



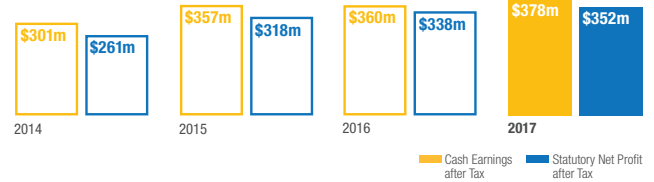
2017 Shareholder Review



Continuing to deliver results for shareholders

Profit Results

(\$ Millions)



CASH EARNINGS AFTER TAX

5% increase
in earnings from FY16

\$378m

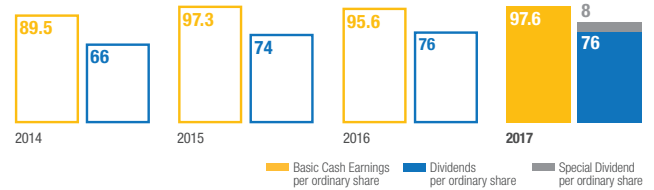
STATUTORY NET PROFIT AFTER TAX

4% increase
in earnings from FY16

\$352m

Earnings & Dividends

(Cents per ordinary share)



BASIC CASH EARNINGS PER ORDINARY SHARE

(Cents per share)

97.6¢

↑ Up **2%** from FY16

DIVIDENDS PER ORDINARY SHARE

(Cents per share)

76¢

→ Unchanged from FY16

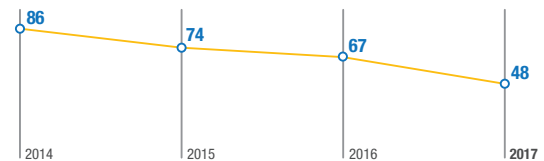
SPECIAL DIVIDEND PER ORDINARY SHARE

(Cents per share)

8¢

Loan Impairment Expense

(\$ Millions)



\$48m

↓ Down **28%** from FY16



Find out more:
boq.com.au/annual_reports/2017

Chairman and Managing Director & CEO's 2017 Message



Dear Shareholder

Our 2017 financial year marks the fifth successive year that BOQ has delivered an increased profit. Cash earnings after tax increased five per cent to \$378 million whilst statutory profit after tax grew four per cent to \$352 million. Based on these results, the Board has determined to pay a final dividend of 38 cents per ordinary share. Following clarity from the Australian Prudential Regulation Authority on 'unquestionably strong' in July this year, and given our very strong capital position, the Board has also determined to pay a special dividend of 8 cents per ordinary share, taking the full year dividend to 84 cents per ordinary share.

The financial services industry has faced further challenges over the past 12 months. Consumer concern about low wage growth and higher living expenses combined with APRA's new regulations to slow residential and particularly investor mortgage growth resulted in subdued credit growth. Low interest rates, higher term deposit funding costs and continued intense competition for new customers has contributed to margin pressure. Further, increased regulatory changes and technological advances present a growing expense burden.

Despite these challenges, we have continued to implement a strategy that positions us well to embrace opportunities in this dynamic environment and deliver ongoing value for shareholders. Our focus on niche customer segments has continued to deliver results with solid growth through BOQ Specialist, BOQ Finance and our target niche commercial segments. We have also continued to expand our presence in the broker market which has contributed to our Virgin Money business exceeding growth expectations in its home loan portfolio. Underlying this favourable trend is the continued exceptional service provided by our branch network which remains a core part of our business for both lending and deposits.

We have also benefited from our disciplined approach to expense management which has ensured we delivered on our promise to keep underlying expense growth to one per cent. Indeed, our continuous improvement program continues

to create savings that we are reinvesting back into the business, particularly in technology projects that will help us future proof BOQ. This year's result was also supported by a \$16 million profit on the disposal of a vendor finance entity.

Importantly, we have also continued to deliver growth and profits without compromising our robust risk management practices, with loan impairment expense reducing to 11 basis points of gross loans and advances. We remain committed to creating a bank that is more resilient over the longer term. Our disciplined approach to growth has also helped us maintain our strong capital position, giving us options for the future.

2017 was also a year characterised by greater political scrutiny of the banking sector. We are proud to lead a business that upholds the highest ethical standards and we have continued to focus on ethics, conduct and culture, ensuring we have a culture that supports positive relationships with our stakeholders.

Our solid performance in this environment has only been possible through the ongoing efforts of everyone across the BOQ Group. We would like to thank all of our employees for making BOQ the great organisation it is today.

Finally, we would like to thank all of our shareholders for your ongoing support. Our clear strategy, strong capital position and prudent approach to risk management position us well in this environment to continue delivering value for you into the future.

Roger Davis
Chairman

Jon Sutton
Managing Director & CEO



Customer in charge

We are 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 us on the phone or buy our products through a third party intermediary.

This year we have continued to put our customers in charge by:

- Continuing to modernise our customer facing channels by upgrading our branch ATMs which now have large touch screens, improved security features, audio guidance for visually impaired customers, faster transaction times and improved reliability – all of which contribute to a better experience for customers.
- Giving customers more service options through the open plan design and new technology used in our ICON branches. We are continuing to fit out more branches with the ICON style and now have 19 ICON branches.
- Accrediting an extra 3,300 brokers to distribute our products, including Virgin Money home loans, so we are more accessible to customers who prefer to use brokers. Around half of all Australian home loans are originated through brokers. We re-entered the broker market four years ago and by the second half of FY2017 about 28 per cent of our home loans were originated through brokers. We see this popular distribution channel as a growth opportunity. We will continue to strengthen our relationships with the broker market and streamline our processes so we are easy for brokers to deal with.
- Improving customers' product choice through iconic global brand Virgin by re-launching Virgin Money's superannuation offering. Customers' fees will be lower, and they will benefit from leading online and digital account management. This complements Virgin Money's existing product suite, including the Reward Me Home Loan launched in 2016. With its unique brand appeal, and digital and third party distribution, Virgin Money gives customers a distinctive and unique offering. It is an exciting part of our business.

Looking ahead

We will continue to give our customers more choice of how they conduct their banking by improving our digital channels, increasing our broker presence, optimising our branch network and expanding Virgin Money's reach.

Looking ahead, we will:

- > Improve customers' digital experience through a new web platform that personalises customer content. Already launched for Virgin Money, this web platform will be rolled out to BOQ's website in early 2018.
- > Provide more digital support for customers by introducing Customer Connect, a new platform connecting our digital channels.

Grow the right way

We are building a strong and profitable business by making the right decisions about where and how we grow. This includes focusing on niche customer segments that value an intimate banking relationship.

This year we have continued to grow the right way by:

- Expanding our offering to niche business segments with the acquisition of Centrepoint Alliance Premium Funding Pty Ltd. This has enabled us to create our new Cashflow Finance team within BOQ Finance, extending our specialist skills in an area with opportunities for higher returns.
- Improving the sustainability of our funding profile and strengthening our balance sheet by diversifying our investor base through new sources of funding. We launched the first conditional pass-through covered bond program by an Australian bank, and we have also increased our use of data analytics to improve our deposit funding mix.
- Continuing our conservative lending approach to create a high quality portfolio that is more resilient throughout the economic cycle. We adopted regulatory guidelines early, maintained a conservative risk appetite for apartment development hotspots, and made efforts to minimise the impact of the mining downturn on our business.
- Supporting our Owner Managers and their customers by continuing to move Owner Managers onto the new balanced scorecard as they renew their franchise agreements. The scorecard includes a wider range of metrics more closely aligned to our strategy, including customer and compliance measures. Almost 80 per cent of our Owner Managers are now on the new franchise agreement.

Looking ahead

In areas where we can deliver a better proposition for customers, we will continue to compete by:

- > Expanding our service offering to our chosen niche segments. In the near future we will do this by introducing new financial market risk management solutions for interest rates, trade finance and foreign exchange, and by expanding our BOQ Finance expertise in the agricultural and medical industries.
- > Strengthening our data analytics capability so we understand the needs of key customer segments better, and can offer greater value with more tailored products, services and processes. This will give us broader and more enduring relationships with strategically important customer groups.
- > Closing product gaps so we deepen relationships with customers and cement our main bank status. This will include for example deposit products for BOQ Specialist customers with the rollout of merchant facilities and deposit products for Virgin Money customers, including a reward linked transaction account.

Always a better way

We are committed to making our systems and processes simpler, faster and smarter. We want to improve efficiency, reduce costs and deliver better customer service.

This year we have continued to find better ways of operating by:


- Further digitising our lending platforms. We have improved our retail, commercial and lease management lending systems. This has led to faster response times and allowed our people to spend more time with customers.
- Improving our operating efficiency by embarking on a transformation program to increase productivity across the organisation. As a result of this, we have achieved our 1 per cent underlying expense growth target – a strategic imperative in a low revenue environment with expense management under scrutiny.
- Strengthening our change capability by introducing investment delivery and change frameworks supported by a delivery model aligned to business portfolios. This means we can respond quickly to market changes and emerging opportunities.

Looking ahead

We will continue to future proof BOQ by modernising and unifying some of our core technology platforms, infrastructure and architecture, and digitising our operations. We will simplify our operating model so we are more agile and nimble, and able to quickly respond to emerging technologies and social changes. This will continue to improve productivity and create a better customer experience.

In the near future we will:

- > Significantly upgrade our Treasury and Market Risk system to automate processes, improve productivity, increase risk management capabilities and broaden the products and services we offer customers.
- > Launch a new digital foreign exchange and international payments platform to expand our offering to niche SME businesses – a customer group central to our business strategy.



Loved like
no other

We want to maintain positive stakeholder relationships by living our values, creating a place where our people love to work and contributing to the communities in which we operate. It is what we do to prove 'It's Possible to Love a Bank'.

This year we have continued to live that brand promise by:

- Reinforcing our commitment to ethical conduct with industry leading support of the Banking and Finance Oath and rolling out bespoke and continuing ethics training to all staff.
- Expanding our commitment to providing a diverse and inclusive workplace by focusing on inclusiveness initiatives beyond gender. We serve communities better when the people who work here reflect the communities in which we operate. This year we made significant progress on our reconciliation journey.
- Moving closer to our ideal culture by encouraging our people to live our values of integrity, collaboration, impact and passion through team workshops, and by including the values in our performance review process. We also empowered managers to continuously improve culture in their teams by introducing a monthly team based online culture measurement tool.

Looking ahead

We will continue to strengthen our stakeholder relationships and bring our brand promise to life by:

- > Creating a culture that supports our business objectives and enhances employee resilience by aligning our leadership, structure, performance measures, systems and environment to our strategy and values.
- > Empowering our leadership team through a new leadership program with a focused competency framework and personalised development pathways.
- > Helping our people deliver an even more loveable service to customers through more personalised, proactive and practical on the job training for new starters in the retail banking division. We will also deliver a new training program to frontline and support staff specifically aimed at improving customer experience and loyalty by meeting more of our customers' needs, implementing a consistent approach to service excellence and increasing the quality of coaching we provide to our people.

Delivering our strategy

Our strategy is to focus on niche segments where customers value a more intimate banking relationship. It is all part of our mission to prove it's possible to love a bank.

Highlights for our 4 strategic pillars

Customer in charge

190

190 branches including
109 Owner Managed branches

192

upgraded ATMs

211,000

internet banking customers

7,500

accredited brokers

Always a better way

DIGITISING LENDING PLATFORMS

with improvements to our retail, commercial and lease management systems

1%

Underlying expense growth

Grow the right way

\$4.4 BILLION

in lending to niche business segments

11 BPS

Loan impairment expense
11 basis points of gross loans and advances

9.39%

Common Equity Tier 1 capital

Loved like no other

200+

employees signed up to the Banking and Finance Oath

39%

women in leadership positions

\$577,500

in community investment

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 Thursday, 30 November 2017
Ballroom Level 5, Hilton Hotel, Brisbane

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

Key shareholder dates

Annual General Meeting	30 November 2017
Financial half year end	28 February 2018
Half year results and interim dividend announcement	12 April 2018
Financial full year end	31 August 2018
Full year results and final dividend announcement	4 October 2018
Annual General Meeting	29 November 2018

Share registry

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