairman Elect

INTRODUCTION TO THE MANAGING DIRECTOR & CEO



Dear Shareholder

I am delighted to join Bank of Queensland as CEO, at a time of evolution and change for BOQ and the banking sector as a whole. I have been in banking for 18 years and am passionate about the important role it plays in our society.

What excites me most about leading BOQ is the genuine love our people have for BOQ and our customers, along with the opportunity to build an organisation that is innovative and makes banking easy for our customers. My experience has taught me that building strong relationships with our customers begins with our people – our purpose, values, culture and the way we go about our business.

In the recent past BOQ has not lived up to its full potential and has underperformed for its key stakeholders, including our shareholders. However, let me assure you, I am very focused on delivering sustainable and profitable growth and improved shareholder returns.

Our success will come from a clear vision for growth coupled with inclusive leadership that harnesses the diverse skills of all of our team. But achieving this will take time – 2020 will be another tough year of transition. There are challenges ahead, however, fundamentally, BOQ is a good business. Our capital is well positioned for unquestionably strong, we have a good funding position and our underlying asset quality is sound. A strong balance sheet will be a focus.

We have good opportunities to differentiate and profitably grow. This is evidenced by the success of Virgin Money Australia and our niche business segments which have developed clear customer propositions that are differentiated in the market.

My high level priorities are: (1) return to profitable and sustainable growth; (2) embed our purpose led, customer culture; (3) simplify our business, improve productivity and address costs; (4) close the digital and data gap, delivering our mobile and Virgin Money Australia investments; and (5) continue to strengthen the Bank.

I would like to thank our outgoing Chairman Roger Davis and congratulate our incoming Chairman Patrick Allaway. I will be working closely with the Board on my strategic review of the business and look forward to updating you on the outcomes early in the coming year.

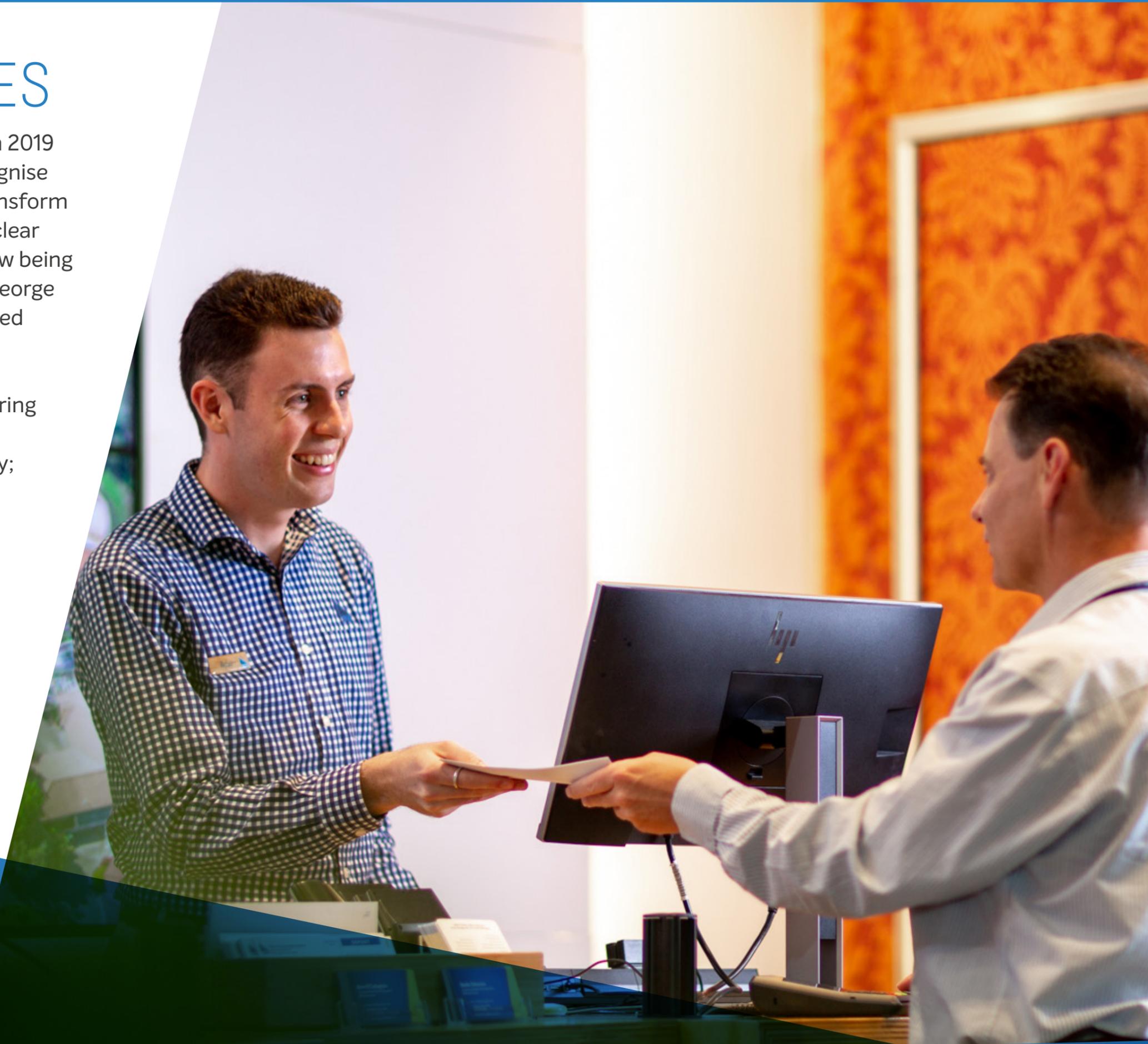
Thank you for your support.

George Frazis
Managing Director & CEO

OUR FY19 INITIATIVES

Given the changing operating environment, in 2019 BOQ commenced a strategic review. We recognise that BOQ needs to take decisive action to transform to a more sustainable business model with a clear strategy to return to growth. This review is now being led by our new Managing Director and CEO, George Frazis, and an update to shareholders is planned for February 2020.

During FY19, BOQ has been focused on delivering a number of initiatives under four key pillars, being: Customer in charge; Grow the right way; Always a better way; and Loved like no other. This Review summarises BOQ's performance against these pillars.



CUSTOMER IN CHARGE

We have been improving our customers' experience by putting them in charge of when, where and how they choose to engage with us – regardless of whether they visit us in a branch, use our online services, call on the phone or buy our products through a third party intermediary.



FY19 Goals

- › Achieving digital parity and meeting our customers' digital needs
- › Delivering a seamless customer experience
- › Tilting to niche segments



FY19 Priorities

- › Upgraded our new digital banking platforms and apps
- › Accelerate VMA digital bank opportunity

FY19 Progress

- The look and capability of the internet banking website and mobile banking app for BOQ Specialist was upgraded this year, providing customers with a better digital banking experience.
- Digital capabilities in the VMA business have been enhanced by: (1) the launch of a credit card mobile app, allowing customers to manage their everyday credit card functions on the go, and (2) first-stage completion of establishing a cloud-based digital banking offering that will allow customers to be more self-directed. This is a key element of delivering our digital roadmap.
- Customers can now submit home loan application documents wherever they are through digital signing and document acceptance. This capability has improved the overall experience for customers by making the process simpler and more convenient.
- This year, BOQ Finance focused on building strategic relationships to deliver innovative equipment finance solutions. As part of this commitment, a relationship with Clean Energy Finance Corporation (CEFC) was initiated to help lower carbon emissions by providing finance to businesses interested in leveraging the benefits of clean energy technologies.
- In December 2018 BOQ finalised its minority (35%) interest in MiFund – a specialist medical patient and procedure funder. This acquisition provides BOQ Specialist with a new origination channel and a product to support its existing medical practitioner base.
- BOQ Finance implemented a new Customer Experience team. This team focuses on ensuring the customer and broker partner experience – from on boarding to the end transaction – is seamless.

Ongoing Initiatives

- In FY20 we will launch a new online and mobile banking application for BOQ Retail that will provide a better digital experience for customers.
- Efforts to improve our digital capability through further development of a VMA Digital Bank will continue in FY20 – ultimately offering an innovative experience to meet the modern needs of our customers.
- BOQ Business continues to seek new ways to enhance commercial lending processes to deliver a better customer experience. This includes exploring vendor arrangements to automate the process of entering and analysing financial data to better service customers by reducing submission time, as well as automating the credit scoring process.
- The next phase of the BOQ Specialist online banking platform is on track for delivery during Q4 2019 (calendar year) with Apple Pay, Google Pay and an updated mobile banking application set to provide customers with a much improved digital offering.



BRINGING OUR 'CUSTOMER IN CHARGE' PILLAR TO LIFE

BOVINE DYNAMICS

FEEDLOT VETERINARY & NUTRITIONAL CONSULTANTS & BOQ CUSTOMERS

Matthew and Melissa are a highly experienced and qualified team, having worked with animals their entire lives.

Matthew grew up in South-eastern NSW on his family's beef property, which led him to pursue a career as a cattle veterinarian and animal scientist. Melissa's agriculture expertise was honed in Florida (USA), where she showed rabbits, cattle, and horses from an early age and later acquired an impressive string of formal qualifications in the areas of meat science and veterinary infectious diseases.

The Georges have been loyal BOQ Retail customers since 2010 with BOQ Agribusiness being introduced in 2016 by their accountant to request finance for their first grazing property in Eskdale (QLD). They approached a variety of banks during this time but opted to do business with BOQ due to a less cumbersome process supported by a team of deeply knowledgeable, empathetic bankers who understood the nuances and complexities of their business. The Georges are quick to say how much they appreciate how receptive the BOQ team is and how open the lines of communication are – a clear demonstration of one of our core values: showing we care through applying a human, empathetic lens to all that we do.

'THE BOQ TEAM IS COMPRISED OF QUALITY PEOPLE - BOTH EMPATHETIC AND HIGHLY EXPERIENCED.'

As a result of their experience, the Georges have shifted all of their banking needs to BOQ and obtained a number of various lending facilities that have helped their businesses grow. Most recently extending their collective agricultural passion into several beef cattle grazing properties and herd financing. BOQ is proud to back Matthew and Melissa as they strive to help the Australian agricultural sector become more productive and resilient.

Valued BOQ customers, Doctors Matthew and Melissa George, are pictured below alongside their beautiful daughter, Victoria. Matthew and Melissa are the proud owners/operators of Bovine Dynamics – a family run business based in Kenmore (QLD), which provides nutritional, research and veterinary consultancy services to the intensive and extensive beef cattle industry.



GROW THE RIGHT WAY

We have been aiming to build a strong and profitable business by making the right decisions about where and how to grow. This includes focusing on niche customer segments that value an intimate banking relationship.



FY19 Goals

- › Lift Main Financial Institution (MFI) customer penetration through deposit gathering and pricing for risk
- › Treat data as a strategic asset
- › Ensure a state of readiness to respond to regulatory reform



FY19 Priorities

- › Focus distribution channels towards deposit gathering and MFI
- › Close key product gaps to support deeper customer relationships
- › Develop strategic response to potential regulatory reform

FY19 Progress

- BOQ Finance experienced strong growth this year with total loans under management growth of \$667m. This was accomplished through a number of strategies: (1) a more targeted broker offering; (2) strategic capability building (innovative customer solutions and internal process improvements); (3) technology and process excellence to enable customer centric outcomes; and (4) fostering a diverse and inclusive team with a focus on delivering great customer outcomes.
- In an effort to expand our customer offering and build our MFI customer base, BOQ introduced new deposit products this year that link transactional accounts with savings accounts and that are eligible to receive a bonus interest rate.
- We successfully completed the implementation of Harley Davidson Financial Services in BOQ Finance – a partnership comprised of a revenue sharing model, which will help drive growth across both the retail and wholesale portfolios.
- We strengthened BOQ's Cyber Security capability in FY19, allowing us to take a more proactive approach in the protection and security of customer data and assets.
- BOQ Specialist commenced origination of both residential mortgages and commercial products for the medical profession via specialist brokers on 1 September 2018. Since the commencement of BOQ's reinvigorated commercial broker offering, more than \$150m in new business volumes have been delivered.
- Our partnership with Square, established in FY18, continued this year with an uplift of new deposits and hundreds of credit card 'readers' provided to small businesses – free-of-charge and with fee-free processing up to \$1k.
- A refreshed partnership with BOQ Business and our merchant partner was successfully executed, bringing new products to our customers including e-commerce, integrated EFTPOS, China Union Pay, dynamic currency conversion and customer preferred routing.
- A new franchise revenue share model will be launched in early FY20. This simplified model will better align to the financial outcomes of franchisees while serving as an opportunity to attract new franchisees to the network.

Ongoing Initiatives

- Our Financial Markets digital platform is currently being built and is scheduled to go live in FY20. The platform will strengthen our product offering by enabling international payments and foreign exchange hedging, targeting SME customers.
- The Agribusiness team is currently exploring a variety of projects in the agricultural technology space, with the end goal of ensuring the long-term sustainability of agricultural producers. Artificial Intelligence tools are being explored, which would allow for better informed decision-making from the desk to the paddock, benefiting BOQ Agribusiness clients with improved crop gross margins, optimised yields and quicker identification of potential issues.



ALWAYS A BETTER WAY

We have been making systems and processes simpler, faster and smarter. We aim to improve efficiency, reduce costs and deliver better customer service.



FY19 Goals

- > Overhauling key processes
- > Developing capabilities to drive efficiency through digitization



FY19 Priorities

- > Establish lending centre of excellence
- > Continuous improvement initiatives
- > Digitisation of processes

FY19 Progress

- We have improved our risk mitigation capacity through the delivery of a new Treasury system – a two year project that commenced in FY18 and is on track to go live in FY20.
- Ensuring customer accounts are safe from external tampering is of paramount importance. This year, we commenced a fraud mitigation project that saw the implementation of a new fraud detection system and supporting processes. This has resulted in the uplift of the Bank's capacity to identify non-typical behaviour so customers can be alerted and accounts resecured.
- Improving our loan application processing systems is an ongoing focus. This year, we improved this through the delivery of a consistent and scalable credit scoring service across the bank, which is anticipated to result in more accurate outcomes and significant efficiency gains. We also leveraged artificial intelligence and robotics to automate the end-to-end mortgage lending process – resulting in better “time-to-yes” for our customers.
- Progress was made in modernising our technology infrastructure. We are transitioning to two new data centres which will address end-of-life technology risks as well as improving our delivery agility and better supports the use of cloud services.
- Our digital marketing capability was improved with the launch of an email marketing platform, allowing BOQ to connect better with customers by providing more personalised communications.
- The Branch technology environment has continued to be improved with delivery of new teller pin-pads, enhanced network connectivity via higher internet bandwidth, and the refreshment of telephony systems.
- New collaboration solutions were rolled out in FY19 that replace and extend our video conferencing, interactive white boarding and content sharing capabilities. This allows staff and external parties to collaborate more effectively.
- Our commitment to delivering better customer outcomes was supported by an improved approach to complaint handling and additional resourcing in the Customer Advocate Office.
- We evolved how we view and manage customer feedback. Focus has been on increasing the capture and recording of customer complaints across all business areas. This work was accelerated with the implementation of a new customer complaints database and refreshed complaint handling training. As a result, our capacity to capture customer complaints lifted.

Ongoing Initiatives

- We are looking to launch a new telephony platform in our customer contact centres and corporate locations during FY20. This will support our contact centre staff in providing a more integrated service to customers across all brands and products.
- Our focus on automation will continue into FY20, with the aim of simplifying more manual and time-consuming processes, ultimately creating a simpler bank for staff and customers.
- Finalisation of our infrastructure modernisation program is on track for completion in FY20, which includes a data centre and user access network refresh as well as new cloud connectivity options.
- In FY20, we will continue with helping customers experiencing vulnerability by rolling out further training for our customer-facing employees to assist them in identifying and supporting customers who find themselves in situations of vulnerability and/or difficulty.



LOVED LIKE NO OTHER

We have been striving to maintain positive stakeholder relationships by living our values, creating a place where people love to work and contributing to the communities in which we operate.



FY19 Goals

- › Define and bring to life our purpose for our people and customers
- › Deliver a differentiated service offering



FY19 Priorities

- › Engage our people to define and start to embed our purpose-led culture
- › Revitalise BOQ core business market positioning

FY19 Progress

- The 'Customer Moments of Truth' initiative commenced in March 2019 and is designed to enhance customer experience by challenging our practices and mindset across the organisation. Focus is on resolving customer issues with empathy, fairness and in a timely manner. Two work streams make up this initiative – one focuses on product and process enhancement; the other focuses on strengthening our values through activities like 'values based visits', which sees employees from head office visit branches to encourage understanding around opportunities and challenges our customers' experience.
- The first year of our Group Risk Graduate Program pilot was a success for the Group Risk function and graduates. A recent survey conducted by 'GradAustralia' found our graduates rate the BOQ Graduate Program 4.4/5, indicating value is derived from skill development, exposure to senior leadership, and BOQ's supportive, welcoming culture. The success of the initial intake of 12 graduates in September 2018 has seen an additional cohort of 12 graduates join BOQ in April 2019.
- Our capability to engage with BOQ brokers and VMA customers has been enhanced by the delivery of a new customer engagement platform, which will support our people in scheduling, tracking and managing customer conversations.
- This year we focused on strengthening broker partnerships by streamlining the loan application process. The lifting of back-end operational efficiencies by leveraging software that automates the document preparation, signing and management process has significantly enhanced the broker experience.
- A number of initiatives to lift employee engagement were implemented this year:
 - our new purpose and refreshed values were rolled out to ensure our people are clear on why we are here and what behaviours we expect every day;
 - we launched our new Group Capability Framework, which enables our people to build greater role clarity and puts them in the drivers' seat of their own career development; and
 - during June we had a particular focus on career and development, helping people access new and improved resources and sessions across the Group to enable people to drive their own development.
- Our annual 'You're the Voice' survey, covering a range of metrics including employee engagement, resulted in a 56% engagement score compared to 53% in FY18. 81% of employees participated in the survey this year compared to 72% in FY18. Although this score is heading in the right direction we recognise more needs to be done to further improve this result. Please refer to our **FY19 Sustainability Report** for more detail about our approach to workplace culture.
- We continued to grow our partnership with the CareerTrackers Indigenous Internship Program. The internships offer undergraduate students the opportunity to explore the practical application of their area of study. BOQ currently support 18 interns across our Brisbane and Sydney offices. We also work alongside CareerTrackers to facilitate professional development workshops.
- Our Community investment program – Project Fair Go – was launched this year. The initiative is underpinned by a renewed commitment to supporting vulnerable Australians through financial and non-financial backing of our partner organisations that are working hard to improve social outcomes.
- We completed a review of our Parental Leave Offering, which saw an increase in primary care leave (from 13 to 16 weeks) and secondary care leave (from two to four weeks). This policy supports BOQ's commitment to looking after employee welfare – a key requisite for sustaining a vibrant, healthy business.

Ongoing Initiatives

- We will continue to embed our purpose-led culture through integration into our systems, frameworks and most importantly into our behaviours with each other, our customers and our community.
- In FY20 we will further integrate our Capability Framework developed in FY19 into more of our ways of working in order to support our people to drive their own personal and professional development. Our people will also be able to access a large suite of online development tools to support them in achieving their career aspirations.
- We are currently working to identify more opportunities throughout our supply chain to connect with ATSI endorsed suppliers.
- The provision of additional employee training in the area of diversity and inclusion will roll out in FY20. Focus will be on Cultural Awareness Training, Flexible Working Training (for managers), Domestic Family Violence Awareness Training, and LGBTIQ+ Awareness Training.



BRINGING OUR 'LOVED LIKE NO OTHER' PILLAR TO LIFE

BRIDIE HANKINSON

SENIOR PRODUCT MANAGER - INSURANCE CUSTOMERS

Bridie's approach to leadership is a fantastic example of how our Group values come to life. She understands that a healthy, vibrant company requires healthy, vibrant people. By overlaying a human, empathetic lens to her management style she sets her team up to trust each other, take personal accountability and work together to put our customers first.

'THE OPPORTUNITY TO LEAD A HIGH CALIBRE TEAM THAT IS EQUAL PARTS PROFICIENT, FUN AND PASSIONATE IS A REAL HONOUR.'

Bridie is quick to say that working life is far more than clocking hours behind a desk. She takes great pride in building a passionate team grounded in integrity and that delights in delivering positive outcomes for customers through appropriate products and excellent service. Bridie brings out the best in her team by encouraging them to 'think big' and to own problem solving processes. She believes in giving people the opportunity to harness their innate capacity to strive for excellence, even if that means challenging the status quo.

Examples of exemplary customer service underpinned by our Group values are commonplace in this team. Whether it's taking the time to dig a little deeper to identify grounds for a refund, arranging appropriate insurance to protect a customer's new dream home or negotiating a goodwill payment on behalf of a customer impacted by severe weather events.



Bridie Hankinson, pictured above, leads the insurance division and Customer Protection team at BOQ. The team is comprised of general insurance specialists dedicated to supporting the retail branch network in protecting the assets and livelihood of customers through BOQ's insurance partnerships. This approach allows our branches to concentrate on core banking products without losing sight of the fact that our customers have general insurance needs.

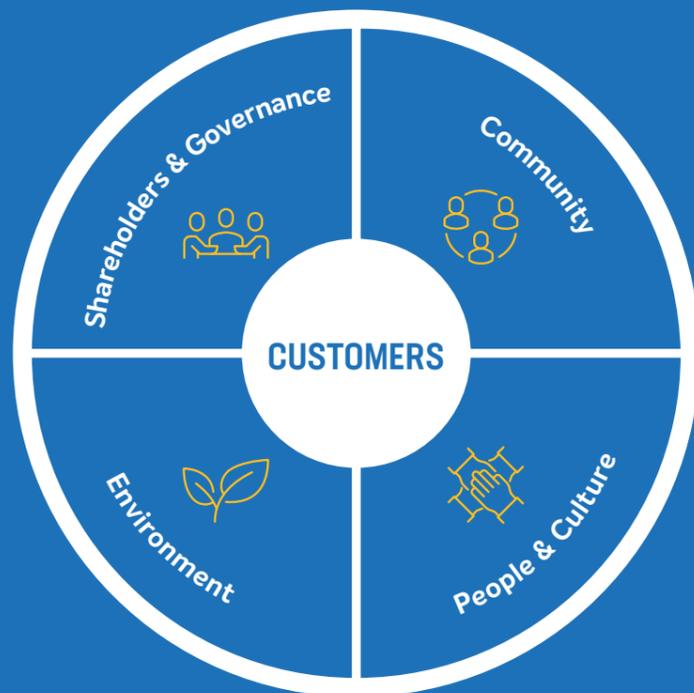
SUSTAINABILITY OVERVIEW

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

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.

Our sustainability framework guides our approach to sustainability. It is based around our 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:



The issues that matter most

We manage a range of sustainability issues as part of our everyday business operations. While all of these issues are important, our priorities may change over time. To determine the most important sustainability issues to focus on, we 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.

This year, we found that the issues identified as being the most important are the same four broad themes first introduced in our FY18 Sustainability Report:

CONDUCT AND TRUST

Banks play an important role in society as financial intermediaries of the economy. This role is heavily reliant on trust – particularly between customers and their banks. Lending responsibly and ensuring the security of data are areas that are particularly critical for a healthy economy. Because of this, sound conduct is critical. Improving conduct is an essential part of building trust and supporting future sustainable growth. We have continued to focus our efforts on building trust by doing the right thing by our customers, people and the broader community, no matter what.

ADAPTING TO CHANGE

There is one certainty about the future, the pace of technological change will only accelerate. We also continue to face significant changes on the regulatory front as government and industry consider new standards of practice for Australia's banks – particularly with regard to Open Banking. We are embracing digital opportunities by our continued investment in our technology infrastructure, online and mobile platforms, and our cybersecurity capabilities. We are also building partnerships with innovative businesses and investing in new fintech opportunities that have the potential to shape the future banking landscape. Leveraging automation/robotics to drive innovation is another focus as is ensuring our cybersecurity defence systems are in line with best practices.

CUSTOMER EXPERIENCE

Customer expectations are changing. We must ensure we continue to meet these expectations by delivering personal, timely, relevant and seamless customer service. We must also continue to lend responsibly, offer competitive products with fair pricing, and assist customers experiencing financial difficulty. Customer satisfaction will continue to drive engagement and advocacy efforts across the bank and remains a key focus.

WORKPLACE CULTURE

Culture is critical. It can strengthen or undermine our business and the objectives we are trying to achieve. Because of this we focus heavily on working to create a culture that attracts and retains the best people by ensuring they feel challenged, valued and supported. We are committed to further developing our diversity and inclusion initiatives, professional development opportunities, and 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.



Our 2019 Sustainability Report contains more detail on how we assess and respond to these issues. The report is available online at boq.com.au/Shareholder-centre/sustainability

5 YEAR SUMMARY

2019 FINANCIAL PERFORMANCE

\$ millions (unless otherwise stated)

	2019 \$m	2018 \$m	2017 \$m	2016 \$m	2015 \$m
FINANCIAL PERFORMANCE					
Net interest income	961	965	926	937	907
Non interest income	128	145	175	173	180
Total income	1,089	1,110	1,101	1,110	1,087
Operating expenses	(550)	(527)	(513)	(520)	(500)
Underlying profit before tax ⁽¹⁾	539	583	588	590	587
Loan impairment expense	(74)	(41)	(48)	(67)	(74)
Cash earnings before tax	465	542	540	523	513
Cash earnings after tax attributable to ordinary shareholders ⁽²⁾	320	372	378	360	357
Statutory net profit after tax	298	336	352	338	318
FINANCIAL POSITION					
Gross loans and advances ⁽³⁾	46,216	45,279	43,817	43,152	40,975
Total assets	55,597	52,980	51,658	50,853	48,018
Customer deposits	32,428	31,325	30,190	29,122	26,914
Total liabilities	51,738	49,124	47,869	47,266	44,549
Total equity	3,859	3,856	3,788	3,587	3,469
SHAREHOLDER PERFORMANCE					
Market capitalisation at balance date	3,721	4,565	4,932	4,020	4,698
Share price at balance date (\$)	9.17	11.49	12.59	10.55	12.67
Cash basic earnings per share (cents)	79.6	94.7	97.6	95.6	97.3
Cash diluted earnings per share (cents)	74.0	89.3	93.9	90.7	92.2
Fully franked dividend per ordinary share (cents)	65	76	76	76	74
Fully franked special dividend per ordinary share (cents)	-	-	8	-	-
Cash dividend payout ratio to ordinary shareholders	82%	81%	78% ⁽⁴⁾	80%	77%
CASH EARNINGS RATIOS ⁽⁵⁾					
Net Interest Margin ⁽⁶⁾	1.93%	1.98%	1.87%	1.94%	1.97%
Cost-to-income ratio	50.5%	47.5%	46.6%	46.8%	46.0%
Return on average ordinary equity	8.3%	9.9%	10.4%	10.3%	10.7%
CAPITAL ADEQUACY					
Common equity tier 1 ratio	9.04%	9.31%	9.39%	9.00%	8.91%
Total capital adequacy ratio	12.40%	12.76%	12.37%	12.29%	12.72%

(1) Underlying profit before tax is profit before impairment on loans and advances, significant items and tax.

(2) Cash earnings after tax exclude significant items (tax effected).

(3) Before specific and collective provisions.

(4) This ratio was 87% including special dividend.

(5) Excludes impact of significant items.

(6) 2019 and 2018 NIM is net of offset accounts.



SHAREHOLDER INFORMATION

Share Registry

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Key Shareholder Dates

Dividend dates for ordinary shares only are:

2019

Final ex-dividend date	6 November 2019
Final dividend record date	7 November 2019
Final dividend payment date	27 November 2019
Annual General Meeting	10 December 2019

