



BOQ

SHAREHOLDER
REVIEW
2016

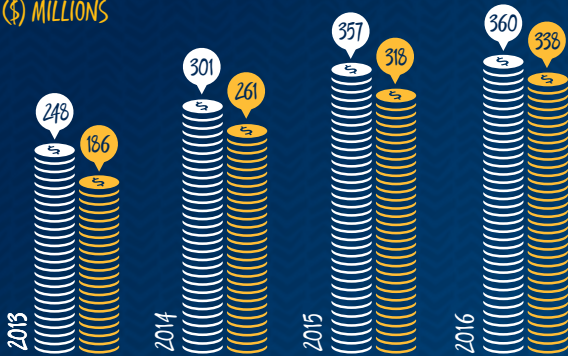




A GOOD RESULT IN A CHANGING OPERATING ENVIRONMENT

BOQ FY16 RESULTS

PROFIT RESULTS (\$ MILLIONS)



CASH EARNINGS
↑ \$360M
UP 1% SINCE FY15

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

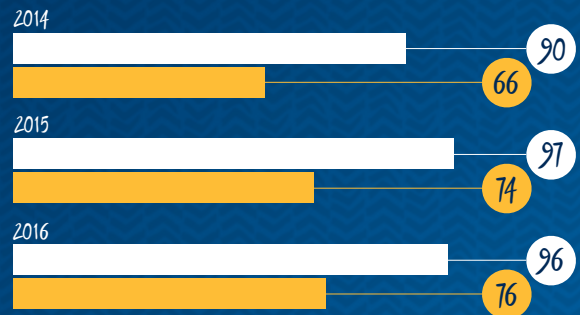
NET INTEREST MARGIN

1.94%
↓ 3BPS

RETURN ON EQUITY

10.3%
↓ 40BPS

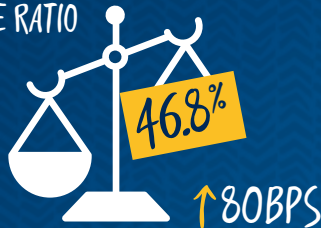
EARNINGS & DIVIDENDS (CENTS PER SHARE)



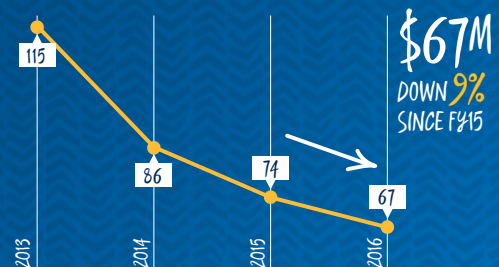
BASIC CASH EARNINGS PER SHARE
↓ \$96C
DOWN 2% SINCE FY15

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

CASH COST TO INCOME RATIO



LOAN IMPAIRMENT EXPENSE (\$ MILLIONS)



CHAIRMAN & MANAGING DIRECTOR'S MESSAGE 2016

HEAR FROM OUR CHAIRMAN & CEO AT
BOQ.COM.AU/ANNUAL_REPORTS/2016



Dear Shareholder,

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

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

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

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

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

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

We were also delighted to welcome some new faces to the Board. Karen Penrose joined in November, John Lorimer in January and more recently Warwick Negus, joined in September. Karen has 30 years' business experience in the finance and corporate sectors, offering specialist knowledge in finance and capital markets, risk management and compliance.

John has more than 20 years in financial services and brings significant expertise in retail financial services, governance, regulation and risk management. Warwick's extensive financial services industries background adds more than 20 years' experience in investment banking and domestic and international funds management. We believe, these additions give the Board the right skills and experience to meet the needs of a rapidly changing market, and so we warmly welcome Karen, John and Warwick to the Board.

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

Roger Davis
Chairman

Jon Sutton
Managing Director & CEO

CUSTOMER IN CHARGE

GO TO BOQ.COM.AU/ANNUAL_REPORTS/2016
TO FIND OUT HOW WE'RE PUTTING OUR
"CUSTOMERS IN CHARGE"



WE'RE IMPROVING OUR CUSTOMER EXPERIENCE BY PUTTING OUR CUSTOMERS IN CHARGE OF WHEN, WHERE AND HOW THEY CHOOSE TO INTERACT WITH US

This year we've continued to deliver on this by:

- Giving customers more product choice, and providing another avenue to diversify our customer base and grow our mortgage distribution, by writing our first home loans through our Virgin Money (Australia) Reward Me Home Loan.
- Being more accessible to the large number of customers who prefer to use brokers by expanding our broker program. Around half of all home loan customers use brokers. Three years in and we now have 4,000 accredited brokers writing 17% of our home loans.
- Amplifying the voice of our customers by integrating customer feedback through a new team who will help us understand, prioritise and progress key initiatives that improve the customer experience.
- Meeting the needs of how our customers do their banking and the locations our customers choose to use by continuing to adjust our branch network structure.
- Giving customers more service options and removing barriers between our people and customers through the open plan design and new technology used at our new ICON branches. We've been

fitting out more branches with the new ICON style - we now have 13 ICON branches.

- Giving customers direct social media access to their local branch by rolling out Facebook pages for 163 branches and providing social media support through our Contact Centre.
- Improving the look and feel of our mobile banking app with a new fully customisable user interface by introducing a dedicated tablet app for mobile banking.

LOOKING AHEAD

We've opened up a range of new customer channels, but there's more we can do to empower our customers to bank their way. Over the next few years we'll continue expanding our broker presence for both BOQ and Virgin Money (Australia). We'll also continue upgrading our digital channels improving our mobile apps for Virgin Money (Australia) and BOQ, upgrading our website platform across the Group, and upgrading to the latest smart ATMs with touch screens. We'll also be introducing e-signatures, an important milestone to being able to offer online lending applications.

GROW THE RIGHT WAY

WE'RE BUILDING A STRONG AND PROFITABLE BUSINESS BY MAKING THE RIGHT DECISIONS ABOUT WHERE AND HOW WE GROW WHICH INCLUDES FOCUSING ON NICHE CUSTOMER SEGMENTS THAT VALUE AN INTIMATE BANKING RELATIONSHIP

This year we've continued to deliver on this by:

- Continuing to grow under our niche strategy that focuses on micro to mid-market sized businesses in healthcare and retirement living, agriculture, property, hospitality and professional service sectors. A highlight of this strategy has been from BOQ Specialist, which focuses on lending to medical and accounting professionals which contributed \$1.5 billion in home loans this financial year.
- Providing better outcomes for our Owner Managers and their customers by moving our Owner Managers onto the new balanced scorecard as they renew their franchise agreements. The scorecard includes a wider range of metrics including compliance and cross sales. Almost 50% of our Owner Managers are now on the new agreement.
- Expanding BOQ Finance's presence and capabilities in key target areas including non-motor floor plan, vendor and technology finance and wholesale receivables funding.
- Continuing to strengthen our balance sheet by building out the diversity, capacity and resilience of our funding profile. In addition to our ongoing diverse transaction program that continues to lengthen our funding profile, we've also undertaken an extensive investor marketing program to provide broader options for funding across different currencies.
- Continuing our focus on credit quality discipline by taking the conservative approach of validating all home loan applications through a centralised process.
- Restructuring our credit team and streamlining processes so applications can go to just one person for a faster credit decision. We also introduced specialist risk experts aligned to our niche customer strategy and integrated more accurate data into a single view for them. Together these initiatives ensure more sophisticated and responsive pricing, faster response times and a better customer experience, even for complex clients.
- Simplifying policies and procedures, increasing training and increasing monitoring and performance management to embed a stronger risk culture and lift compliance results across the Bank.
- Strengthening our risk culture by understanding our strengths and weaknesses through a Group-wide Risk Survey that benchmarks our risk and governance against peers. The results are used to drive future improvements to our risk culture and governance programs.
- Strengthening our three lines of defence model to risk management by increasing resources and aligning the structure with business lines to support the substantial change agenda underway.
- Demonstrating the increasing sophistication of our risk oversight which is evident by S&P's upgrade to our business position rating.
- Continuing to grow the right way as demonstrated by winning The Asian Banker Magazine's

2016 Liquidity Risk Management Award, winning the Australian Banking and Finance 2016 Award for Chief Risk Officer of the Year for the third year in a row and winning the Australian Banking and Finance 2016 Award for Chief Financial Officer of the Year.

LOOKING AHEAD

We've got strong foundations, but we're not done yet. We're maturing our deposit strategy by identifying key product and service gaps for priority customer segments which will help ensure we fund future asset growth at the right price. We'll further align the risk function with the broader business to support strategy. And by leveraging technology and data analytics, we'll continue to build out the efficiency and quality of our credit decisions. We'll also be uplifting our compliance management framework from Australian to global standards.

ALWAYS A BETTER WAY

GO TO BOQ.COM.AU/ANNUAL_REPORTS/2016
TO FIND OUT WHAT “ALWAYS A BETTER WAY”
MEANS TO US

WE'RE COMMITTED TO MAKING OUR PROCESSES SIMPLER, FASTER AND SMARTER

This year we've continued to deliver on this by:

- Covering 30% of mortgage applications through our new digital lending origination system which streamlines our process and improves the speed of our lending decisions and productivity, giving customers a more positive experience.
- Increasing digitisation of our commercial lending process, enabling quicker credit decisions, supporting commercial data analytics and strengthening our customer relationships.
- Improving our data analytics to deepen our customer and portfolio insight. This will help us accurately service the right customers at the right time through the right channels with the right products. We've initially focused on using this capability to improve customer retention.
- Furthering our digital enablement plan and technology strategy through the development of a dedicated laboratory space to accelerate projects and incubate ideas.
- Holding strategy alignment workshops with key strategic partners and vendors.
- Accessing economies of scale and efficiency through our procurement processes, for example by introducing a Group-wide legal panel which is a set list of providers to be used for different legal services. This approach enables BOQ to develop trusted partner relationships, improve the quality of services we receive and reduce our external legal spend.
- Strengthening employee collaboration by consolidating different email platforms across the Group, upgrading our video conferencing capabilities and implementing wifi across all support centres.

LOOKING AHEAD

But we've only just scratched the surface, the most exciting part of our digital journey is still to come. In the years ahead we'll bring more products onto the lending origination system, introduce more automation in our commercial lending processes, and launch BOQ Finance's new Lease Management System providing more cost and time efficiency across the Bank.

We'll continue maturing our data analytics, building a single view of customers regardless of which brand they're with, to help us service our key customer segments. This will allow us to make more integrated risk and pricing decisions and ultimately, provide more personalised customer service.

We're focused on uplifting our project management and digital capability to introduce more accelerated ways of working. This will be supported by extending video conferencing to more meeting rooms which will increase employee collaboration across the country and reduce travel expenses.

We'll be streamlining and digitising processes to improve the customer on-boarding process across products. We'll finish rolling out wifi to all our branches and we'll continue to leverage our relationships with key vendors to drive more collaboration, co-investment and innovation. Where there are gaps in our capability and it makes sense to do so, we'll investigate partnership opportunities with fintechs whose offerings align with our niche customer strategy.

LOVED LIKE NO OTHER



IT'S WHAT WE DO INSIDE AND OUT TO LIVE OUR BRAND PROMISE THAT PROVES IT'S POSSIBLE TO LOVE A BANK

This year we've continued to deliver on this by:

- Launching our 144 culture unifying our focus on 1 mission 'to be Australia's most loved bank', 4 strategic pillars 'customer in charge, grow the right way, there's always a better way, loved like no other' and our 4 values of 'integrity, collaboration, impact, passion'.
- Continuing our strong focus on inclusion and gender diversity. A third of our leaders are women and we have a range of actions in place to lift this to 50 per cent by 2020. We've achieved this by having a very clear focus on creating a more diverse workforce, including target setting, rolling out training for women in leadership and unconscious bias training, and reviewing our recruitment and selection practices.
- Rolling out leadership development programs on collaboration, change, ethics and unconscious bias, as well as introducing personalised leadership development programs.
- Supporting all of our colleagues to develop and grow their careers by accessing and participating in a wide range of development programs that use different delivery channels. We also ensure all of our vendor partners are focused on diversity.
- Partnering with RFI Group, one of Australia's leading market research and business intelligence companies, to access deeper analysis of what drives our customer satisfaction scores and how we can improve our customer experience.
- Continuing our annual Banking on our Kids appeal, raising more than \$204,000 for the Children's Hospital Foundations Australia.
- Proving that it is possible to love a bank, BOQ took out the top spot in East and Partners' business banking customer satisfaction survey for the eighth straight year, for the third year running were named Relationship Bank of the Year at the 2016 AB&F Business Banking Awards and were recognised as best in class in several key customer satisfaction categories in the East and Partners' Australian Asset and Equipment Finance Market Analysis report.

LOOKING AHEAD

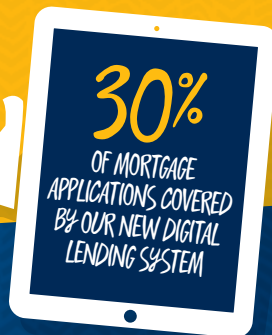
And while we're definitely likable, we've still got a lot more love to give! Next year our flexible working policy will be piloted in more parts of our business such as our contact centres and branches. We'll introduce a new internal female leadership development program and streamline our leadership on-boarding process. We'll broaden our range of ethics training to cover more employees and more topics through online delivery. We'll also work hard to continue lifting our customer satisfaction scores to live our vision of being Australia's most loved bank.

DELIVERING OUR STRATEGY

CUSTOMER IN CHARGE

VIRGIN MONEY AUSTRALIA
REWARD ME
HOME LOAN LAUNCHED

THERE'S ALWAYS A BETTER WAY



GROW THE RIGHT WAY



\$500M

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

LOVED LIKE NO OTHER

LAUNCHED OUR 144 CULTURE UNITING OUR FOCUS ON

144 1 MISSION
4 STRATEGIC PILLARS
4 VALUES

SHAREHOLDER INFORMATION

ANNUAL GENERAL MEETING

BOQ's Chairman Roger Davis and Managing Director and Chief Executive Officer Jon Sutton will address shareholders at the Bank's Annual General Meeting

10am (AEST) on Wednesday, 30 November 2016
Ballroom Level 5, Hilton Hotel, Brisbane

Webcast and speeches will be made available at
www.boq.com.au/shareholder_agm.htm

KEY SHAREHOLDER DATES

| | |
|---|------------------|
| Annual General Meeting | 30 November 2016 |
| Financial half year end | 28 February 2017 |
| Half year results and interim dividend announcement | 30 March 2017 |
| Financial full year end | 31 August 2017 |
| Full year results and final dividend announcement | 12 October 2017 |
| Annual General Meeting | 30 November 2017 |

SHARE REGISTRY

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