

2018 ANNUAL REVIEW

Year ended 31 August 2018

ABOUT THIS REPORT

BOQ's 2018 Annual Review (**Review**) provides an overview of BOQ's operations across the Group and outlines our commitment to, and strategies for creating long-term value for shareholders, customers, employees and the community.

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

At BOQ we have continued to implement a strategy that positions us well to embrace opportunities without compromising our robust risk management practices and ensures that we are responding to and adjusting for the challenges facing the financial sector. BOQ remains focused on ethics, conduct and culture with the ultimate goal of supporting positive relationships with stakeholders and creating a more resilient bank.

Unless otherwise stated, this report includes all BOQ Group operations for the financial year commencing on 1 September 2017 and ending 31 August 2018. 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 2018 REPORTING SUITE



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

ANNUAL REPORT

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

SUSTAINABILITY REPORT

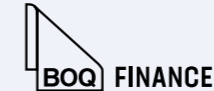
Our sustainability reporting evolved this year from online content to a standalone 2018 Sustainability Report available on the **Annual Reports** page of our website. This report is supported by supplementary information available on the **Sustainability** section of the BOQ website. It outlines information about our performance against BOQ's social, environmental and economic opportunities and challenges.

CORPORATE GOVERNANCE STATEMENT

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

WELCOME

Our 2018 Annual Review covers the operations of the BOQ Group and demonstrates our commitment to, and strategies for, creating long-term value for our customers, people, shareholders, suppliers and community.



Guide to navigating this Annual Review

Go to next page

Go to previous page

Return to contents page

Reference to other pages within report



ABOUT BOQ GROUP

Our subsidiaries	4
Board of directors	4
Executive team	4
Our vision	5
Our strategy summary	6
How we create value	7



OUR 2018 PERFORMANCE

Results summary	9
Value created for our stakeholders in 2018	10



CHAIRMAN & CEO MESSAGE

Message from the Chairman and Managing Director & CEO	11
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OUR STRATEGY

Customer in charge	13
Grow the right way	14
Always a better way	16
Loved like no other	17



OUR APPROACH TO SUSTAINABILITY

Sustainability overview	19
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SHAREHOLDER INFORMATION

5 year summary	20
Shareholder information	21





ABOUT BOQ 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 more than 144 years. During BOQ's long history, it has evolved from a Queensland focused, traditional retail branch-based bank to a diversified national financial services business with a focus on niche commercial lending segments. It also operates a number of specialist subsidiaries including BOQ Specialist, BOQ Finance and Virgin Money Australia. BOQ has retained a strong retail branch based banking business, complimented by mortgage broker distribution and a digital service offering.

BOQ has more than 180 branches, most of which are run by local Owner Managers who pride themselves on delivering personal service and building long-term customer relationships based on a deep understanding of customer needs. BOQ offers a range of simple, easy-to-understand banking products to individuals, as well as businesses. BOQ is one of the top 100 Australian companies ranked by market capitalisation on the Australian Securities Exchange and is regulated by the Australian Prudential Regulation Authority as an Authorised Deposit-taking Institution.

 Find out more on the **Our History** page of our website



OUR SUBSIDIARIES

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 subsidiaries, which complement the bank's offering. BOQ's subsidiaries include:



Virgin Money Australia is a retail financial services company, which provides a wide range of great value 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.



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 servicing more than 100,000 customers. BOQF has been operating in the Australian and New Zealand markets for more than 45 years.



BOQ Specialist delivers distinctive banking solutions to niche market segments including medical, dental, veterinary and accounting 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.



BOQ announced the sale of St Andrews Insurance to Freedom Insurance Group on 17 April 2018. Freedom Insurance Group announced to the market that they expect the completion of the sale to occur prior to 30 June 2019.

BOARD OF DIRECTORS

Roger Davis
Chairman

Jon Sutton
Managing Director & CEO

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

Jon Sutton
Managing Director & CEO

Matt Baxby
Chief Financial Officer

Peter Deans
Chief Risk Officer

Debra Eckersley Group Executive People & Culture
(commenced 3 September 2018)

Lyn McGrath
Group Executive Retail Banking

Anthony Rose
Chief Operating Officer

Donna Vinci
Chief Operations Digital and Information Officer

Brendan White
Group Executive BOQ Business



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 VISION

At BOQ, our vision is to become Australia's most loved bank.

As we work towards achieving this vision, we are guided by a commitment to the creation of long-term value for shareholders, customers, employees and the community.

Fulfilling our vision and strategic objectives requires a non-negotiable commitment to living our shared values daily:

PASSION

IMPACT

COLLABORATION

INTEGRITY



RIGHT: Dr Catherine Harper, BOQ Specialist customer, runs Barossa Veterinary Services based in South Australia.

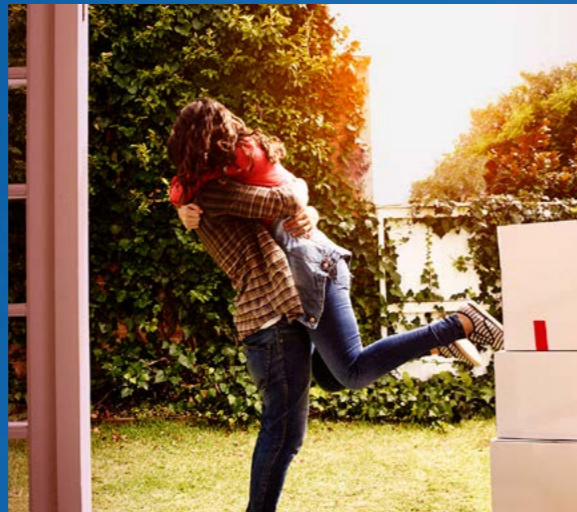
OUR STRATEGY

BOQ’s overarching corporate strategy is to focus on niche customer segments that value a more intimate banking relationship. This sets us apart from the other banks. In 2017, our “Road to 2020” strategy was developed. It is under-pinned by a number of goals, which are housed under four strategic pillars.

STRATEGIC PILLARS

GOALS

FY18 PRIORITIES



CUSTOMER IN CHARGE

- Achieve minimum digital parity and meet more of our customers’ digital needs
- Deliver a seamless customer experience across all channels

- Upgrade customer facing digital platforms
- Expand Virgin Money Australia (VMA) product offering
- Increase frontline staff to support BOQ Business growth

[Read more about this pillar page 13](#)

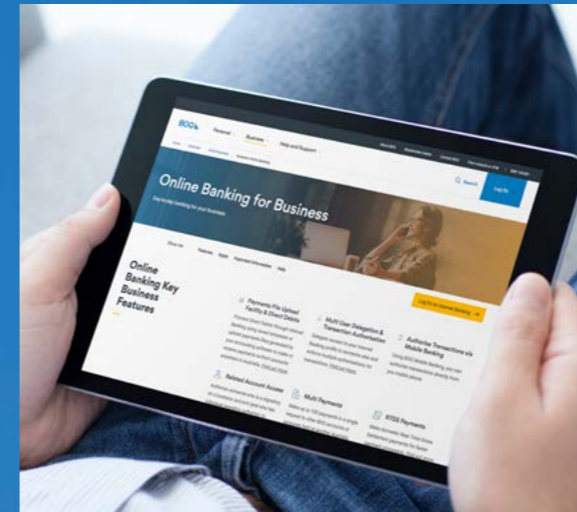


GROW THE RIGHT WAY

- Improving deposit gathering and lifting MFI penetration across all business lines
- Growing assets with pricing based on risk profile and holistic relationship

- Refocus distribution channels towards deposit gathering and MFI
- Close key product gaps that support deeper relationships
- Implement new FX digital platform

[Read more about this pillar page 14](#)



ALWAYS A BETTER WAY

- Overhauling key processes to align to our relationship proposition
- Creating capacity to invest by Bringing the Future Forward

- Operating model refresh and establish centres of excellence
- Delivery of key transformation initiatives
- Continuous improvement focused on productivity and customer experience

[Read more about this pillar page 16](#)



LOVED LIKE NO OTHER

- Delivering a differentiated service offering
- Investing in an engaged and capable team

- Delivery of the ‘Customer Heartbeat’ program
- Improve employee engagement
- Implement a program to increase advocacy across key business partnerships

[Read more about this pillar page 17](#)

HOW WE CREATE VALUE

Value creation is at the core of all we do. The table below demonstrates the value created through each of BOQ's core business activities for all of our stakeholders.

STAKEHOLDERS

Our customers

Transactional banking & 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 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.
- › 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.
- › Contributing to the financial security of shareholders through stable investment returns.

Our community

Payment of tax

- › Paying our fair share of taxes with an effective tax rate of 31.8%, which goes towards:
 - Supporting the infrastructure of government, which the community relies on at the local, state and federal levels
 - Strengthening national defense 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, volunteering initiatives, and shareholder dividend donation program.
- › 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.



Owner Manager, Marcus Henderson
(Buderim, QLD branch)

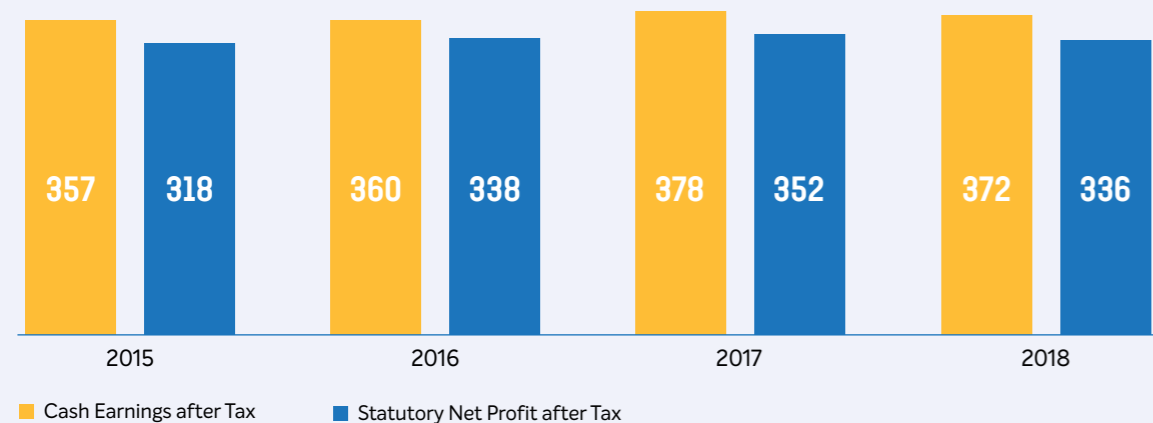
PERSONAL SERVICE ABOVE ALL ELSE

BOQ prides itself on building long-term customer relationships supported by banking products that genuinely meet our customers' financial needs.



OUR 2018 PERFORMANCE

PROFIT RESULTS (\$m)



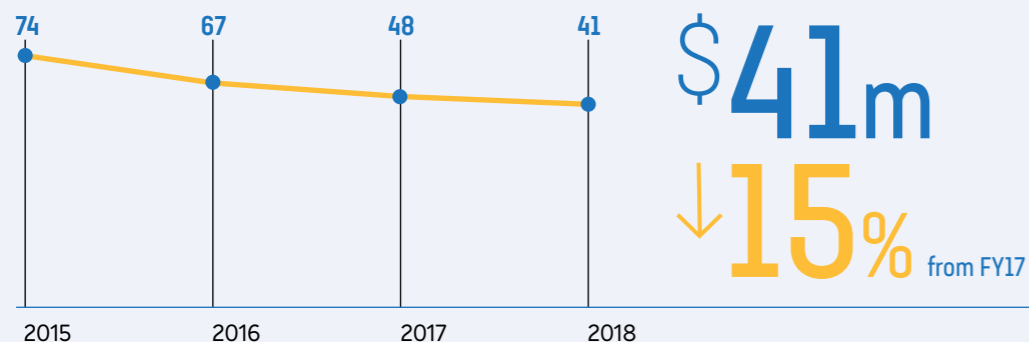
2018 CASH EARNINGS AFTER TAX

\$372m
 ↓ 2% from FY17

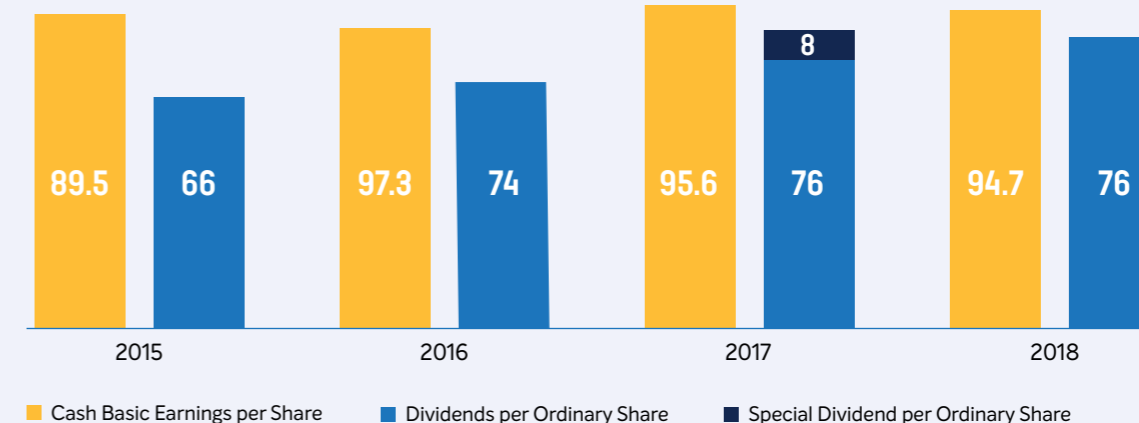
STATUTORY NET PROFIT AFTER TAX

\$336m
 ↓ 5% from FY17

LOAN IMPAIRMENT EXPENSE (\$m)



EARNINGS & DIVIDENDS (¢ per ordinary share)



CASH BASIC EARNINGS PER SHARE (¢ per share)

94.7¢
 ↓ 3% from FY17

DIVIDENDS PER ORDINARY SHARE (¢ per share)

76¢
 Unchanged from FY17

NET INTEREST MARGIN

1.98%
 Up 5bps from FY17

CASH COST TO INCOME RATIO

47.5%
 Up 90bps from FY17

CASH RETURN ON EQUITY

9.9%
 Down 50bps from FY17

[Watch the webcast of our 2018 full year results](#)

VALUE CREATED FOR OUR STAKEHOLDERS IN 2018

Our customers



\$653m

In housing lending growth

\$569m

In commercial lending growth

\$1,135m

Growth in customer deposits

Our people



\$234m

Paid in salaries and superannuation to employees

41%

Percentage of leadership roles held by women

2,564

Employees

Our community



\$157m

Income tax expense, at an effective tax rate of 31.8%

\$636k

Invested in the community

300kms

Covered by BOQ staff during the 'It's Possible Cycle Tour' to raise funds for sick kids

Our shareholders



\$329m

In dividends declared for ordinary shareholders

81%

Of cash earnings returned to ~100k ordinary shareholders

59%

Total shareholder return generated over the last five years



MESSAGE FROM THE CHAIRMAN AND MANAGING DIRECTOR & CEO

Dear Shareholder

We are pleased to update you on another solid twelve months for Bank of Queensland. While there is no doubt that 2018 has been a year of turmoil for the banking industry, at BOQ we have been focused on implementation of our strategy and ensuring the fundamentals of our business remain strong.

In terms of financial performance, we delivered cash earnings after tax of \$372 million. This was a reduction of \$6 million or two per cent on 2017. After adjusting for the \$16 million one-off profit on the disposal of a vendor finance entity which occurred in 2017, the result was a three per cent increase on an underlying basis. The final ordinary dividend of 38 cents per share was maintained, taking the full year dividend to 76 cents per share.

The Group's balance sheet continued to grow with lending growth of \$1.5 billion funded by an improved mix of deposits. The niche commercial lending segments, as well as housing loan growth in Virgin Money Australia and BOQ Specialist contributed strongly to this lending growth. The BOQ Finance business provided a solid contribution with growth of \$250 million in its asset finance portfolio. Deposits were driven primarily through the branch network, which focused on encouraging more customers to make BOQ their main financial institution. Despite a number of margin headwinds emerging during the year, this supported an improvement in net interest margin to 1.98 per cent.

Operating expenses were well contained, while important investments in the business were made in line with the Group's strategy. This included a new web experience platform which has delivered an improved digital experience to customers across all of our brands. Further work is underway on the modernisation of our technology architecture. We have also commenced development which will facilitate participation in the New Payments Platform, an industry initiative which will improve the experience for consumers making payments.

Asset quality metrics remain a key strength for BOQ. The ongoing improvements are a direct consequence of deliberate steps taken to clearly articulate risk appetite, lift risk capability and embed more stringent risk practices across the business. Impaired assets reduced by 15 per cent to \$164 million, while loan impairment expense reduced 15 per cent to \$41 million. Loan arrears remain at benign levels. Regulators have been focusing on responsible lending practices. We are pleased to report that BOQ has been ahead of the curve in this regard.

Our strong capital position has provided flexibility to consider a range of options for capital management. As a result, we have

The Group's balance sheet continued to grow with lending growth of \$1.5 billion funded by an improved mix of deposits.

announced plans to increase our capital investment in 2019, with a focus on enhancements to our digital platforms and customer experience.

This investment in the future will provide a much needed boost to our customer offering and allow us to compete more effectively.

We announced the sale of the St Andrew's Insurance business to Freedom Insurance Group in April 2018. The dynamics of the insurance market have changed significantly since the acquisition of St Andrew's in 2010, and it was determined that a sale was the best outcome for shareholders as well as for the St Andrew's business. This transaction is subject to regulatory approvals.

The banking sector has faced intense scrutiny in 2018. The number of inquiries, reviews and the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry has highlighted how the sector has fallen short of meeting community expectations. Some of the findings that have emerged reflect poorly on the industry and has tested the reputation of all banks. In the case of BOQ, we have been increasing our focus on ensuring that ethical conduct is embedded in everything we do and when mistakes are made, we fix them.

Looking ahead, the operating environment remains challenging with ongoing scrutiny, regulatory change, slowing credit growth, technological change and higher funding costs all adding pressure to earnings growth.

We remain confident that we have the right strategy to navigate this environment and to continue delivering value for our stakeholders into the future.

We would like to thank all of our people and shareholders for your ongoing support and encourage you to review our annual reporting suite for more detail on what has been happening at BOQ in 2018.

Roger Davis
Chairman

Jon Sutton
Managing Director & CEO



We remain confident that we have the right strategy to navigate this environment and to continue delivering value for our stakeholders into the future.

DELIVERING ON OUR STRATEGY

At BOQ we have continued to implement a strategy that positions us well to embrace opportunities without compromising our robust risk management practices. It also ensures that we are responding to and adjusting for the challenges facing the financial sector. We remain focused on ethics, conduct and culture with the ultimate goal of supporting positive relationships with stakeholders and creating a more resilient bank.

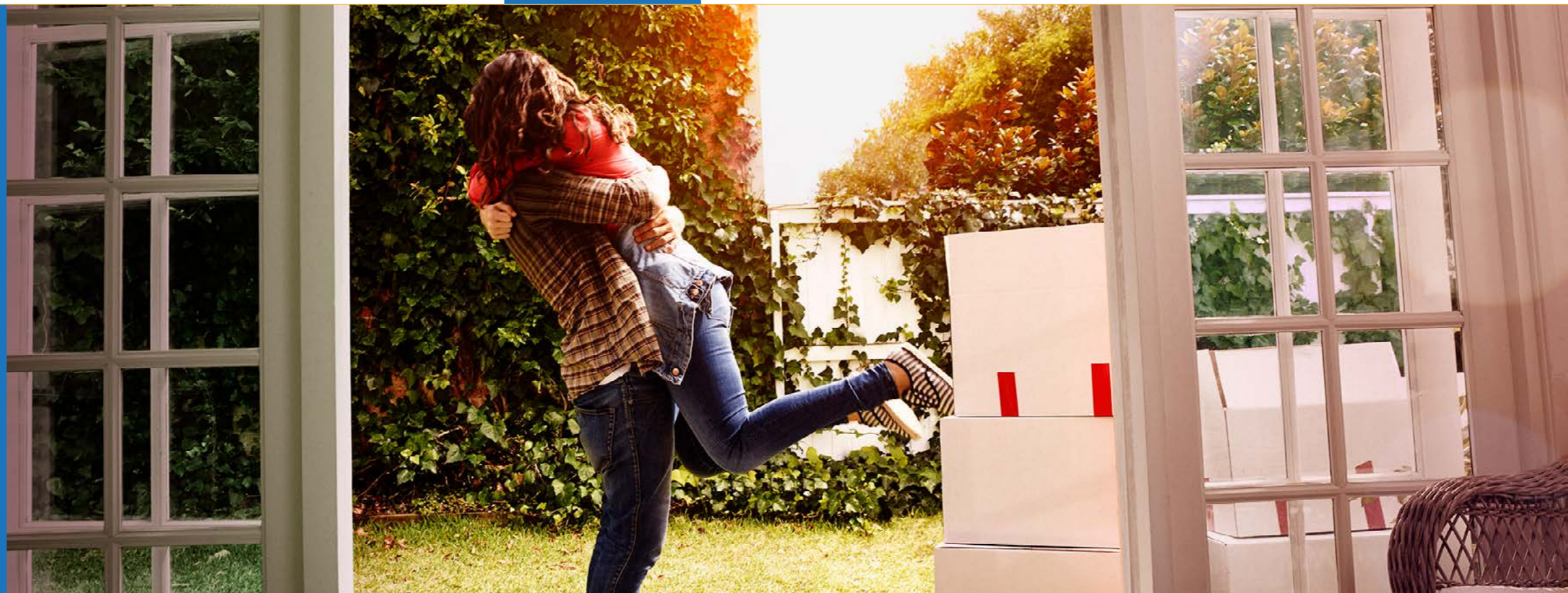




OUR STRATEGY

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



GOALS

- > Achieve minimum digital parity and meet more of our customer's digital needs
- > Deliver a seamless customer experience across all channels



FY18 PRIORITIES

- > Upgrade customer facing digital platforms
- > Expand Virgin Money Australia (VMA) product offering
- > Increase frontline staff to support BOQ Business growth

FY18 PROGRESS

- > A flagship initiative this year was the launch of a new Web Experience Platform across the BOQ Group. The consolidation of web hosting infrastructure has vastly improved our digital shop front by enhancing the customer experience, enabling better marketing functionality and modernising all four of our public websites (BOQ, VMA, BOQ Specialist and BOQ Finance).
- > In FY18, VMA's home loan offering was expanded to include:
 - the distribution of home loans via a direct channel
 - the growth of aggregators offering VMA home loans to include a new partnership with AFG
 - the availability of VMA's home loan products to self-employed customers and for construction loans
- > While there was no increase in FTE in FY18, the BOQ Business footprint grew through locating staff where our customers need them and in regions of growth. Focus was on:
 - expanding the commercial loan portfolio outside Queensland
 - increasing portfolio diversification by industry and asset class
 - selectively building the commercial broker channel
 - creating relationship teams that understand the complex needs of small businesses
- > We are giving customers more service options through the open plan design and new technology used in BOQ's ICON branches. We continue to fit out branches with the ICON style and now have 21 ICON branches across QLD, WA, and NSW.
- > We are strengthening our broker presence. This year 30% of new home loans were originated through this channel.
- > Our customer-centric approach was supported this year by investing in Facebook for branches. This is a key differentiator and growing program – with 80% engagement achieved to date.

LOOKING AHEAD

- In FY19 we plan to extend the capability of the new Web Experience Platform and progress work on enhancing our internet and mobile banking to deliver better functionality for customers.
- We are improving our digital capability through the development of the VMA credit card app, which will go live by the end of the 2018 calendar year. Customers will benefit from being able to manage their everyday credit card functions on the go.
- We are currently considering options to expand VMA's product offering through a broader digital banking experience, which will extend market appeal.
- Increased customer engagement and strengthened customer service will be realised through our new Customer Engagement Platform (CEP), which is scheduled to commence in FY19.
- Efforts to improve customer reach will continue in FY19 through the exploration of a pop-up format kiosk and a mobile banking initiative. The kiosk will serve as a formal marketing stand on short-term leases with high footfall areas where we don't have branches. The mobile banking initiative would see the placement of vans at university orientation weeks.
- Improving the depth of understanding of our customers – how they like to deal with us and how we can better meet their needs – is a high priority. In FY19 our understanding of our customers will improve by overlaying customer analytics into our business processes, allowing us to create more positive customer experiences. Respect for customer privacy will remain a key priority.

OUR STRATEGY

GROW THE RIGHT WAY

We are building 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.



GOALS

- › Improve deposit gathering and lift MFI penetration across all business lines
- › Grow assets with pricing based on risk profile and holistic relationships



FY18 PRIORITIES

- › Refocus distribution channels towards deposit gathering and main financial institution (MFI)
- › Close key product gaps that support deeper relationships
- › Implement new Foreign Exchange (FX) digital platform



The BOQ Dealer Finance team launched an exciting new partnership this year with Harley-Davidson to provide retail finance through 46 Australian dealerships.

FY18 PROGRESS

- › Niche segment growth continued this year, with commercial lending growing \$569m. Agribusiness experienced particularly strong lending growth of 30%, underpinned by specialist bankers with deep industry knowledge.
- › We focused on measurement and tracking of factors that support deposit growth and meeting more customer needs. We also worked with branches to better understand the importance of deposits and MFI. As a result, the Retail channel has grown at-call deposit balances by 14% in FY18.
- › Digital applications no longer require signatures for Retail Transaction and Savings accounts, resulting in a 500% uplift in submitted applications. Optimisation of digital channel acquisition resulted in digital account openings contributing to 23% of Day2Day account growth vs 14% in 2017 and 36% of Web Savings account growth in 2018 vs 27% in 2017.
- › Growing savings accounts and reducing reliance on term deposits was a focus this year. Enhancing digital channel acquisition and frontline marketing support were key contributors to savings growth.
- › A partnership with payments company, Square, was established to enable SME customers to receive payments faster and more efficiently through the use of a reader terminal for contactless chip payment cards. The product also provides additional functionality for customers such as inventory management, analytics and reporting, online invoices and digital receipts.
- › Samsung Pay was launched this year, enabling secure payment by tapping a compatible Samsung phone (linked to a BOQ credit card) at a contactless terminal, making transactions seamless for customers.
- › BOQ secured a partnership with First Data International, which has significantly enhanced the functionality of merchant terminal processing for SME customers.

LOOKING AHEAD

- Implementation of the New Payment Platform (NPP) for BOQ is underway, which will allow real time payments. NPP will enhance: (1) visibility into payments, (2) cash management and, (3) liquidity. The liquidity improvement is especially important to our SME customers, who will enjoy instant settlement.
- Our Financial Markets digital platform is currently being built and is scheduled to go live in 2019. The platform will further strengthen our product offering by enabling international payments and foreign exchange hedging, targeting SME customers.
- We will build out agribusiness livestock leasing and specialised trade finance loans.

BRINGING OUR GROW THE RIGHT WAY PILLAR TO LIFE

“

BOQ's team of specialists have been wonderful. Without BOQ we just would not be here today. They've understood what we've wanted and supported our needs... it's been a great relationship. We're really glad we partnered up with BOQ.

SCOTTY GARDEN
PASSIONS OF PARADISE

Small enough to take the time to understand our customer's needs but big enough to provide the right product.

PASSIONS OF PARADISE GREAT BARRIER REEF TOUR OPERATOR & BOQ CUSTOMER

Alan Walsh (Director/Owner), pictured left, Scotty Garden (CEO), pictured right, and Roger Cumming, Partner/Accountant, are the proud operators of Passions of Paradise. It is a 30 year old operation based out of Cairns that takes tourists to experience the wonders of the Great Barrier Reef on board a 25 metre high performance catamaran.

Driven by the need to keep up with market trends, Scotty and Alan approached BOQ a number of years ago to request a financing package for a newer, bigger boat. Simeon Azcune, Owner Manager of the Earlville branch (Cairns), was able to provide a suite of solutions within one week, which included foreign exchange,

letters of credit, escrow payments, and a competitive lease structure. BOQ's broad product range not only financed the boat but also provided Passions of Paradise with transaction banking and mortgages for its directors.

Aside from how quickly the deal was delivered and the competitive terms, Alan, Scotty and Roger chose BOQ because of the highly personalised service Simeon provided, making himself available 24/7. Simeon has remained the sole point of contact throughout the partnership, which is based on deep respect and appreciation for the challenges of operating a small business.

OUR STRATEGY

ALWAYS A BETTER WAY

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



GOALS

- › Overhaul key processes to align to our relationship proposition
- › Create capacity to invest by Bringing the Future Forward



FY18 PRIORITIES

- › Operating model refresh and establish centres of excellence
- › Delivery of key transformation initiatives
- › Continuous improvement focused on productivity and customer experience

FY18 PROGRESS

- › Our Group Executive team restructure, announced in May 2018, broadened the expertise of the current leadership team. The business is now even more focused on meeting customer needs and ensuring BOQ continues to deliver on its transformation initiatives.
- › We are currently in the design phase of Customer Connect, a call management system that will serve to strengthen our capacity around risk management, consolidate our call centres, and deliver an improved customer experience.
- › We continue to drive our technology strategy forward and invest in the modernisation of infrastructure and processes. We focused our approach on improving capabilities in our data centres to support BOQ’s business applications with more agile and contemporary platforms. This also includes the refresh and upgrade of our branch telephony systems across 121 branches.
- › We are always looking for ways to improve the way we work. An internal communication platform, BOQ Ideas, was created in response to this commitment. It has proven to be a highly effective tool for process improvement.
- › Efforts to continuously improve our loan application processing systems saw the delivery of a consistent and scalable credit scoring service across the bank as well as improved automation of the loan application process.
- › We are working toward enhancing our operating efficiency through the implementation of a new Treasury system, a two year project launched in FY18 with completion scheduled for FY19.
- › The prevention of cybercrime is an ongoing focus for BOQ as information security is of paramount importance. Our Financial Crime Compliance and Risk Management Program was established this year, ensuring BOQ systems and controls are of the highest quality.
- › Our commitment to delivering better customer outcomes was progressed this year by additional resourcing in the Customer Advocacy Office.
- › We are creating an entrepreneurial mindset at BOQ through our innovation connections and partnerships. These relationships have helped us to challenge and change the how and why we do business with our customers. Our active partnership with premier tech hub, River City Labs and our involvement in Myriad Air have been instrumental in enabling conversations that will shape Australia’s entrepreneurial and economic development in the tech space.

LOOKING AHEAD

- Customer Connect will launch in FY19, allowing for single service telephony platform across all brands on a 24/7 basis. Focus will be on training our frontline staff to ensure multiskilling around a range of products.
- Investing in our data and analytics program to improve and increase the quality and analysis of customer data is a priority in FY19. This will allow us to better tailor customer offerings.
- Our automation and robotics strategy (AI/machine learning) is scheduled for rollout in FY19, enabling:
 - removal of manual intervention in processes
 - consistency of information
 - straight through processing to reduce ‘time to yes’ and ‘time to cash’
- Efforts to strengthen our Customer Advocacy Office will continue into FY19, with a specific focus on continued investment and development of inclusive and accessible banking services.
- We are committed to modernising our technology infrastructure, which will underpin our BOQ strategy and address a long history of technology environment legacy. Focus is on improving our data centre hosting and network as well as introducing a new hybrid-cloud environment to enhance business agility and cost optimisation. We are deep in the design stage of the project and looking at deployment in FY19.



OUR STRATEGY

LOVED LIKE
NO OTHER

We strive 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. It is what we do to prove 'It's Possible to Love a Bank'.



GOALS

- › Deliver a differentiated service offering
- › Invest in an engaged and capable team



FY18 PRIORITIES

- › Delivery of the 'Customer Heartbeat' program
- › Improve employee engagement
- › Implement a program to increase advocacy across key business partnerships

FY18 PROGRESS

- › The Customer Heartbeat Program was successfully delivered this year. The Program is a customer service skilling and coaching initiative targeting frontline staff, developed to equip our people with the tools necessary to deliver high quality customer service.
- › A number of initiatives to lift employee engagement were implemented this year: (1) 'BOQ Pathways' – a senior leadership program focused on developing key competencies critical to the success of our strategy, (2) 'Bring the Future Forward' – a program to simplify and continuously improve ways of working.
- › We improved our multi-channel strategy this year by strengthening our relationships with our broker network, consisting of over 6,000 accredited brokers. Activities included sponsorship of and attendance at professional development days and industry conferences, ultimately lifting awareness of BOQ products and allowing for greater customer reach.
- › We renewed our focus on engagement with our Owner Manager network to maximize our market presence by improving efficiency and lifting business growth. We also continued to simplify the way we operate and developed a more flexible path to branch ownership in order to attract new Owner Managers.
- › We are in the early stages of developing a purpose-led culture, which is driven by the need to clearly identify our collective purpose. A number of workshops were held in FY18 to ensure a wide range of voices were captured to better understand how we can create a highly aligned, engaged and motivated workforce. These workshops set the foundation for further developments in FY19.

- › We are proud of the launch of our first Reconciliation Action Plan (RAP), this year, which outlines our commitment to working towards ensuring that all Aboriginal and Torres Strait Islander peoples and communities are afforded equity, dignity and respect. The RAP reflects our belief that true reconciliation requires action through community engagement, supply chain, employment, and financial access and literacy.

Our Inclusive Culture Road Map was created this year, which outlines:

- areas of priority
- the inclusion governance structure and
- a detailed road map explaining how we plan on achieving our goals.

This initiative is important for BOQ to leverage all the benefits that a solid commitment to diversity and inclusion can deliver – enhanced innovation, engagement, profit, adaptability, wellbeing, team performance, attraction and retention.

- › Our annual 'You're the Voice' survey, covering a range of metrics including employee engagement, resulted in a 53% engagement rate compared to 60% in FY17. 72% of employees participated in the survey this year compared to 79% in FY17. We recognise more needs to be done to improve these results.

LOOKING AHEAD

- In line with the Sedgwick report and the Banking Executive Accountability Regime (BEAR) we are currently reviewing our remuneration and incentive frameworks to ensure that we are tracking and rewarding the right measures. Updates to our frameworks are planned for FY19.
- The design of and recruitment for a new Group Risk Graduate Program was undertaken this year. The program will see the intake of 12 graduates in FY19, who will receive experience in the foundations of the Risk function, while being supported through on-the-job training, mentoring and workshops.

ABOVE: We are proud partners of Second Shot, a Brisbane-based social enterprise that skills young people in the art of coffee making.



BRINGING OUR
LOVED LIKE NO OTHER
PILLAR TO LIFE

Culture trumps strategy,
especially in the paddock.

“

The Agribusiness team are hands down the most passionate, dedicated and hardworking group you will ever meet (I could be biased!).

LUCINDA HAWKINS
HEAD OF AGRIBUSINESS BOQ

LUCINDA HAWKINS
HEAD OF AGRIBUSINESS AT BOQ

Lucinda Hawkins (pictured centre) is the Head of Agribusiness at BOQ. She is joined by team members, Pat Heagney (left), Senior Agribusiness Manager, and Maree Gillam (right), Agribusiness Manager at the Ekka in Brisbane this year. Lucinda hails from the small country town of Walcha in the heart of the New England region of New South Wales, where her family ran a beef cattle operation. Lucinda proudly leads a team of highly knowledgeable specialist bankers who pride themselves on the ability to build deep, trustworthy relationships with their customers.

Agriculture can be tough – demanding a healthy degree of understanding and empathy for customers. Having come from farming backgrounds themselves, Lucinda and her team are well placed to help guide their customers through challenging seasonal and commodity price cycles.

Lucinda is quick to say that trust and respect are core to relationships with customers, which her team works hard to build through exceptional customer service and clear communication. BOQ Agribusiness bankers cover many miles to meet with their customers on their own turf, often outside regular hours to work around the busy schedules of their farmers. It is not uncommon to find Lucinda discussing deal terms or sustainability strategies with her customers mid-paddock.

Although a relatively small business, speed to market and responsiveness is first class. The culture Lucinda fosters within her team is a huge driver behind this differentiator. There is a genuine spirit of cooperation as the team works towards the shared goal of providing exceptional service. In Lucinda's words, “We are a unique business that supports businesses responsible for feeding and clothing the world – I can't think of a better job!”

SUSTAINABILITY OVERVIEW

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

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

Our approach to sustainability is aligned with the nature of our business. As a financial services provider, our primary function is gathering deposits from and lending to customers, so our sustainability efforts focus on our economic and customer impacts. Because our business contributes to how capital is allocated in the economy, we are conscious of how our customers use the funds that we lend.

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:



Find out more:
 Approach to Sustainable Lending
 2018 Sustainability Report

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 for us 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 process identified four key themes that formed the basis of our sustainability focus areas for the year ahead:

CONDUCT AND TRUST

Banks are vital to society as they are the 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. Conduct is a lens into the culture of organisations and as the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry has demonstrated, conduct failings are widespread in the industry. 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 are also facing 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 global best practices.

WORKPLACE CULTURE

Culture is critical. It either strengthens or undermines 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.

CUSTOMER EXPERIENCE

Customer expectations are changing. We must ensure we continue to meet these expectations by delivering personal, instant, relevant and seamless customer service. We must also continue to lend responsibly, offer competitive products with fair fees and interest rates, and assist customers in financial hardship. Customer satisfaction underpins everything we do and will continue to drive engagement and advocacy efforts across the bank.

Our 2018 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

2018 FINANCIAL PERFORMANCE

\$ millions (unless otherwise stated)	2018 \$m	2017 \$m	2016 \$m	2015 \$m	2014 \$m
FINANCIAL PERFORMANCE					
Net interest income	965	926	937	907	761
Non interest income	145	175	173	180	169
Total income	1,110	1,101	1,110	1,087	930
Operating expenses	(527)	(513)	(520)	(500)	(408)
Underlying profit before tax ⁽¹⁾	583	588	590	587	522
Loan impairment expense	(41)	(48)	(67)	(74)	(86)
Cash earnings before tax	542	540	523	513	436
Cash earnings after tax attributable to ordinary shareholders ⁽²⁾	372	378	360	357	301
Statutory net profit after tax	336	352	338	318	261
FINANCIAL POSITION					
Gross loans and advances ⁽³⁾	45,279	43,817	43,152	40,975	38,426
Total assets	52,980	51,658	50,853	48,018	46,905
Customer deposits	31,325	30,190	29,122	26,914	26,266
Total liabilities	49,124	47,869	47,266	44,549	43,564
Total equity	3,856	3,788	3,587	3,469	3,341
SHAREHOLDER PERFORMANCE					
Market capitalisation at balance date	4,565	4,932	4,020	4,698	4,560
Share price at balance date (\$)	11.49	12.59	10.55	12.67	12.58
Cash basic earnings per share (cents)	94.7	97.6	95.6	97.3	89.5
Cash diluted earnings per share (cents)	89.3	93.9	90.7	92.2	87.0
Fully franked dividend per ordinary share (cents)	76	76	76	74	66
Fully franked special dividend per ordinary share (cents)	-	8	-	-	-
Cash dividend payout ratio to ordinary shareholders	81%	78% ⁽⁴⁾	80%	77%	87%
CASH EARNINGS RATIOS ⁽⁵⁾					
Net Interest Margin ⁽⁶⁾	1.98%	1.93%	1.94%	1.97%	1.82%
Cost-to-income ratio	47.5%	46.6%	46.8%	46.0%	43.9%
Return on average ordinary equity	9.9%	10.4%	10.3%	10.7%	10.4%
CAPITAL ADEQUACY					
Common equity tier 1 ratio	9.31%	9.39%	9.00%	8.91%	8.63%
Total capital adequacy ratio	12.76%	12.37%	12.29%	12.72%	12.02%

(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) Excludes amortisation of fair value adjustments (acquisitions). FY18 and FY17 Net Interest Margin is net of mortgage offset accounts.



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KEY SHAREHOLDER DATES

Dividend dates for ordinary shares only are:

2018

Final ex-dividend date	24 October 2018
Final dividend record date	25 October 2018
Final dividend payment date	14 November 2018
Annual General Meeting	29 November 2018